



Sunrise

Monday, 14 November 2016

Rates: bond unfriendly environment

Today's eco calendar is empty apart from central bank speeches. Sentiment will therefore be today's key trading theme and that remains bond unfriendly. We hold our negative view versus core bonds and suggest a sell-on-upticks approach.

Peripheral bonds underperform Bunds.

Currencies: Dollar rally continues

On Friday and this morning, the dollar still profited from the Trump-inspired global reflation trade. Price action in Asia this morning suggest that that the dollar might continue to receive interest rate support. So, for now there is no reason to row against the USD positive tide.

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 mixed on Friday in an uneventful trading session. Overnight, **Asian stock markets** cede some ground with China, but especially Japan outperforming on the back of yen weakness.
- **Japan's economy smashed expectations with quarterly growth of 0.5% and annualised growth of 2.2% in Q3 2016** (0.2% & 0.8% expected), as rising exports overcame the stronger yen. The figure suggests the economy has regained some momentum after a long lull.
- **China's retail sales** softened (10% Y/Y vs 10.7% Y/Y consensus) as **industrial production** (6.1% Y/Y vs 6.2% Y/Y) and **investment** (8.3% Y/Y vs 8.2% Y/Y) held more or less steady in spite of a weaker showing from exports last month.
- **Bulgarian** Socialist ally Radev, a **Russia-friendly newcomer** to politics, won the presidential election by a wide margin, prompting PM Borisov to pledge to resign. A **pro-Russian candidate** also won the race for president of **Moldova**, following a campaign in which he vowed to slam the brakes on 7 years of closer integration with the EU.
- **Average asking prices for UK properties** put on the market in November fell 1.1%, the third monthly fall since the Brexit vote in June, according to the latest survey from website Rightmove.
- **Donald Trump** would like to cut corporate tax rates to 15% and reverse a rule requiring brokers to put clients' interests first in handling retirement investments. As for that wall: Trump now says he'd be OK with some sections being fences, and added he may deport up to three million undocumented immigrants with criminal records.
- **Today's eco calendar is uneventful apart from central bank speeches** (ECB Draghi, ECB Constancio, Fed Kaplan, Fed Lacker).

Rates

Bund lower for 5th consecutive session.

US cash bond market closed

Bunds end lower in volatile trading

Intra-EMU spreads widen rather sharply

	US yield	-1d
2	0,9841	0,1093
5	1,642	0,2054
10	2,2206	0,2119
30	3,0182	0,2019

	DE yield	-1d
2	-0,6030	0,0260
5	-0,3160	0,0680
10	0,3220	0,1110
30	0,9703	0,1199

Fed Kaplan & Lacker to confirm December rate hike is likely

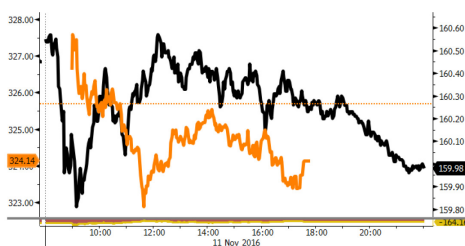
EMU production data outdated

ECB Constancio to be listen too carefully

On Friday, the US cash bond market remained closed for Veteran's holiday, like various European markets. Despite these closures, the Bund traded nervous and volatile. An initial down-leg set a new sell-off low at 159.77, but losses were recouped by noon. However, the slide resumed in the afternoon, in thinner volumes, leading to a close at 160.27, a 37 ticks daily loss. In a daily perspective, German yields were up 1.5 bps at the 2-yr tenor and 3.4 bps at the 5-, 10- and 30-yr tenors. The 10-yr yield set a new sell-off high at 0.345 bps, but the 0.30/0.33% key yield resistance wasn't broken in the close. The 30-yr Bund yield approached the 1% threshold. The US Note future traded in very thin dealings and closed at 127-05+, down from 127-18 on Thursday, a new contract low. Michigan consumer sentiment unexpectedly rose to 91.6 in November from 87.2 in October, but the survey pre-dated the election. Inflation measures rose too, to 2.7% from 2.4% for the 1-yr and 5-to-10-yr expectation, the highest since mid-2014 (LT measure). Fed Fischer said the case for tightening is quite strong as the Fed is near achieving its objectives. In the intra-EMU markets, 10-yr yield spreads versus Germany widened substantially: 2-to-4 bps at the semi-core and 9/10 bps for Italy/Ireland.

