



## Sunrise

Tuesday, 06 December 2016

### Rates: Counting down to ECB meeting

Today's and tomorrow's eco calendar is uninspiring for core bond trading which means that investors will start counting down to Thursday's ECB meeting. Latest press articles suggest that the central bank will be less soft than generally expected. That could keep the Bund in the defensive or neutral going into the meeting.

### Currencies: EUR/USD caught by impressive short-squeeze

Yesterday, the euro was squeezed sharply higher as a downside test of EUR/USD after the Italian referendum was rejected. At the same time, the dollar fell also prey to modest profit taking. Today's eco data won't be important for currency trading. We look out whether yesterday's repositioning has run its course. Will the USD uptrend resume?

### 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** ended 0.24% (Dow) to 1% (Nasdaq) higher, financials and IT outperforming. Overnight, Asian stocks eke out moderate gains.
- **Australia's central bank left interest rates unchanged**, despite concerns the resource-rich economy has slowed sharply in the second half of the year.
- **Talks between euro area ministers and the IMF over Greece broke up** with little headway having been made in resolving splits over the programme, **despite ministers approving a set of ST debt relief measures for Greece**.
- Sergio Mattarella, Italy's president, has **asked Matteo Renzi to stay on as Italy's prime minister until the country's budget law is passed in parliament**, extending his stay at the helm of the Italian government for a few more days.
- **Saudi Aramco has cut the January price** for its Arab Light crude for Asian customers to the lowest in four months as it holds to a strategy of preserving market share in the world's fastest-growing demand centre.
- Euro zone finance ministers will **not set a target for fiscal stimulus for the single currency area next year**, Eurogroup Dijsselbloed said, rejecting a European Commission proposal meant to boost German spending.
- Bankers are running out of private-sector solutions for Monte dei Paschi di Siena and have told **the Italian lender to prepare for a state bailout this weekend** after prime minister Matteo Renzi was felled by a referendum defeat.
- **Today's eco calendar is unattractive and** contains the final reading of EMU Q3 GDP, US trade balance and final US durable goods orders.

# Rates

## Hardly negative impact from Italian referendum

Yesterday, global core bonds initially lost substantial ground, but managed to recoup the largest part during US trading. Several factors probably played a role in the selling. First, the adverse outcome of the Italian referendum was by and large expected/discouted. Second, the FT ran several articles suggesting the ECB would be less soft, at its meeting on Thursday, than generally expected. Third, oil prices reached their highest level since July 2015 (\$55/barrel) and inflation expectations (5y5y forward swap) added another 2/3 bps, extending their upward trend. EMU eco data (weaker final November EMU services PMI and stronger October retail sales) had no impact. **The US non-manufacturing ISM printed very strong at 57.2, pushing US bonds to intraday lows, after which short covering started. US volumes were moderate, while Bund volumes were high (contract roll). Fed governors Dudley and Evans, both rather dovish, indicated that the Fed is ready to hit its dual mandate and favour a tighter US policy over time. The technical pictures of the German bonds and most US Treasuries didn't change.**

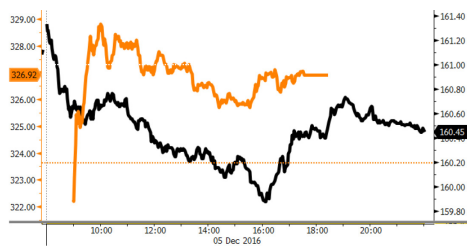
*German bonds underperform US ones on ECB fears*

*Italian bonds barely underperform on referendum outcome*

	US yield	-1d
2	1,124	0,0242
5	1,8407	0,0281
10	2,3869	0,0181
30	3,0583	0,0238

	DE yield	-1d
2	-0,7110	0,0310
5	-0,3910	0,0380
10	0,3210	0,0560
30	0,9806	0,0434

**In a daily perspective,** changes on the US yield curve (bear flattening) ranged between 0.2 bps (30-yr) and +2.4/2.5 bps (2 & 5-yr). German yields changes varied between 2.7 bps (2-yr) and 5.1 bps (10-yr). **On intra-EMU bond markets,** 10-yr yield spreads versus Germany narrowed 4/5 bps for Spain and Portugal and 2 bps for Austria (election outcome). **The Italian underperformance (+3 bps) was limited** given the referendum outcome. Rating agency DBRS warned that the referendum outcome is credit negative. A DBRS downgrade would also downgrade the value of Italian bonds as collateral. If sentiment versus Italy deteriorates further, it could complicate capital operations at several Italian banks with BMPS rumoured to be heading to a state bailout.



