



Sunrise

Wednesday, 07 September 2016

Rates: Technical trading into ECB meeting; Fed hike delayed to December?!

Today's trading will be technically and sentiment-driven amid an empty eco calendar and going into tomorrow's ECB meeting. Yesterday's very poor non-manufacturing ISM probably pushed back the next Fed rate hike to December. Technically, the US Note future moved above the August downtrend line.

Currencies: Dollar hammered on awful US non-manufacturing ISM

After an uneventful trading session, the dollar faced a serious setback as a poor US ISM reduced chances on a September rate hike. EUR/USD jumped to the mid 1.12 area/ USD/JPY dropped below 102. Sterling is holding strong. Cable even overcame a first important resistance. Sterling traders look out for the BoE hearing before Parliament today.

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 stock markets ended up to 0.5% higher** yesterday as a very poor US non-manufacturing ISM probably pushed the Fed back to December to hike rates a second time. **Overnight, Asian stocks gain slightly ground with Japan underperforming on the back of a stronger yen.**
- **Australian GDP rose by 0.5% Q/Q in Q2**, slightly below 0.6% Q/Q consensus. Private consumption and government expenditure remain the drivers of growth.
- **German industrial production** unexpectedly fell by the most in almost two years in July as manufacturing suffered from subdued global trade. Production, adjusted for seasonal swings, fell 1.5% from June, when it rose a revised 1.1%.
- **The Federal Reserve should increase short-term interest rates again sooner rather than later, San Francisco Fed governor Williams said**, as he set out a bullish outlook for the jobs market and broader economy.
- **Chinese bank profits were essentially flat in the first half of the year** as lenders struggled with shrinking net interest margins and rising bad loans. With top-line growth sluggish, lenders have turned to **cost-cutting**. China's listed banks have shed around 35,000 employees this year and cut average salaries as they seek to reduce costs amid stagnant revenue growth.
- Rating agency Moody's said that the outcome of the **US election won't have an impact on the country's Aaa-rating.**
- Today, the **eco calendar** contains UK industrial production data. Fed Lacker & George speak while the Fed releases its Beige Book. The Swedish and Canadian central banks decide on policy rates.

Rates

Weak ISM give boost to bonds, as chances Sept. US rate hike dwindle

Belly US curve outperforms

German curve bull flattens

	US yield	-1d
2	0,734	-0,0637
5	1,1201	-0,0794
10	1,5357	-0,0770
30	2,2256	-0,0635

	DE yield	-1d
2	-0,6740	-0,0340
5	-0,5630	-0,0550
10	-0,1160	-0,0650
30	0,4327	-0,0897

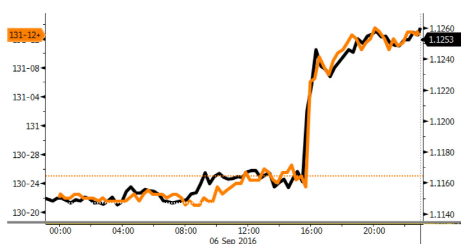
Bonds surge as weak ISM put rate hike plan in jeopardy

Global core bond initially parted ways with German Bunds outperforming US Treasuries, but at that time the gains of the Bund were technically insignificant. The only economic number released in EMU, the final revision of EMU Q2 GDP, was bang in line with expectations and ignored. Some final repositioning going into Thursday's ECB meeting might have been behind the Bund's climb higher. However, US Treasuries jumped sharply higher when also the Non-manufacturing ISM fell sharply, like the manufacturing ISM last week and after already disappointing payrolls. **Markets drew the conclusion that this third weak report could be the straw that broke the camel's back and withhold the FOMC from raising rates when they meet on September 22.** So, Treasuries climbed faster than Bunds. The curve movements were different too. In the US, it had monetary policy consequences as the belly of the curve (especially 5-yr) outperformed. In Germany, the curve bull flattened. **In a daily perspective, US yields were down 5.4 bps (30-yr) to 7.3 bps (5-yr). In Germany, yields dropped by 3.1 bps (2-yr) to 8 bps (30-yr). We favoured a rate increase in September, but change now our view and see more chances for a December rate hike.**