Central bank talk important, but not today?

Dallas Fed Kaplan and Richmond Fed Lacker speak. Kaplan recently said the case for a hike is strengthening, but the Fed can be patient beyond its next step. Fed Lacker is a hawk, who favours tighter policy and said the case for raising rates is relatively strong. We don't expect them to drive markets, but stay attentive to eventual comments on Trump's policy and the reaction on that of the monetary policymakers. ECB Draghi probably won't speak about policy, but ECB vice chair Constancio may. He is a dove, but recently said that inflation may reach 1.3% Y/Y in spring, which suggests that a debate on policy inside the ECB is ongoing. EMU industrial production is expected at -1% Y/Y in September. National data suggest a weak figure. However it is too outdated to affect trading in a lasting way.



Bund future (black) EuroStoxx (orange) (intraday): Ongoing volatility amid absence US traders. In the end, new closing low and 5th consecutive decline



German 10-yr yield above 38% retracement and now testing 0.30/0.34% yield resistance

Spain and France tap market on Thursday

R2	163	-1d
R1	161,69	
BUND	159,98	-0,9600
S1	159,77	
S2	158,67	

This week's EMU bond supply is low with only Spain and France tapping the market on Thursday. **The Spanish debt agency sells the on the run 3-yr Bono (0.25% Jan2019), 5-yr Bono (0.75% Jul2021) and 10-yr Obligacion (1.3% Oct2026).** The amount on offer still needs to be announced. **The French treasury taps the off the run OAT (3.75% Apr2021) and creates a new 5-yr OAT (0% May2022) for a combined €4.5-5.5B.** This week's auctions will be supported by a €12.4B Italian redemption.

Unfriendly bond environment

Overnight, Asian stock markets lose some ground with China (stable) and Japan (+1.5%; weaker yen) outperforming. Last week's dominant trading themes (stronger dollar, higher rates) are still at play this morning, suggesting a weaker opening for the Bund.

Today's eco calendar is empty apart from central bank speeches (ECB Draghi, ECB Constancio, Fed Kaplan, Fed Lacker). Dallas Fed Kaplan is a moderate president who votes on policy next year. His comments could be most interesting from a market point of view. We expect the two ECB top guns to hold the policy line without frontrunning on the key December meeting. **Sentiment will therefore be today's key trading theme and that remains bond unfriendly.** Since Trump's election victory, the 5y5y market based measure for US inflation expectations increased from 2.21% to 2.47%. **Markets expect a reflationary policy which will boost growth and inflation. If inflation expectations rise too rapidly, they could force the Fed to accelerate the timing of its very gradual tightening cycle.** We hold our negative view versus core bonds and suggest a sell-on-upticks approach. Peripheral bonds underperform Bunds.

Medium term technical pictures deteriorated. Better eco data, rising inflation expectations and central banks' change of tone (extraordinary policy won't last forever) triggered the sell-off which started at the beginning of October. The US 10-yr and 30-yr yields broke above 2% and 2.75% resistance. Next targets are 2.25% and 3.25%. The German 10-yr yield tested the upper bound of the trading range (0.10%-0.30%). A break opens the path to 0.50%



German Bund: deteriorating technical picture



US Note future: Core bonds suffer after Trump's election victory. Sell-on-upticks

Currencies

R2	1,13	-1d
R1	1,1145	
EUR/USD	1,0784	-0,0153
S1	1,0711	
S2	1,0524	

On Friday, the dollar remained well bid as the reflation trade continued

The tone on Asian markets is little different from last week

The dollar is still supported by rising US yields

USD/JPY rises further on overall USD strength even as Japan Q3 growth was stronger than expected.

