



## Sunrise

Wednesday, 19 October 2016

### Rates: Range-bound trading ahead of US debate and ECB meeting

The final US presidential debate (tonight) and the ECB meeting (tomorrow) will likely dominate headlines amid a thin eco calendar (only US housing data and Fed speakers). We favour range-bound trading action in core bonds. Technical support levels in the Bund (163) and US Note future (129-26) held earlier this week and shouldn't be in danger today.

### Currencies: Dollar holding strong despite (marginally) softer US CPI

Yesterday, the focus of USD trading was on the US CPI. The report was marginally softer than expected, but didn't cause further USD losses. Today, the eco calendar is thin. More technical USD trading is expected. Sterling rebounded as the UK government attorney suggested a bigger role of Parliament in the Brexit process.

### Calendar

## Headlines

S&P	↗
Eurostoxx50	↗
Nikkei	↗
Oil	→
CRB	→
Gold	↗
2 yr US	→
10 yr US	↓
2 yr EMU	→
10 yr EMU	↓
EUR/USD	↓
USD/JPY	→
EUR/GBP	↓

- **US equities had a good run** yesterday closing 0.62% (S&P) higher. Gains were broad-based with health care the outperformer. **Asian equities trade lacklustre** today, around flat, as investors aren't charmed by Chinese data.
- **China's economy grew 6.7% Y/Y in Q3**, in line with Q2 and consensus estimates. Retail sales (10.7% Y/Y) were also in line with expectations, but industrial production (6.1% Y/Y) fell short of expectations in September.
- The leadership of **Spain's Socialists** meet on Sunday to decide whether to enable their conservative rivals to form a minority government, thereby ending ten months of political deadlock.
- The **US Fed minutes of its Sep discount meetings** showed that 9 out of 12 Fed Reserve Banks asked for an increase in the discount rate (which was refused by the board), a signal that the hawks are increasingly insisting on a rate increase.
- The **Bloomberg Commodity Index** advanced for a 5th day as oil rose (\$52.14/barrel) and industrial metals advanced. Aluminium rebounded from a three-week low, even after data showed China's output expanded by 1.2% Y/Y in September.
- After regular trading, **Yahoo** recorded very strong earnings. **Intel** reported also good Q3 results, but a tepid outlook caught the eye. Today, **Morgan Stanley** and **Halliburton** report their Q3 results.
- **Today**, UK labour market data and US housing data are released, while Fed Williams and Kaplan speak and the Fed releases its Beige Book.

# Rates

## US & UK CPI's don't impact bonds, which end higher

Yesterday, UK and US inflation readings didn't bring the expected fireworks on core bond markets. Going into the European closure, core bonds edged higher to close with modest gains in technically inspired trading (failed tests key support Bund & US Note future earlier this week). European and US equity markets recorded nice gains (strong earnings from Goldman, J&J,...), but core bonds didn't suffer via the "traditional" risk on/risk off paradigm. Without eco data on the EMU calendar, Bund trading will probably remain confined to a tight range in the run-up to Thursday's ECB meeting. The ECB's bank lending survey showed that EMU banks kept credit conditions for companies stable in Q3 and improved those for households. The US NAHB housing sentiment eased slightly to a still very strong 63 reading, but it had no impact on trading. In a daily perspective, the German yield curve bull flattened with yields 1.1 bp (2-yr) to 2 bps (30-yr) lower. US yields declined by 1 bp (30-yr) to 2.3 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged.

