



Sunrise

Wednesday, 15 November 2017

Rates: Positive bias core bonds

European stock markets remain fragile and oil prices could be prone to a more pronounced downward correction. Both are supportive for core bonds (bull flattening) even if traditional market correlations were loose of late. US CPI and retail sales are expected to moderate, but in current sentiment such outcome could be considered disappointing.

Currencies: Euro in pole-position. Will US data be strong enough to save the dollar?

Strong EMU eco data squeezed the euro sharply higher yesterday. A decline in US yields weighed on the dollar. Today, the focus is on the US CPI and retail sales. Both series are expect soft after a strong reading in September. If so, they won't help the dollar short-term.

Calendar

Headlines

S&P	→
Eurostoxx 50	↘
Nikkei	↓
Oil	↘
CRB	↓
Gold	↗
2 yr US	→
10 yr US	↘
2yr DE	→
10 yr DE	→
EUR/USD	↑
USD/JPY	→
EUR/GBP	↗

- **US stock markets** opened weaker, but didn't suffer additional losses by the closing bell. They ended around 0.25% lower. **Risk aversion reigns in Asia overnight** with Japan underperforming, losing up to 1.5%.
- **Senate Republicans attached a provision to their tax overhaul that would repeal the requirement that all Americans have health insurance**, a new twist in the GOP lawmakers' efforts to rewrite much of the US tax code.
- **The Japanese economy grew by 1.4% Q/Qa in Q3 2017** as the country recorded its longest run of unbroken expansion since 2001 (7 quarters). The pace was slower than in Q2 (2.6% Q/Qa) though and below consensus (1.5% Q/Qa).
- **AUD/USD falls to lowest since July** as traders push back expectations for RBA tightening after **weaker-than-expected wage price data** (0.5% Q/Q and 2% Y/Y vs 0.7% and 2.2% expected). Consumer confidence also disappointed.
- Oil prices dropped yesterday following **the IEA's prediction that growth in US oil output until 2025 will be the strongest** seen by any country in the history of crude markets, making it the "undisputed" leader among global producers.
- **The Federal Reserve should aim to raise interest rates gradually**, despite weak inflation readings, in part because any spike in demand could push the US economy beyond its sustainable levels, **Atlanta Fed Bostic** said.
- **Today's eco calendar heats up** contains US CPI inflation, retail sales and empire manufacturing. UK traders focus on the labour market report. Several central bankers speak and Germany holds a 10-yr Bund auction.

Rates

Core bonds gain ground despite stronger eco data

Support from weaker oil price

	US yield	-1d
2	1,69	0,01
5	2,04	-0,02
10	2,37	-0,03
30	2,82	-0,04

Bull flattening yield curves

Eco data in line with consensus considered as disappointing?

	DE yield	-1d
2	-0,74	0,00
5	-0,34	-0,01
10	0,40	-0,02
30	1,27	-0,02

Core bonds gain ground despite stronger eco data

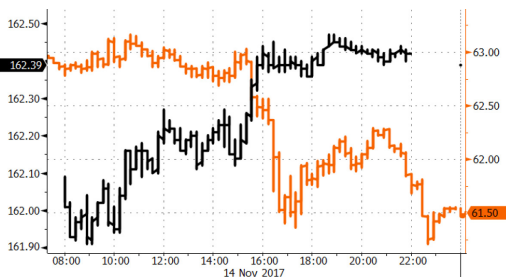
Traditional correlations remain at search on bond markets. In recent sessions, Bunds and US Treasuries lost ground despite weakness on stock markets.

Yesterday, global core bonds gained slightly ground despite stronger than expected EMU and US eco data. The move higher accelerated when oil prices hit an air pocket after the release of the IEA’s annual world energy outlook (lower demand forecast). Brent crude dropped from \$63+/barrel to the low \$61/barrel area. The longer end of the curves outperformed. Atlanta Fed Bostic, who took charge around mid-year and votes on monetary policy next year, argued in favour of continuing the gradual rate hike cycle despite weak inflation readings. He added that the national economy is nearing full employment, meaning that a spike in demand (eg by tax reform) could push the economy beyond its sustainable capacity.

At the end of the session, the German yield curve bull flattened with yields up to 2 bps lower (30-yr). The US yield curve shifted in similar fashion with yield changes ranging between +0.6 bps (2-yr) and -4.1 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged with Greece underperforming (+3 bps).