*Bund future (black) and EuroStoxx (orange) (intraday): stocks rapidly erase post-referendum losses. Bund slides lower, but rebounds once US ISM is digested.*



*Italian and Spanish 10-yr bond yields: Barely higher Italian 10-yr yields after referendum.*

## Thin calendar with little market impact?

*Second tier US eco data*

The Euro area calendar contains the **final Q3 GDP figure**. No changes are expected and it is outdated. The **US calendar** is better filled, but barely more interesting. The **October trade deficit** is expected to have increased to \$42B from \$36.4B in September. The deterioration has already be signaled by the advance goods trade balance report. The service trade surplus is expected to have broadly stabilized. The bigger overall deficit suggests that net trade will weigh on Q4 GDP. However, it's only the first figure for the quarter and the balance is quite volatile on a monthly basis.

The **factory orders are expected to have rebounded in October** based on an already reported improvement in the durable orders and increases for non-durables like petroleum. **Neither the trade balance nor the factory orders should give the market firm direction.**

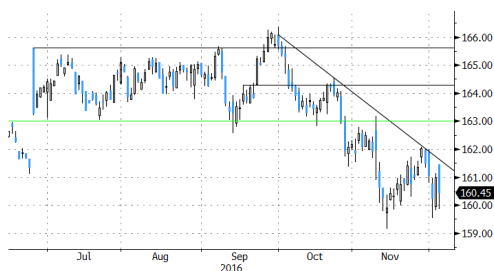
### Counting down to ECB meeting

R2	163,19	-1d
R1	162,08	
<b>BUND</b>	<b>160,69</b>	<b>-0,4400</b>
S1	159,14	
S2	158,67	

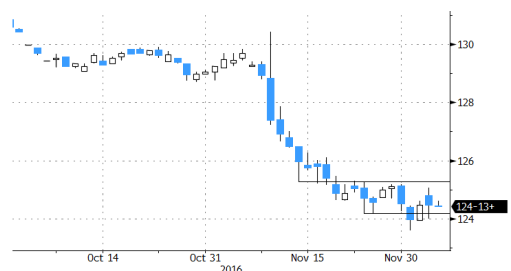
**Overnight**, most Asian equity markets trade positive, eking out gains of up to 1.5%. Brent crude trades stable near the recent highs around \$54.50/barrel and the US Note future also suggests a neutral opening for the Bund.

**Today's and tomorrow's eco calendar is uninspiring for core bond trading which means that investors will start counting down to Thursday's ECB meeting.** Latest press articles suggested that the central bank will be less soft than generally expected. **That could keep the Bund in the defensive or neutral going into the meeting. Oil prices and inflation expectations remain wildcards for intraday trading.**

**Technically, the US 2-yr yield broke above 1.1% resistance. The US 5-yr yield tries to break above the 1.85% area, while a first test of 2.5% resistance in the US 10-yr yield failed. The US 30-yr yield remains below a similar 3.25% mark. We wait for specific news (e.g. a hawkish Fed next week) before anticipating a break higher (5yr & 10 yr). We hold our sell-on-upticks approach in US Treasuries.**



*German Bund: Downtrend remains intact despite adverse Italian referendum outcome*



*US Note future (March contract): sell-on-upticks*

# Currencies

## Euro squeezed sharply higher

*EUR/USD captured by impressive short squeeze*

*Dollar falling prey to modest profit taking.*

R2	1,0851	-1d
R1	1,0809	
EUR/USD	1,07445	0,0162
S1	1,0506	
S2	1,0458	

*Dollar looking for a floor*

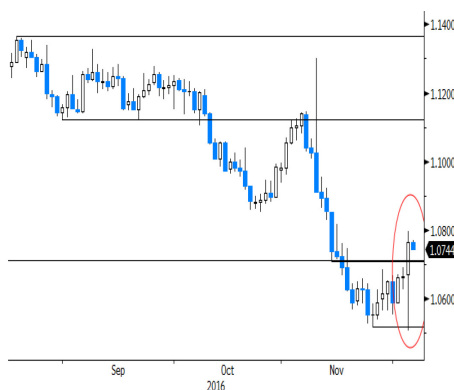
*Eco calendar of second tier importance*