USD holds strong as global repositioning continues

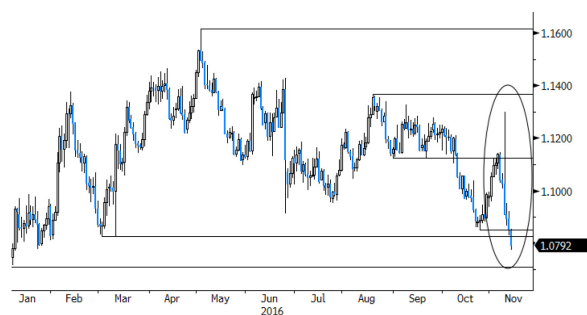
We don't row against the USD-positive tide

Dollar rally continues unabatedly

On Friday, the established trends remained in place. The equity rally took a breather. Core/US bond yields held close to the recent high. The dollar simply continued its ascent against the likes of the euro and the yen. EUR/USD closed the session at 1.0855, testing 1.0851 support. USD/JPY hovered in the 106 big figure and closed the session marginally lower on daily basis (106.69 from 106.95), but remained within reach of the post-Trump highs.

Overnight, the post Trump repositioning continues. US bond yields trend further north. Industrial commodities remain will bid. The trade-weighted dollar (DXY) reached the highest level since end January. Japanese equities outperform as they profit from more USD/JPY buying, pushing the pair well beyond 107. Japan Q3 growth was stronger than expected at 0.5% Q/Q in Q3 (expected 0.2 %). However, the growth report didn't hamper a further decline of the yen. Dollar strength weighs on equities in most Asian emerging markets outside China. Chinese equities trade marginally stronger. Chinese October industrial production (6.1% Y/Y) and retail sales (10.0 Y/Y) were slightly softer than expected. The yuan weakens further on global dollar strength. USD/CNY trades around 6.8280. Overall dollar strength also triggered additional losses in EUR/USD this morning. The pair dropped below 1.08.

Later today, there are few eco data in Europe and the US. EMU industrial production is expected weak in September at -1% Y/Y. However it is too outdated to affect trading in a lasting way. Markets might also look out whether central bankers show any change in their assessment in the wake of the US election outcome. Dallas Fed Kaplan and Richmond Fed Lacker speak. Kaplan recently said the case for a hike is strengthening, but the Fed can be patient beyond its next step. Fed Lacker is a hawk, who favours tighter policy and said the case for raising rates is relatively strong. ECB Draghi probably won't speak about policy, but ECB vice chair Constancio may. He is a dove but recently said that inflation may reach 1.3% Y/Y in spring, which suggests that a debate on policy inside the ECB is ongoing;



EUR/USD: dollar succeeds impressive post-Trump rebound



USD/JPY test next resistance at 107.50

Monday, 14 November 2016

Last week, the dollar was an important beneficiary of the Trump-inspired reflation trade, propelled by rising US bond yields. It looks that this reflation trade has still further to go. Plenty of investors are apparently wrong-footed by the rise in core /US bond yields and have still some repositioning to do. In this context, the dollar might also remain well bid. At some point, the negative impact of a stronger dollar on the US economy might return on the radar of the markets. However, there is no indication of such change in mind-set at this stage. **So, for now there is no reason to row against the USD positive tide.**

From a technical point of view, EUR/USD tested the 1.13 barrier but the first important resistance (1.1366) stayed out of reach. The dollar started an impressive rebound. On Friday/overnight the pair dropped below the 1.0851 support, improving the picture of the dollar. From a monetary policy point of view, a Fed December rate hike is still likely, while the ECB's intentions regarding tapering of the APP are unclear. We maintain a sell-on-upticks bias for EUR/USD. The 1.0711 correction low is the next target. **The picture for USD/JPY also improved.** Of late interest rate differentials, rather than the risk-on/risk-off paradigm were the main driver for USD/JPY. USD/JPY simply joins the broader USD rally. So, there is no reason to row against the tide. How long will the global risk-on trade last and what will the reaction of USD/JPY be if equity sentiment turns less positive?

