



## Sunrise

Monday, 31 October 2016

### Rates: FBI reopening Clinton's server probe causes election uncertainty

At this juncture, it is very uncertain whether the new FBI "revelations" will affect the outcome of the elections. Last week, the race seemed to have been run. If polls would indicate that Trump still make chances to win, a flight to quality might benefit US Treasuries. However, Trumps programme includes much higher deficits and debt which are T-negatives.

### Currencies: Dollar loses slightly ground on new Clinton probe

On Friday, the dollar didn't profit from a decent UK Q3 GDP. Headlines on a new probe into Clinton's e-mails triggered further USD profit taking. The Clinton headlines are a source of uncertainty for the dollar, but for now the damage remains limited. Some more USD consolidation might be on the cards ahead of the key US data and Fed meeting later this week.

### 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** were modestly up after the US GDP, but fell on the FBI news, before limiting the losses to 0.31% (S&P). **Asian equities trade narrowly mixed this morning ahead of some CB meetings, US elections and the US payrolls.**
- **Japanese industrial production** disappointed in September as output growth was zero last month, down from a 1.3% M/M pace in August and below expectations for a 0.9% rise. **Japan retail trade** remained in the doldrums last month, delivering a weaker than expected performance (-1.9% Y/Y)
- **The FBI has added fuel to the political fire surrounding Clinton's use of a private email server**, saying just 11 days before the US election that it was investigating new emails. FBI investigators do not yet know whether or not the material is significant or how long it will take to complete their review.
- **Friday's news from the FBI hit markets** with S&P 500 falling into negative territory before staging a partial recovery. The Mexican peso, which has become a proxy for the Republican nominee's election prospects, also fell on the news. Odds of a Clinton win slipped in the Iowa prediction market to 70% from 90%.
- **S&P affirmed the UK's AA rating and maintained its negative outlook**, meaning more cuts could be on the horizon. It warned for the eco risks of Brexit. S&P stripped the UK of its AAA rating days after the it voted to leave the EU in June.
- Ardent supporters of Britain's vote to leave the EU believe they are on the verge of another victory by **forcing Mark Carney to resign as governor of the Bank of England before the end of his term in 2018. (Times). He is expected to release a statement that he will stay on for the full 8 years according to other papers.**
- **Brent oil prices are sliding further below \$50 a barrel** on concerns about Opec's capacity to cut production. Iraq objected last week to cut its production. .
- **Today**, attention will continue to go to the **US elections and the latest FBI step**, while in **EMU inflation and GDP data** are up for release. In the UK, attention will be on the rift about **BOE Carney continuing its mandate.**

# Rates

## Core bond find their composure after tumultuous week

*Consolidation on bond markets following sell-off*

*FBI investigation on Clinton server caused some havoc late in the US session, benefitting the short end.*

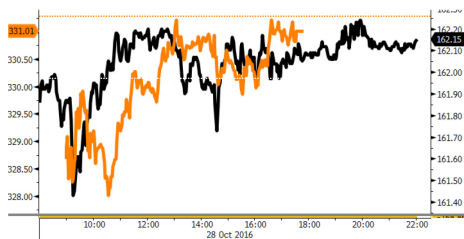
*Peripheral spreads widen in post-sell-off catching up.*

On Friday, core bonds consolidated during most of the session. Late in the US session, the FBI announced it re-opens the case against Hillary Clinton on the use of a private server when serving as Foreign Secretary. It is unclear whether this investigation will bring charges against Clinton, neither whether it may change the outcome of the presidential elections. Anyway, it raises uncertainty and possibly may be a game changer. In a first reaction, the (positive) reaction on the bond market was modest, with the short end of the US curve gaining ground as rate hike expectations were trimmed somewhat. The dollar, equities and the Mexican peso, which serves as a sensitive pointer for the outcome of the elections, fell. The FBI action may overshadow other market influences and possibly help core bonds regain ground this week. In a daily perspective, changes on the German yield curve ranged between +0.5 to -0.3 bp (10-yr) while the 30-year yield fell 3.1 bps. The US yield curve bull steepened with yields 3.3 bps (2-yr) to 0.2 bp (30-yr) lower. The probability of a December rate hike dropped to 69% from about 75% after the stronger GDP figures. On intra-EMU bond markets, 10-yr yield spread changes versus Germany widened up to 2 bps with Italy, Portugal (+6 bps) and Spain (+4 bps) underperforming, which might be a delayed response to the absence of spread widening during the sell-off, which was a bit surprising.