### Modest gains for core bonds

### US & UK CPI's don't impact bonds

### US-German yield curve little changed

### 9 Fed governors asked for increase discount rate

	US yield	-1d
2	0,8026	-0,0161
5	1,2377	-0,0262
10	1,7468	-0,0281
30	2,5031	-0,0271

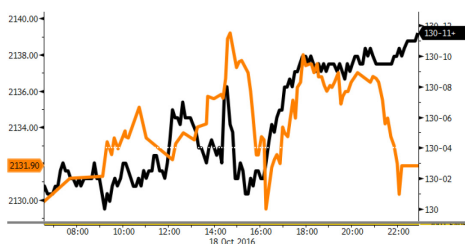
	DE yield	-1d
2	-0,6700	-0,0120
5	-0,4960	-0,0090
10	0,0350	-0,0190
30	0,6703	-0,0272

The Minutes of the Sep Fed discount rate meeting showed that 9 of the 12 regional Fed banks sought an increase of the discount rate, but the Board decided to keep the rate at 1%. Only NY (Dudley), Minneapolis (Kashari) and Chicago (Evans) asked no rate change. It shows how close the decision at the September FOMC meeting was with the board governors (5 voters) and 3 regional Fed governors (1 voter) standing against 9 regional governors (3 voters).

## US housing data and Beige book for release

Today, there are again no euro area data of importance. In the US, the September housing starts and permits are expected to have risen by respectively by 2.9% M/M and 0.9% by M/M, following a decline in August by 5.8% M/M and 0.4% M/M. The trend in starts is still up and an outcome in line with expectations would keep starts near the cyclical high. Permits are flattening out at decent levels. Given the past month's decline and adverse weather in the South in August, there might be some upside risks. However, starts and permits are quite volatile making any single surprise of little importance in the broader picture. The Fed's Beige Book is a preparatory document for the November 1-2 FOMC meeting. It describes the economy via anecdotal evidence from the various regional Fed banks. We don't expect the book to spur surprises. It should be close to the published hard and survey data.

### Upside risks US housing data



US T-note future (black) and S&P future (orange) intraday: T-Note unaffected by CPI, but eventually moves higher in technical trading. Weak correlation with equities



German 10-yr yield: again slightly lower after Monday's failed test of 0.10% yield resistance, awaiting ECB tomorrow.

R2	166,36	-1d
R1	164,29	
<b>BUND</b>	<b>163,79</b>	0,3600
S1	163	
S2	162,56	

## German 30-yr Bund auction

**The German Finanzagentur taps the on the run 30-yr Bund (€1B 2.5% Aug2046).** Total bids averaged only €1.32B at the previous four 30-yr Bund

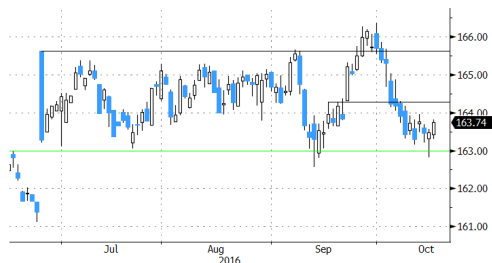
auctions. The Bund cheapened in ASW spread terms going into the auction and trades normal at the very long end of the German yield curve. We fear that the recent surge in yields will only attract a limited amount of additional buyers so demand might remain lacklustre.

## Range-trading ahead of US Debate/ECB meeting

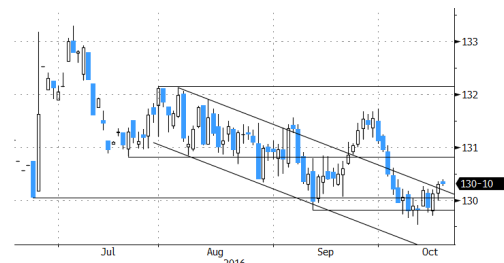
**Overnight,** Asian stock markets trade mixed after WS's strong performance yesterday. Chinese eco data (Q3 GDP, industrial production, retail sales) printed in line with expectations and had no influence. Brent crude and the US Note future also show little signs of life, suggesting a neutral opening for the Bund.