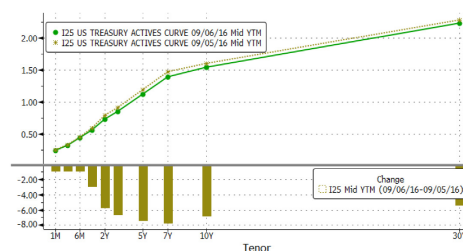
Once more, it might be manāna for the FOMC. Currently, markets still attach a 25% chance for a Sept. hike and a 50% one for December. On **intra-EMU bond markets**, 10-yr yield spreads vs. Germany were little changed with Greece underperforming (+17 bps).

SF Fed Williams was recently leaning towards a September rate hike.

Yesterday, he kept saying that September is a live meeting and that he isn't jumping to conclusions on the data. He will analyse them with his staff and the FOMC next week. He added that he has an open mind on the rate decision. **He still sees gradual increases sooner rather than later, but doesn't fix himself on one particular meeting.** On the longer term he said his view is for a **somewhat shallower path for rates** (than before). He is afraid that waiting too long means risks for imbalances. While Williams is an influential FOMC member (no vote), **we don't believe he can tilt the balance one way or another.**



T-Note future (black) and EUR/USD (orange) intraday: Sharp move higher of bonds and lower of dollar as rate expectations are scaled back on weak ISM



US curve (one day change): Belly outperforms as weak ISM has monetary policy implications

Jolts report and Beige Book sole (US) eco releases.

Fed hawks George and Lacker appear before House Committee

Thin eco calendar

In line with the US payrolls report, also the **JOLTS report** showed signs of a dip in May. In June, both job openings and hires picked up, but it will be interesting to see whether the rebound continued in July. While the JOLTS report usually receives less attention, it might be interesting ahead of the FOMC meeting.

The **Beige Book** is a preparatory document for the FOMC that describes the economic situation via anecdotal evidence gathered by the regional Fed banks. **After the weaker eco data it is interesting to see whether the anecdotal evidence goes in the same direction. Normally, it isn't a market mover.**

R2	168,86	-1d
R1	165,63	
BUND	165,45	-0,2100
S1	163,78	
S2	163	

German Bund auction at risk of another failure

The German Finanzagentur taps the on the run 10-yr Bund (€5B 0% Aug2026). **Total bids averaged only €4.56B at the previous 4 Bund auctions. The negative auction yield probably heightens the probability of another failed auction. The bond traded stable in ASW spread terms going into the auction, but is rather cheap on the German yield curve.**

Sentiment-driven trading with US markets closed

Overnight, most Asian equity markets gain slight ground with Japan underperforming on the back of a stronger yen. Australian GDP data printed slightly weaker than expected and SF Fed Williams kept his options open for the next Fed meeting (see higher). The US Note future trades stable overnight while oil marginally gains ground. Nevertheless, we expect a neutral opening for the Bund.

Today's eco calendar is empty apart from hawkish Fed speakers Lacker & George (on governance, policy and economic performance) and the release of the Beige Book. **Trading will thus be technically and sentiment-driven going into tomorrow's ECB policy meeting.** Yesterday's poor US non-manufacturing ISM seemed to have tossed the dices on the FOMC. Markets lowered chances of a September rate hike to 24%, sending US Treasuries higher. **We believe that the odds are now in favour of a December move rather than a September one.**

Technically, the US Note future broke above this month's downward trend line, suggesting a move towards 132-05 resistance. The German Bund (Dec contract!) closes in on the upper bound of this Summer's sideways trading range (165.63). In yield terms, the German 10-yr yield has more downside (currently -0.11%, but low at -0.20%).