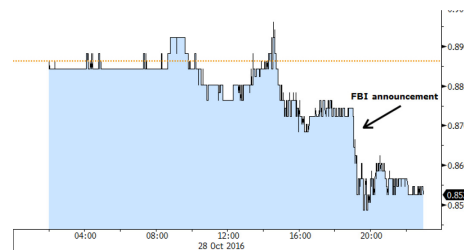
	US yield	-1d
2	0,8567	-0,0315
5	1,3278	-0,0194
10	1,8486	-0,0107
30	2,6218	0,0056

	DE yield	-1d
2	-0,6220	-0,0020
5	-0,3840	0,0130
10	0,1680	0,0010
30	0,8137	-0,0153

Intra-day, bonds tested the downside twice (in early European dealings and after strong Q3 GDP), but the downside looked exhausted. Month end extension buying may have been of some help. Rate markets ignored better than expected EMU EC confidence data and the highest German inflation reading since the end of December 2014.



*Bund future (black) and EuroStoxx (orange) (intraday): Two attempts to push Bunds lower fail leading to consolidation following previous sell-off*



*US 2-yr yield drops lower on some safe haven flight following FBI announcement it re-opens the case against Clinton.*

## EMU inflation, Q3 GDP and Hillary eye-catchers

In EMU, attention goes to the **October HICP inflation and the Q3 GDP**. Inflation is expected to have risen to 0.5% Y/Y from 0.4%Y/Y previously, while core inflation is expected stable at 0.8% Y/Y. On the basis of the national CPI data, that were released Friday, **we have no reason to distance us from the consensus** estimate for both headline and core EMU. Regarding **Q3 EMU GDP**, the French release showed an uninspiring modest rebound of GDP (0.2% Q/Q; 1.1% Y/Y). Spanish GDP was stronger at 0.7% Q/Q and 3.2% Y/Y, but close to expectations, while Belgian GDP was weak at 0.2% Q/Q and 1.2% Y/Y following a stronger Q2. Based also on monthly data, **we think that EMU GDP grew at its**

*EMU HICP to be slightly higher, while Q3 to show ongoing modest growth*

*US data of less importance?*

Monday, 31 October 2016

**Q2 pace of 0.3% Q/Q and 1.6% Y/Y.** Q4 may be stronger as the confidence data of October were strong. **In the US, the September PI and PCE** shouldn't surprise as they were already included in Friday's Q3 GDP.

R2	164,3	-1d
R1	163	
<b>BUND</b>	<b>162,05</b>	0,0000
S1	161,37	
S2	161,11	

**Regarding the November 1-2 FOMC meeting**, the markets attribute a 17% chance of a rate increase, but that's very unlikely. The US presidential elections on November 8 inject already enough uncertainty in the markets to keep the FOMC side-lined. There is also no press conference and too few new eco data since the September FOMC meeting to justify a rate increase. **Markets will focus on the balance of risks and the forward guidance.** It is likely that the Fed will prepare the markets for a December meeting, **explicitly pointing that December is the likely moment to raise rates**, just like they did last year. At the same time, they will state that they expect the upward rate path to be very shallow going forward. Regarding the risk assessment, in September they called the risks roughly balanced. **They may drop the "roughly" of the risks balance.**

### Important week starts with election uncertainty

**Overnight**, Asian stock markets are narrowly mixed, suggesting that the FBI announcement on a re-opening of the case about Clinton server usage isn't yet infecting the risk sentiment. Brent crude slides below \$50/barrel. US equity futures are slightly up, but European equities might still open lower. US Treasuries trade stable suggesting a neutral Bund opening.