Interesting US eco calendar

The US eco calendar is interesting today with CPI inflation, retail sales and empire manufacturing. Headline inflation is expected to have moderated (in line with gas prices) from 2.2% Y/Y to 2% Y/Y (up 0.1% M/M) while core inflation is forecast to have stabilized at 1.7% Y/Y (up 0.2% M/M). A setback in retail sales is predicted from a strong 1.6% M/M in September to flat in October. Excluding car sales, consensus expects a moderation from 1% M/M to 0.2% M/M. The empire manufacturing last month matched the highest level since October 2009. A decline from 30.2 to 25.1 is forecast. We have no reason to distant us from consensus. From a market point of view, such outcomes could be considered as disappointing. **Central bank speakers include Chicago Fed Evans and Boston Fed Rosengren.** Evans votes on policy this year. He has a rather dovish profile, but favours the gradual rate hike process. Rosengren is more hawkish, but doesn’t vote on policy this year or next. The ECB’s conference in Frankfurt continues with ECB Praet among today’s speakers.



German Bund future (black) & Brent crude (orange) (intraday):
Additional Bund gains as Brent crude loses ground



Brent crude corrects lower after IEA’s annual energy outlook (lower demand forecast)

R2	165,18	-1d
R1	163,43	
BUND	162,55	0,31
S1	161,91	
S2	160,24	

Small German Bund auction

The German Finanzagentur holds its second auction of the week today by tapping the on the run 10-yr Bund (€3 bn 0.5% Aug2027). Total bids at the previous 4 Bund auction averaged €3.68 bn and we don't expect much improvement today. The auction yield will probably be the lowest since June.

Positive bias core bonds today

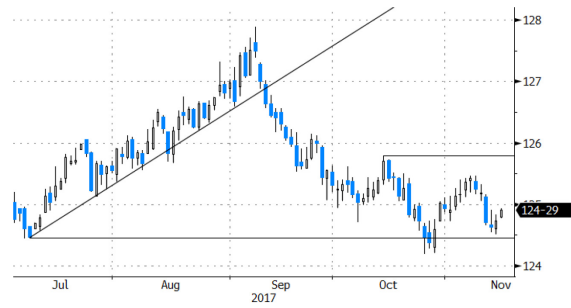
Asian stock markets trade weak overnight with Japan underperforming (-1.5%). The US Note future profits, suggesting a stronger opening for the Bund. Brent crude seems vulnerable to a deeper correction.

Today's eco calendar heats up in the US. During European trading we expect risk sentiment to play a key role. European stock markets remains fragile and the German Dax approaches first support around 12 900/13 000. A more pronounced downward correction of oil prices could be at play as well. **Both are supportive for core bonds (bull flattening) even if traditional market correlations were loose of late.** Attention in the US session will probably shift to eco data with inflation and retail sales. A moderation is expected for both series, but in current sentiment investors might consider such outcome rather disappointing. **So, we have a positive intraday bias today with the long end of the curves outperforming.** Central bank speeches and developments in the US tax reform debate are wildcards for trading.

Technically, US Treasuries will probably trade in the 124-06 to 125-25 range going forward. This corresponds with a 2.3%-2.47% band in yield terms. The trading range for the Bund going forward is between 160.24 and 163.43. Any moves towards the topsides of the ranges could be used to put up short positions.



German Bund: sideways trading range between 160.24 and 163.63



US Note future: trading band between 124-06 and 125-25?

Currencies

Euro in pole position. US data key for next USD move

Euro jumps on strong EMU data

Risk-off weighs more on the dollar than on the euro

Dollar remains in the defensive as sentiment on risk deteriorates further

Aussie dollar extends decline on soft wage data

R2	1,2092	-1d
R1	1,188	
EUR/USD	1,1798	0,0131
S1	1,1554	
S2	1,1331	

US CPI, retail sales and Empire manufacturing key for the next directional USD-move

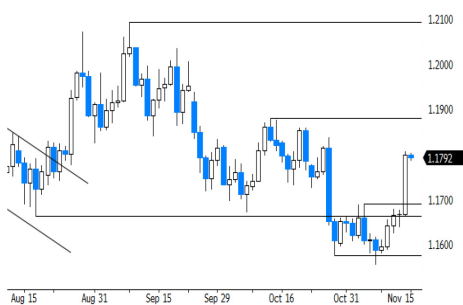
US data might not be strong enough to change fortunes in favour of the USD

Euro strength was name of the game yesterday. A very strong German Q3 GDP propelled the euro. Other EMU eco data confirmed the health of the EMU economy. Initially, there was again a disconnect with the moves on interest rate markets. The dollar also ignored a stronger US PPI. Later in the session, a risk-off driven decline in US yields put the dollar further under pressure. EUR/USD closed the session at 1.1798 (from 1.1667). Quite an impressive gain! USD/JPY finished the session at 113.46.