**Today's** eco calendar contains only contains second tier eco data (US building permits and housing starts). Fed governors Williams and Kaplan speak, but they already gave their vocal support for a rate increase this year. The final US presidential debate (tonight) and the ECB meeting (tomorrow) will likely dominate headlines. **We favour range-bound trading action in core bonds. Technical support levels in the Bund (163) and US Note future (129-26) held earlier this week and shouldn't be in danger today.**

**In yield terms,** the US 10-yr yield (1.75%) and 30-yr yield (2.5%) broke above important resistance levels last week. We are currently testing those levels again, but from a support point of view. If we manage to stay above them, it would send an important technical signal that (long term US yields could rise further).



German Bund: in the run up to Thursday's ECB meeting, the key support may remain a focal point



US Note future: Extensively testing downside. Break more likely if US 10-yr yield manages to stay above 1.75%

# Currencies

## Dollar in wait-and-see modus

R2	1,1366	-1d
R1	1,1279	
EUR/USD	<b>1,09815</b>	-0,0031
S1	1,0952	
S2	1,0913	

*USD holding within reach of the recent highs.*

*USD/CNY loses ground after data*

*USD/JPY struggles to regain 104*

*Dollar is holding strong against euro*

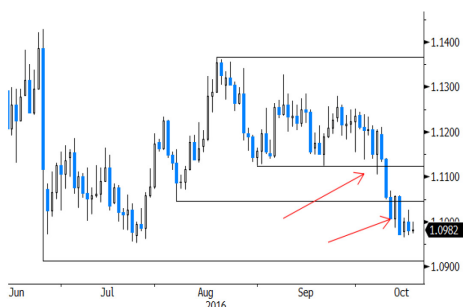
*Data to have limited impact on USD?*

*US presidential election debate and tomorrow's ECB meeting focal points.*

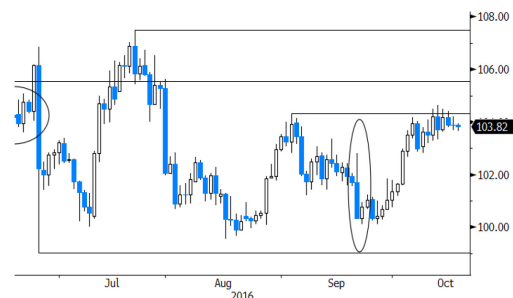
On Monday, US CPI was the focus for dollar trading. It was marginally softer than expected, but didn't cause additional USD losses. The dollar even reversed earlier losses, supported by a decent equity performance. EUR/USD closed the session at 1.0981 (from 1.1000 on Monday). USD/JPY finished the session at 103.87, little changed for Monday's close at 103.89.

Overnight, Chinese Q3 growth was perfectly in line with expectations at 6.7% Y/Y, while Sep industrial production was weaker than expected at 6.1% Y/Y and retail sales were in line (10.7% Y/Y). The yuan traded slight stronger going into the publication of the data, but reversed the gains later. USD/CNY holds in the 0.74 area, near the recent highs. USD/JPY fails to sustain north of 104 and trades in the 103.80 area. The dollar is holding strong against the euro. EUR/USD is changing hands in the 1.0975 area.

Today, the US September housing starts and permits are expected to have risen by respectively 2.9% and 0.9%, following a decline in August. An outcome in line with expectation would keep starts near the cyclical highs. Permits are flattening out at decent levels. Given the past month's decline and adverse weather in the South in August (-13.1%), there might be some upside risks. However, starts and permits are volatile making a single surprise of little importance in the broader picture. The Fed Beige Book is a preparatory document for the November 1-2 FOMC meeting. It describes the economy via anecdotal evidence from the regional Fed banks. We expect the book to mirror the recent data. Investors will also look forward to the US presidential election debate and the ECB policy meeting tomorrow. Uncertainty on policy intentions of both candidates might be slightly negative for risk sentiment and maybe for the dollar, but we don't give too much weight to it. We expect the ECB to delay any communication of further policy steps to the December meeting. Uncertainty on the ECB policy going forward might be marginally positive for the euro. In this environment, more technical USD trading can be expected. Without higher profile news, it won't be easy for EUR/USD to clear the 1.0952/13 support.