**Today's calendar contains the EMU inflation and Q3 GDP.** We have no arguments to distance us from consensus. Even in case of a (small) surprise, we doubt German bonds will react sharply. **Following last week's sell-off and Friday's consolidation, we expect further consolidation ahead of the key US eco data releases and the Fed decision on Wednesday.** However, the FBI probe, even if it hasn't yet shaken markets yet, may turn out to be bond positive. **We prefer to stick to a bond negative attitude medium term. However, we take on a cautious attitude short term, awaiting whether markets will make something more of the FBI probe and its impact on the elections.**

**Technical pictures deteriorated. 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 the month. The US 10-yr and 30-yr yields held above key resistance levels at 1.75% and 2.5%, while the US Note future dropped below 129-26 support.** The German 10-yr yield moved above the 0.10% resistance. This break is relevant from a technical point of view and unlocks a new trading range (0.10%-0.30%). The Bund fell below the 163 support area and is also prone to more losses.



German Bund: Break below 163 support area suggests more downside, but short term consolidation is preferred ahead of key US eco data, Fed and US elections



US Note future: technical picture is negative, but consolidation/some profit taking is possible near term

# Currencies

R2	1,1366	-1d
R1	1,1123	
<b>EUR/USD</b>	<b>1,096</b>	0,0058
S1	1,0826	
S2	1,0711	

*The dollar losing modest ground as US-election nervousness resurfaces*

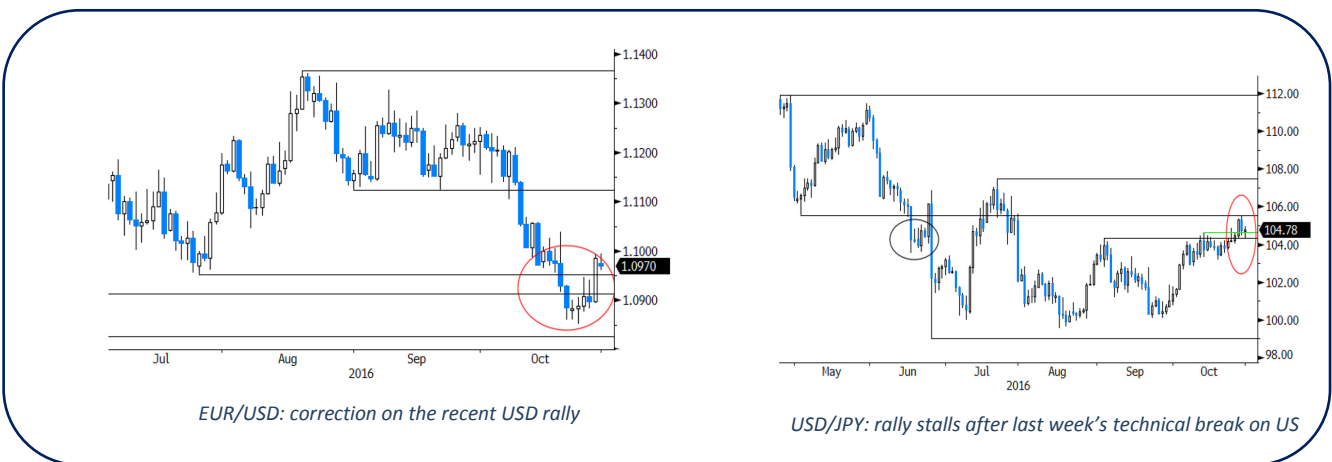
*Asian equities decline Clinton probe and a decline of oil*

*Dollar stabilizes after intraday decline*

## USD rally blocked as political uncertainty resurfaces

On Friday, interest rates showed some nervous swings, but didn't provide clear guidance for USD trading. US Q3 GDP was OK, but not strong enough to support further USD gains. Late in the session, headlines on a new FBI probe into Hilary Clinton's e-mails reactivated the uncertainty on the Presidential election and weighed on the dollar. EUR/USD jumped to the high 1.09 area and closed the session at 1.0985 (from 1.0897). USD/JPY dropped off the reaction highs in the 105.50 area and finished the session at 104.74.