Profit taking on risky assets continues in Asia overnight. Equities extend their correction. Some commodities correct lower after their recent rally. **Japan Q3 growth was marginally below consensus at 1.4% Q/Qa, with especially private consumption being a drag on growth.** The Q3 GDP report probably added to the decline of Japanese equities. USD/JPY is drifting further south in the 113 big figure (113.25 area), but the gains of the yen remain modest given the global risk-off. EUR/USD (1.1790 area) maintains yesterday's gains. The **Aussie dollar** set a new ST correction low on soft wage data and on a weaker than expected consumer confidence. AUD/USD dropped further below the 0.7625 support area and trades currently at 0.7580.

The focus for trading is on the US data today, with CPI, Empire manufacturing survey and retail sales. CPI inflation is expected at 0.1% M/M and 2.0% Y/Y after a strong September reading (0.5% M/M, 2.2% Y/Y). Yesterday's PPI's were higher than expected, but we doubt that the same factors will be at work for the CPI. Headline retail sales are expected unchanged after a strong September print. The control group underlying measure is expected to rise a modest 0.3% M/M. Monthly (nominal) sales data are volatile and a soft October figure shouldn't question the established trends in the US economy. **Today's data might be unconvincing and unable to change the day-to-day sentiment in favour of the US currency.** The debate on the US tax bill also remains a source of uncertainty. Of late, a global risk-off sentiment was usually more supportive for the euro than for the dollar.

We started the week with **a cautious bias on the dollar.** Yesterday's short-squeeze of EUR/USD was a bit exaggerated given the data and developments in other markets, but it illustrates markets' ST hesitant mind-set vis-à-vis the dollar and the ST positive momentum on the single currency. For now we don't fight the short-term decline of the dollar as we see no a trigger to improve sentiment. **We look out whether a further risk-off will continue to support the euro (keep an eye on EUR/JPY).**



EUR/USD rebounds north of 1.1690. Next resistance comes in at 1.1837/80



USD/JPY: correction off the highs continues. A break below 112.95 suggests further losses

From a technical point of view, EUR/USD dropped below 1.1670/62 support, but subsequent follow-through price action occurred very slowly. The pair dropped to a new post-ECB low on Tuesday last week, but the move petered out. Yesterday's rebound north of 1.1690 questions recent downside momentum. Next resistance stands at 1.1837/80. A break above the latter would suggest a full retracement to the 1.2092 correction top. We don't preposition for such a scenario yet unless there comes real negative news from the US. **USD/JPY's momentum was positive in past months.** The pair regained 110.67/95 resistance and tested the 114.49 MT range top. The attempt failed. A sustained break would improve the technical picture. However; last week's price action was unconvincing despite a solid interest rate support. A break below 112.96 would indicated further downside ST.

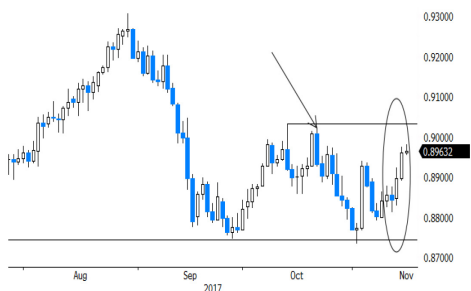
EUR/GBP nears ST range top/resistance

UK headline inflation was stable at 3.0%M Y/Y yesterday (consensus 3.1% Y/Y). Other price indicators were also slightly softer than expected. In its November inflation report, the BoE assumed inflation to peak above 3.0% in October. **If inflation cools from current levels, the BoE can shift into wait-and-see modus. Sterling won't get any additional interest rate support anytime soon. This prospect weighted on sterling.** Cable dropped (temporary?) below 1.31, but the decline was reversed as cable followed the rebound of EUR/USD. The pair closed the session at 1.3165. EUR/GBP extended gains well north of 0.89. The move was reinforced by overall euro gains. EUR/GBP closed the day at 0.8961.

The UK labour market data will be published today. The unemployment rate is expect stable at the very low level of 4.3%. Employment growth is expected to moderate. Wage growth is expected to remain very soft (2.1% Y/Y). We expect the labour market report to be lest important for sterling trading. The market focus probably will be on the wage data. Given very low expectations, there is room for a slight upward surprise. This might give sterling some relief after yesterday's sharp decline (against the euro). However, we don't expect today's labour report to change the broader picture for sterling trading. Markets will also continue to keep an eye at the debate on the 'EU Withdrawal Bill' in the UK Parliament. Of course, the global euro moves will also affect EUR/GBP trading. We have a EUR/GBP bias short-term and we don't change that assessment yet. That said, the upside momentum might slow a bit after the recent rally.