*EUR/USD nears first important resistance in the 1.0809 area.*

On Monday, global (currency) markets reacted again in a remarkable way to political event risk. The negative impact of the 'No-vote' in the Italian referendum was very short-lived. Markets started a surprising risk-on short-squeeze. EUR/USD jumped from the low 1.05 area in Asia to fill bids just below 1.08 in US dealings. The pair closed the session at 1.0764 (1.0664 on Friday). The price move in EUR/USD was in the first place a euro rebound, but the late session setback of USD/JPY also suggests profit taking on USD longs, despite a strong US ISM. USD/JPY touched an intraday top of 114,78, near the correction top, but the test was rejected. The pair closed the session at 113.85.

**Overnight**, Asian equities are catching up on the risk rally yesterday, showing gains of 0.5% to 1.0%. Core bond yields declined from intra-day highs during the US session, but stabilize this morning. This brings some calm for USD trading after yesterday's wild swings. The dollar is looking for a short-term floor. EUR/USD hovers in the mid 1.07 area. USD/JPY tries to regain the 114 big figure. The Reserve bank of Australia as expected left its policy rate unchanged at 1.5% and keeps a neutral policy bias. The Aussie dollar is losing slightly ground. AUD/USD is trading in the 07450 area.

**Later today**, the Euro area calendar contains the **final Q3 GDP figure**. No changes are expected and report contains outdated news. The **US calendar** is better filled, but barely more interesting. The **October trade deficit** is expected to have increased to \$42B from \$36.4B, in line with the advance goods trade balance. The bigger overall deficit suggests that net trade will weigh on Q4 GDP. However, it's only the first figure for the quarter and the balance is quite volatile on a monthly basis. The **factory orders are expected to have rebounded in October** based on an already reported improvement in the durable orders. **We don't expect the trade balance or the factory orders to give clear guidance for USD trading.**



EUR/USD: downside test rejected, kick-starting an impressive short squeeze



USD/JPY tested key resistance just below 115, but test is rejected, for now

Yesterday, **euro shorts were reduced as Italian event risk had past. At the same time, the dollar fell prey to modest profit taking despite strong US data. For now, we see this as a short-term repositioning in a standing trend even as interest rates moved in favour of the euro.**

The market focus now turns to Thursday's ECB policy meeting. For an in depth preview of the ECB policy decision [see our ECB flash report](#). We expect a rather soft message from the ECB meeting and don't expect it to be a trigger for further euro strength. **So, we look for signs that the recent repositioning has run its course to add/re-establish EUR/USD shorts.**

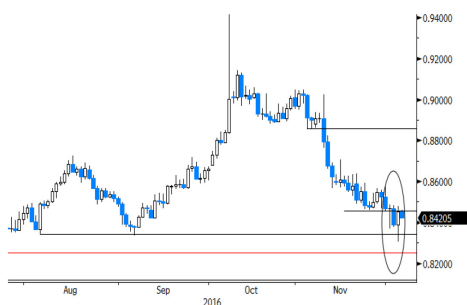
**From a technical point of view**, EUR/USD cleared intermediate support at 1.0851 and 1.0711 (2016 low). The pair set a minor new low below the 1.0524/18 support yesterday morning, but was captured by an impressive short squeeze later in the session. **The 38% retracement from the Trump decline comes in at 1.0809. We look out whether this first important resistance holds going into the ECB meeting.** The technical picture for USD/JPY improved too. The pair took out the key resistance at 111.45/91. Next key resistance at 114.50/115 was tested last week and yesterday, but the test was rejected. **The pair has moved well into overbought territory. The rally might be ripe for a modest correction.**

### EUR/GBP holding north of 0.8333 support

R2	0,8708	-1d
R1	0,8578	
<b>EUR/GBP</b>	<b>0,8425</b>	0,0089
S1	0,83	
S2	0,8117	

On Monday, the reaction of sterling, especially of EUR/GBP, was as remarkable in EUR/USD. EUR/GBP temporarily filled bids below the 0.8333 support area early in Asia. However, from the start of European trading, EUR/GBP joined the short squeeze of EUR/USD. The rise of EUR/GBP was slightly less forceful as in EUR/USD as cable (GBP/USD) also profited from the constructive risk sentiment. **The UK services PMI printed strong at 55.2, but had no impact on sterling trading, as the 'post-Italy' risk-on repositioning was the dominant factor.** EUR/GBP touched an intraday top in the 0.8479 area. The pair closed the session at 0.8453 (from 0.8390). The rise in EUR/USD also supported a gradual rise in cable. The pair close the session at 1.2732.