Overnight, Asian indices are narrowly mixed. The new probe into the Clinton e-mails is a source of uncertainty, but the negative impact on global risk sentiment remains subdued. A further slide in oil prices also weighs on global sentiment. OPEC and other oil-producing countries failed to agree on measures to cut production. The trade-weighted dollar (98.45 area) rebounds slightly after declining about 0.4% Friday eve on the Clinton headlines. USD/JPY dropped to the 104.30 area, but trades currently again in the 104.80 area. EUR/USD (1.0970 area) trades off Friday's top just below 1.10. So, the dollar feels some additional uncertainty on the outcome of the US election, but investors currently don't see it as a game-changer.



EUR/USD: correction on the recent USD rally

USD/JPY: rally stalls after last week's technical break on US

*Eco data only be of intraday significance?*

*Headlines on US politics are again a wild card*

Today, attention goes to the **EMU October HICP inflation and the Q3 GDP**.

Inflation is expected to have risen to 0.5% Y/Y from 0.4%Y/Y. Core inflation is expected stable at 0.8% Y/Y. The national CPI data give us no **reason to distance us from the consensus**. National **Q3 EMU GDP** data painted a mixed picture. Based also on monthly data, **EMU GDP Q3 GDP probably grew at its Q2 pace of 0.3% Q/Q and 1.6% Y/Y**. **In the US the September PI and PCE** shouldn't surprise as they were already comprised in Friday's Q3 GDP. The **Chicago PMI** is expected little changed in October at 54. **Last week, the eco data had only limited impact on USD trading**. The dollar rally ran into resistance as markets had largely discounted a December Fed rate hike. The headlines on the Clinton probe caused some USD profit taking, but the recent top in the (trade-weighted) dollar remains within reach. Today's US data won't have a lasting impact on the dollar. Investors will await other US eco data (ISM tomorrow; payrolls on Friday) and the Fed communiqué Wednesday. We also look out whether uncertainty on the US elections will block the global bond sell-off.

If the rise in global yields halts, the topside of the dollar might also become more difficult. **So, we start the week with a ST neutral dollar bias.** As long as politics doesn't profoundly change expectations for a Fed rate hike, the downside of the dollar remains probably protected.

**From a technical point of view, EUR/USD dropped below 1.0952/13 support. This was USD positive and opened the way to next support (1.0822/1.0711).**

However, Friday's rebound questions the room for more sustained USD gains short-term. Even so, **we maintain a EUR/USD sell-on-upticks bias.** USD/JPY finally broke above the 104.32/64/87 resistance on Thursday. This break painted a double bottom formation on the charts with targets in the 108/109 area. **We were cautious to pre-position for higher USD/JPY, as we feared that a rise in global volatility could prevent a further yen decline. However, the rise in core yields dominated as a driver for USD/JPY.** So, we change our ST assessment on USD/JPY from cautious to positive. We look out for the effect of rising political uncertainty. For now it doesn't change the broader picture.

### Sterling again slightly in the defensive

**On Friday,** after initial technical trading, **sterling temporary spiked lower as a North Irish Court decided that no approval from lawmakers is needed to start the Brexit process.** The ruling gives the government some more decision room and raises chances on a hard Brexit. EUR/GBP jumped temporary north of 0.90. Cable filled bids in the 1.2115 area. However selling pressure on sterling eased later in the session. The Clinton headlines were slightly mixed for sterling. Cable rebounded on USD weakness, but EUR/GBP traded slightly stronger in line EUR/USD on global uncertainty. Cable finished the session at 1.2185 (from 1.2164). EUR/GBP closed the session at 0.9004 (from 0.8958).

**During the weekend** there were several press articles with various views on **whether BoE governor Canrey will finish his full mandate or resign early.** Sterling traded weaker at the Asian open, but trades currently again near Friday's closing levels. The Lloyds Business barometer was strong at 37 (from 24). Today, the UK Money supply and lending data will be published. Consumer credit held up reasonably well of late. If confirmed, it might be slightly sterling supportive. At the end of last week, a sterling rebound ran into resistance, even as the eco data were okay. **Political event risk remains a ongoing source of sterling uncertainty and caps any protracted rebound. A rise of global uncertainty won't help sterling. We look to sell sterling on more pronounced up-ticks. EUR/GBP 0.8725 remains a key reference.**