EUR/USD downside test rejected, but USD correction remains limited



USD/JPY holds near the recent highs, but no sustained break

The dollar had a good run last week, but the rally looks ready for a breather. We don't expect a correction to go very far unless US data would be much softer than expected. Investors might also reduce some EUR/USD shorts going into

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Thursday's ECB policy meeting. **So, we expect some further consolidation on the recent USD rally. In a longer-term perspective, we still see a solid bottom for the dollar as long as markets embrace the scenario of a December Fed rate hike. A sell EUR/USD on upticks approach remains favoured.**

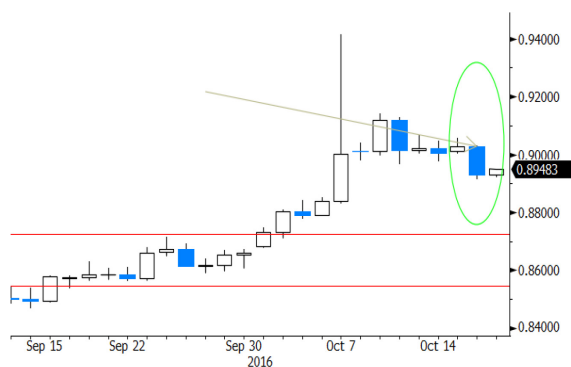
**From a technical point of view, EUR/USD came within reach of the 1.0952/13 support, but it was left intact and followed by a mild short covering. Some consolidation might continue short-term. A break below that area would be a USD positive and open the way for next intermediate support (1.0822/1.0711).** A similar pattern is developing for USD/JPY. A sustained break north of 104.32 would paint a double bottom formation on the charts with targets in the 108/109 area. The area was extensively tested, but a sustained break didn't occur. We stay cautious on sustained USD/JPY gains beyond the 104.32/65 resistance especially as global volatility/uncertainty might intensify.

### Sterling rebounds on bigger role for Parliament

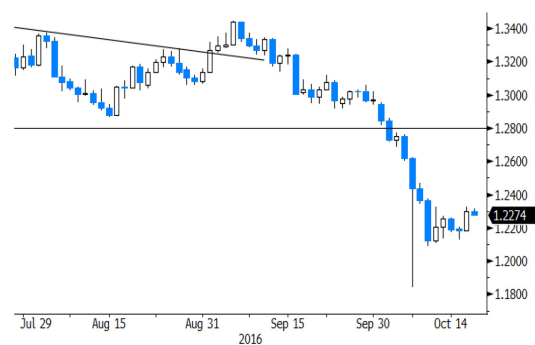
On Tuesday, sterling traders kept a close eye on the September UK inflation. UK CPI (1.0% Y/Y) and core CPI (1.5% Y/Y) were slightly higher than expected, but input PPI was marginally softer. **The report confirmed that the decline of sterling is filtering through into higher prices for UK consumers. However, the market reaction was very modest.** Sterling traders didn't know which card to play. EUR/GBP initially hovered up and down in the 0.90 area. Finally sterling outperformed the euro and the dollar. Comments of the UK government lawyer, who indicated that the Brexit treaty was likely to be voted on by both houses and that Parliament will have a central role in changing domestic laws, triggered the rebound. **Markets considered these comments as reducing the chances on a hard Brexit.** Cable rebounded to the 1.2325 area and closed the session at 1.2298 (from 1.2183). EUR/GBP finished the day at 0.8929, from 0.9028.