MT technical: Sterling rebounded in September as the BoE prepared markets for a rate hike. This rebound ran into resistance as markets anticipated that any rate hikes would be very gradual and limited. This view was confirmed at this month's BoE policy meeting. EUR/GBP currently trades in a 0.8733/0.9033 consolidation range. A downside test of this range was rejected. We assume that the 0.8733-0.8652 support will be tough to break. **A EUR/GBP buy-on-dips approach for return action to the EUR/GBP 0.9023/33 ST range top is favoured.**

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8961	0,0065
S1	0,8743	
S2	0,8657	



EUR/GBP nears MT range top. Time for the rebound to take a breather?



GBP/USD: Cable holds sideways consolidation pattern. USD and sterling weakness keep each other in balance.

Calendar

Wed, 15 November		Consensus	Previous
US			
14:30	CPI MoM / YoY (Oct)	0.1%/2.0%	0.5%/2.2%
14:30	CPI Ex Food and Energy MoM / YoY (Oct)	0.2%/1.7%	0.1%/1.7%
14:30	Real Avg Weekly Earnings YoY (Oct)	--	0.6%
14:30	Empire Manufacturing (Nov)	25.1	30.2
14:30	Real Avg Hourly Earning YoY (Oct)	--	0.7%
14:30	Retail Sales Advance MoM (Oct)	0.0%	1.6%
14:30	Retail Sales Ex Auto MoM (Oct)	0.2%	1.0%
14:30	Retail Sales Ex Auto and Gas (Oct)	0.3%	0.5%
14:30	Retail Sales Control Group (Oct)	0.3%	0.4%
16:00	Business Inventories (Sep)	0.0%	0.7%
Japan			
00:50	GDP SA QoQ (3Q P)	A: 0.3%	0.6%
00:50	GDP Annualized SA QoQ (3Q P)	A: 1.4%	2.6%
00:50	GDP Deflator YoY (3Q P)	A: 0.1%	-0.4%
00:50	GDP Private Consumption QoQ (3Q P)	A: -0.5%	0.7%
00:50	GDP Business Spending QoQ (3Q P)	A: 0.2%	0.5%
05:00	Tokyo Condominium Sales YoY (Oct)	A: -3.0%	-13.0%
05:30	Industrial Production MoM / YoY (Sep F)	A: -1%/2.6%	-1.1%/2.5%
05:30	Capacity Utilization MoM (Sep)	A: -1.5%	3.3%
UK			
10:30	Claimant Count Rate (Oct)	--	2.3%
10:30	Jobless Claims Change (Oct)	--	1.7k
10:30	Average Weekly Earnings 3M/YoY (Sep)	2.1%	2.2%
10:30	Weekly Earnings ex Bonus 3M/YoY (Sep)	2.2%	2.1%
10:30	ILO Unemployment Rate 3Mths (Sep)	4.3%	4.3%
10:30	Employment Change 3M/3M (Sep)	52k	94k
EMU			
11:00	Trade Balance SA (Sep)	21.0b	21.6b
France			
08:45	CPI EU Harmonized MoM / YoY (Oct F)	0.1%/1.2%	0.1%/1.2%
Events			
08:00	ECB's Lane Speaks in Dublin		
09:00	ECB's Hansson Participates in Panel Discussion in London		
09:00	Fed's Evans Speaks at European Conference in London		
11:00	ECB's Praet, BOE's Haldane, Denmark's Rohde Speak in Frankfurt		
11:30	Germany to Sell €3 bn 0.5% 2027 Bonds		
22:10	Fed's Rosengren Speaks on US Economy in Boston		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,37	-0,03	US	1,69	0,01	DOW	23409,47	-30,23	
DE	0,40	-0,02	DE	-0,74	0,00	NASDAQ	6737,872	-19,72	
BE	0,61	-0,02	BE	-0,61	0,00	NIKKEI	22028,32	-351,69	
UK	1,32	-0,01	UK	0,49	0,00	DAX	13033,48	-40,94	
JP	0,05	-0,01	JP	-0,19	-0,01	DJ euro-50	3556,38	-18,14	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,08	1,98	0,92	Eonia	-0,3560	0,0000	Libor-1	1,2503	0,0000
5y	0,21	2,12	1,08	Euribor-1	-0,3720	-0,0010	Libor-3	1,4159	0,0000
10y	0,86	2,36	1,36	Euribor-3	-0,3290	0,0000	Libor-6	1,6162	0,0000
				Euribor-6	-0,2750	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1798	0,0131	EUR/JPY	133,85	1,28	CRB	189,06	-2,39	
USD/JPY	113,46	-0,16	EUR/GBP	0,8961	0,0065	Gold	1282,90	4,00	
GBP/USD	1,3165	0,0049	EUR/CHF	1,1673	0,0049	Brent	62,21	-0,95	
AUD/USD	0,7631	0,0008	EUR/SEK	9,9044	0,1227				
USD/CAD	1,2731	-0,0002	EUR/NOK	9,651	0,1250				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