R2	0,9142	-1d
R1	0,9068	
<b>EUR/GBP</b>	<b>0,8993</b>	0,0035
S1	0,888	
S2	0,8725	



EUR/GBP: returns to 0.90 area after recent rebound



GBP/USD: consolidation, but no sustained rebound yet

# Calendar

Monday, 31 October		Consensus	Previous
<b>US</b>			
13:30	Personal Income (Sep)	0.4%	0.2%
13:30	Personal Spending (Sep)	0.4%	0.0%
13:30	Real Personal Spending (Sep)	0.3%	-0.1%
<b>13:30</b>	<b>PCE Deflator MoM / YoY (Sep)</b>	<b>0.2%/1.2%</b>	<b>0.1%/1.0%</b>
13:30	PCE Core MoM / YoY (Sep)	0.1%/1.7%	0.2%/1.7%
<b>14:45</b>	<b>Chicago Purchasing Manager (Oct)</b>	<b>54.0</b>	<b>54.2</b>
<b>Japan</b>			
00:50	Industrial Production MoM / YoY (Sep P)	A 0%/0.9%	1.3%/4.5%
00:50	Retail Sales MoM / YoY (Sep)	A 0%/-1.9%	-1.2%/-2.2%
00:50	Dept. Store, Supermarket Sales (Sep)	A -3.2%	-3.6%
05:00	Vehicle Production YoY (Sep)	A 1.4%--	8.8%
06:00	Housing Starts YoY (Sep)	A 10%	2.5%
06:00	Annualized Housing Starts (Sep)	A 0.984m	0.956m
06:00	Construction Orders YoY (Sep)	A 16.3%	13.8%
<b>UK</b>			
01:01	Lloyds Business Barometer (Oct)	A 37	24
10:30	Net Consumer Credit (Sep)	1.5b	1.6b
10:30	Net Lending Sec. on Dwellings (Sep)	3.0b	2.9b
10:30	Mortgage Approvals (Sep)	61.5k	60.1k
31OCT-03NOV	Nationwide House PX MoM / NSA YoY (Oct)	0.2%/4.9%	0.3%/5.3%
<b>EMU</b>			
<b>11:00</b>	<b>CPI Estimate YoY (Oct)</b>	<b>0.5%</b>	<b>0.4%</b>
<b>11:00</b>	<b>CPI Core YoY (Oct A)</b>	<b>0.8%</b>	<b>0.8%</b>
<b>11:00</b>	<b>GDP SA QoQ / YoY (3Q A)</b>	<b>0.3%/1.6%</b>	<b>0.3%/1.6%</b>
<b>Germany</b>			
08:00	Retail Sales MoM / YoY (Sep)	0.2%/1.5%	-0.4%/3.7%
<b>Italy</b>			
11:00	CPI EU Harmonized MoM / YoY (Oct P)	0.4%/0.1%	1.9%/0.1%
12:00	PPI MoM / YoY (Sep)	--/--	-0.3%/-1.1%

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,85	-0,01	US	0,86	-0,03	DOW	18161,19
DE	0,17	0,00	DE	-0,62	0,00	NASDAQ	
BE	0,42	0,03	BE	-0,63	0,00	NIKKEI	17425,02
UK	1,26	0,01	UK	0,26	-0,01	DAX	10696,19
JP	-0,05	-0,01	JP	-0,24	0,00	DJ euro-50	3079,24

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,351	0,003
3y	-0,119	1,160	0,702	Euribor-1	-0,37	0,00	Libor-1 USD	0,27	0,27
5y	0,016	1,338	0,853	Euribor-3	-0,31	0,00	Libor-3 USD	0,40	0,40
10y	0,514	1,689	1,199	Euribor-6	-0,21	0,00	Libor-6 USD	0,57	0,57

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,096	0,0058	EUR/JPY	114,89	0,08	-1d	189,2067	1274,39	49,44
USD/JPY	104,85	-0,49	EUR/GBP	0,8993	0,0035		0,49	5,65	-1,05
GBP/USD	1,2184	0,0019	EUR/CHF	1,0834	0,0002				
AUD/USD	0,7606	0,0016	EUR/SEK	9,8895	0,00				
USD/CAD	1,3404	0,0023	EUR/NOK	9,0681	0,06				

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