Sterling holds remarkably strong

On Friday, sterling remained remarkably strong even against an overall stronger dollar. There was market talk that a privileged relationship between, the UK and the Trump government could give the UK a better negotiation position in the Brexit process. Whatever the reason, sterling was squeezed higher. Cable even touched a short-term correction op at 1.2674. The pair eased later in the session, but still closed in positive territory at 1.2596. A sterling performance of cable and EUR/USD declining further pushed EUR/GBP temporary below 0.8600. The pair closed the day at 0.8625.

The Rightmove house prices declined 1.1% M/M in November. The sterling rally shows some tentative signs of slowing this morning. However, the jury is still out. The decline of EUR/USD was clearly negative for EUR/GBP of late. EUR/GBP dropped below the 0.8725 previous top. This makes the short-term picture more sterling friendly. We are not convinced on the sustainability of the current sterling rebound in a longer term perspective. However, for now, we stay side-lined as long as the decline of EUR/USD weighs on EUR/GBP.

R2	0,9142	-1d
R1	0,905	
EUR/GBP	0,8597	-0,0213
S1	0,8567	
S2	0,8333	



EUR/GBP drops below 0.8725 support



GBP/USD: sterling holds strong despite overall USD rebound

Calendar

Monday, 14 November		Consensus	Previous
Japan			
00:50	GDP SA QoQ (3Q P)	A: 0.5%	0.2%
00:50	GDP Deflator YoY (3Q P)	A: -0.1%	0.7%
00:50	GDP Private Consumption QoQ (3Q P)	A: 0.1%	0.2%
00:50	GDP Business Spending QoQ (3Q P)	A: 0.0%	-0.1%
05:30	Industrial Production MoM / YoY (Sep F)	A: 0.6%/1.5%	0.0%/0.9%
05:30	Capacity Utilization MoM (Sep)	A: -2.0%	2.6%
EMU			
11:00	Industrial Production SA MoM / WDA YoY (Sep)	--/--	1.6%/1.8%
Italy			
10:00	CPI EU Harmonized YoY (Oct F)	--	-0.1%
China			
03:00	Industrial Production YoY / YTD YoY (Oct)	A: 6.1%/6.0%	6.1%/6.0%
03:00	Retail Sales YoY / YTD YoY (Oct)	A: 10%/10.3%	10.7%/10.4%
03:00	Fixed Assets Ex Rural YTD YoY (Oct)	A: 8.3%	8.2%
Events			
09:30	ECB's Constancio Speaks at Euro Finance Week in Frankfurt		
16:00	ECB's Draghi Attends Event at Italian Treasury in Rome		
19:20	Fed's Kaplan Speaks in Wichita Falls		
23:00	Fed's Lacker Speaks at Washington College in Chestertown, MD		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,22	0,21	US	0,98	0,11	DOW	18848 18847,66
DE	0,32	0,11	DE	-0,60	0,03	NASDAQ	for Exch - NQI #VALUE!
BE	0,71	0,23	BE	-0,58	0,06	NIKKEI	17673 17672,62
UK	1,37	0,10	UK	0,22	0,02	DAX	10667,95 10667,95
JP	-0,01	0,03	JP	-0,19	0,04	DJ euro-50	3030 3030,02

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,35	0,006
3y	-0,050	1,398	0,759	Euribor-1	-0,37	Libor-1 USD	0,27	0,27
5y	0,134	1,676	0,941	Euribor-3	-0,31	Libor-3 USD	0,40	0,40
10y	0,685	2,082	1,317	Euribor-6	-0,21	Libor-6 USD	0,56	0,56

Currencies			-1d	Currencies			-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0784	-0,0153		EUR/JPY	115,98	0,72			183,3344	1218,7	44,78
USD/JPY	107,57	2,16		EUR/GBP	0,8597	-0,0213		-1d	-0,22	-68,92	-1,91
GBP/USD	1,254	0,0131		EUR/CHF	1,0699	-0,0053					
AUD/USD	0,7544	-0,0127		EUR/SEK	9,8524	-0,06					
USD/CAD	1,3560	0,0150		EUR/NOK	9,1075	0,01					

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