**Overnight**, the UK BRC like for like sales unexpectedly declined in November from 1.7% Y/Y to 0.6% Y/Y (1.7% was expected). As usual, the direct impact of the report on sterling trading was mixed. This morning, EUR/GBP is reversing part of yesterday's short squeeze. The decline of EUR/GBP looks to go a bit faster than in the EUR/USD pair. So, it too early to conclude the recent sterling rebound has run its course after yesterday's EUR/GBP short squeeze. EUR/GBP extensively tested the 0.8333 support yesterday, but a sustained break didn't occur. The 0.8333/05 area has become an important point of reference. **We look whether this area can put a floor under the recent EUR/GBP decline.**



EUR/GBP: Test of 0.8333 rejected. EUR/GBP looking for a bottom?



GBP/USD: trending gradually higher

# Calendar

Tuesday, 6 December		Consensus	Previous
<b>US</b>			
14:30	Trade Balance (Oct)	-\$42.0b	-\$36.4b
14:30	Nonfarm Productivity (3Q F)	3.3%	3.1%
14:30	Unit Labor Costs (3Q F)	0.3%	0.3%
16:00	Factory Orders / Factory Orders Ex Trans (Oct)	2.5%/--	0.3%/0.6%
16:00	Durable Goods Orders / Durables Ex Trans (Oct F)	2.0%/0.5%	4.8%/1.0%
16:00	Cap Goods Orders Nondef Ex Air (Oct F)	--	0.4%
16:00	IBD/TIPP Economic Optimism (Dec)	--	51.4
16:00	Cap Goods Ship Nondef Ex Air (Oct F)	--	0.2%
<b>Japan</b>			
01:00	Labor Cash Earnings YoY (Oct)	A: 0.1%	R 0.0%
01:00	Real Cash Earnings YoY (Oct)	A: 0.0%	R 0.8%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Nov)	A: 0.6%	1.7%
<b>EMU</b>			
<b>11:00</b>	<b>GDP SA QoQ / YoY (3Q F)</b>	<b>0.3%/1.6%</b>	<b>0.3%/1.6%</b>
11:00	Gross Fix Cap QoQ (3Q)	0.4%	1.1%
11:00	Govt Expend QoQ (3Q)	0.4%	0.2%
11:00	Household Cons QoQ (3Q)	0.3%	0.2%
<b>Germany</b>			
08:00	Factory Orders MoM / WDA YoY (Oct)	0.6%/1.6%	-0.6%/2.6%
09:30	Markit Germany Construction PMI (Nov)	--	52.9
<b>Australia</b>			
<b>04:30</b>	<b>RBA Cash Rate Target</b>	<b>A: 1.50%</b>	<b>1.50%</b>

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,39	0,02	US	1,12	0,02	DOW	19216 19216,24
DE	0,32	0,06	DE	-0,71	0,03	NASDAQ	for Exch - NQI #VALUE!
BE	0,65	0,00	BE	-0,62	0,04	NIKKEI	18361 18360,54
UK	1,39	0,00	UK	0,07	-0,03	DAX	10684,83 10684,83
JP	0,05	0,02	JP	-0,16	0,00	DJ euro-50	3053 3052,75

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,347 0
3y	-0,090	1,524	0,740	Euribor-1	-0,37	0,00	Libor-1 USD	0,26 0,26
5y	0,105	1,817	0,928	Euribor-3	-0,31	0,00	Libor-3 USD	0,38 0,38
10y	0,705	2,213	1,319	Euribor-6	-0,22	0,00	Libor-6 USD	0,55 0,55

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,07445	0,0162	EUR/JPY	122,42	2,06		193,4753	1170,7	54,6
USD/JPY	113,985	0,20	EUR/GBP	0,8425	0,0089	-1d	1,78	-2,13	0,54
GBP/USD	1,2748	0,0058	EUR/CHF	1,0823	0,0089				
AUD/USD	0,7448	0,0013	EUR/SEK	9,8143	0,03				
USD/CAD	1,3275	-0,0045	EUR/NOK	9,0045	0,04				

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