Today, the UK labour market data will be published. Of late, the UK labour market resisted the uncertainty of Brexit quite well. Jobless claims are expected to stay low, but also employment growth might slow. We also keep an eye at the wage data, but their impact on sterling will probably be less than was the case before Brexit. Yesterday, sterling rebounded as markets saw positive effects on the outcome of the Brexit negotiations in case of a bigger involvement of Parliament. However, this debate doesn't remove the fundamental uncertainty on the Brexit process and its outcome. So, we don't expect the sterling rebound to go very far. We look out how far this correction goes. **A further decline could be an opportunity to sell sterling on up-ticks, both against the euro and the dollar.**

R2	0,9415	-1d
R1	0,915	
EUR/GBP	<b>0,8942</b>	-0,0065
S1	0,8914	
S2	0,8725	



EUR/GBP: sterling rebounds



GBP/USD: off the multi-year low, but picture remains fragile

# Calendar

Wednesday, 19 October		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-6.0%
14:30	Housing Starts / MoM (Sep)	1175k/2.9%	1142k/-5.8%
14:30	Building Permits / MoM (Sep)	1165k/1.1%	1152k/ 0.7%
<b>Canada</b>			
16:00	Bank of Canada Rate Decision	0.50%	0.50%
<b>Japan</b>			
06:30	All Industry Activity Index MoM (Aug)	A 0.2%	0.3%
<b>UK</b>			
10:30	Claimant Count Rate (Sep)	2.2%	2.2%
10:30	Jobless Claims Change (Sep)	3.2k	2.4k
10:30	Average Weekly Earnings 3M/YoY (Aug)	2.3%	2.3%
10:30	Weekly Earnings ex Bonus 3M/YoY (Aug)	2.1%	2.1%
10:30	ILO Unemployment Rate 3Mths (Aug)	4.9%	4.9%
10:30	Employment Change 3M/3M (Aug)	76k	174k
<b>EMU</b>			
11:00	Construction Output MoM / YoY (Aug)	--/--	1.8%/3.1%
<b>Belgium</b>			
15:00	Consumer Confidence Index (Oct)	--	-10
<b>China</b>			
04:00	Industrial Production YoY / YTD YoY (Sep)	A 6.1%/6.0%	6.3%/6.0%
04:00	Retail Sales YoY / YTD YoY (Sep)	A10.7%/10.4	10.6%/10.3 %
04:00	Fixed Assets Ex Rural YTD YoY (Sep)	A 8.2%	8.1%
04:00	GDP SA QoQ / YoY (3Q)	A 1.8%/6.7%	1.8%/6.7%
<b>Events</b>			
11:30	30-yr Bund auction (€1B 2.5% 2046)		
14:45	Fed's Williams Speaks in New Jersey		
15:15	U.K. Chancellor Hammond Testifies to Treasury Committee		
19:30	Fed's Kaplan Speaks in Fort Worth, Texas		
20:00	U.S. Federal Reserve Releases Beige Book		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,75	-0,03	US	0,80	-0,02	DOW	18162 18161,94
DE	0,04	-0,02	DE	-0,67	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,29	-0,02	BE	-0,65	0,00	NIKKEI	16999 16999,34
UK	1,08	-0,05	UK	0,19	0,00	DAX	10631,55 10631,55
JP	-0,06	-0,01	JP	-0,26	0,00	DJ euro-50	3047 3046,99

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,349 0,003
3y	-0,175	1,088	0,613	Euribor-1	-0,37	0,00	Libor-1 USD	0,26 0,26
5y	-0,065	1,236	0,720	Euribor-3	-0,31	0,00	Libor-3 USD	0,40 0,40
10y	0,405	1,562	1,033	Euribor-6	-0,21	0,00	Libor-6 USD	0,57 0,57

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,09815 -0,0031	EUR/JPY	113,98 -0,49		189,3939	1261,3	52,12
USD/JPY	103,82 -0,17	EUR/GBP	0,8942 -0,0065	-1d	0,00	3,45	0,35
GBP/USD	1,2275 0,0052	EUR/CHF	1,087 -0,0009				
AUD/USD	0,7671 0,0007	EUR/SEK	9,6991 0,01				
USD/CAD	1,3102 0,0009	EUR/NOK	8,9621 -0,03				

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