German Bund (Dec. contract!!): Test of 165.63 high ahead of the ECB meeting?



US Note future (Dec contract!!): non-manufacturing ISM pushes US Note future above downtrend line

Currencies

Dollar hammered after awful US non-manufacturing ISM

Dollar in the defensive as Fed rate hike chances decline

R2	1,1428	-1d
R1	1,1366	
EUR/USD	1,1255	0,0108
S1	1,1123	
S2	1,1046	

Thin eco calendar

Fed George & Lacker speak

Meetings Riksbank & Bank of Canada

More technical trading post US ISM

Dollar nosedives on awful US Services ISM

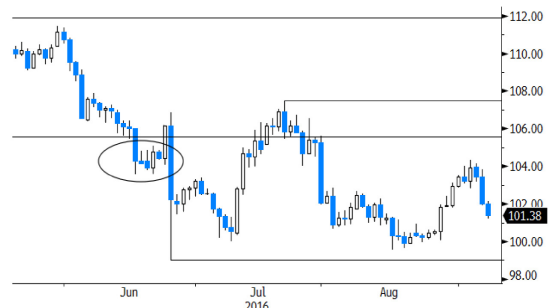
On Tuesday, EUR/USD and USD/JPY traded in tight ranges until the publication of an unexpectedly weak US non-manufacturing ISM. The dollar was hit hard as the report reduced the chances for a September rate hike. **EUR/USD jumped almost one big figure and closed the session at 1.1255 from 1.1147 on Monday.** USD/JPY dropped from the 103.30 area to the low 102 area to finish the session at 102.02 (from 103.43).

Overnight, Asian equities are trading with modest gains. Japanese equities underperform as the yen rebounded sharply against the dollar. **USD/JPY was hit hard yesterday on the ISM and extended its decline this morning, filling bids in the 101.20./25 area.** The USD/JPY decline is in the primarily dollar weakness in the wake of recent disappointing US data. At the same time, there are plenty of press articles that the BOJ is highly divided whether or not it is appropriate to ease policy further at the September meeting. **Markets' doubts on the BOJ's commitment to ease policy further prevents a sustained decline of the yen.** EUR/USD is holding near yesterday's closing levels in the mid 1.1250 area. **Australia Q2 GDP was marginally softer than expected.** AUD/USD declined slightly off the recent post US ISM highs, but is holding strong around 0.7670.

Today, the **eco calendar is thin.** In line with the payrolls report, the **JOLTS report** showed signs of a dip in May. In June, job openings and hires picked up. It will be interesting to see whether the rebound continued. The JOLTS report usually receives less attention, but it might be interesting ahead of the 21 September FOMC meeting. **The data will probably be of second tier importance for USD trading. The Beige Book is a wildcard. Some additional market repositioning in the wake of yesterday's soft ISM might be on the cards.**



EUR/USD: poor US ISM breaks positive USD momentum r



USD/JPY: returning south in the established range

The post-payrolls' price action on Friday and Monday suggested that sentiment remained modestly USD constructive. **However, yesterday's awful US non-manufacturing ISM (coming on the heels of a mediocre manufacturing ISM and payrolls) makes a September Fed rate hike unlikely.** The markets hope on a Fed rate hike was basis for our ST USD positive bias, which is now fragile. At the same time EUR/USD is testing a first resistance at 1.1252. **So we change our short-term bias from positive to neutral.** Range trading in the 1.1123/1.1366 is now favoured. If the ECB stays cautious on further easing at tomorrow's

meeting, EUR/USD might even return higher in this range. **Sentiment on USD/JPY has also changed.** Receding chances of a Fed rate hike and uncertainty the BOJ' commitment to ease policy further, reversed recent USD gains. The day-to-day momentum also turned negative for USD/JPY, but **we expect the 99.54/99.02 to provide strong support. 104.32 is now the first point of reference on the topside.**

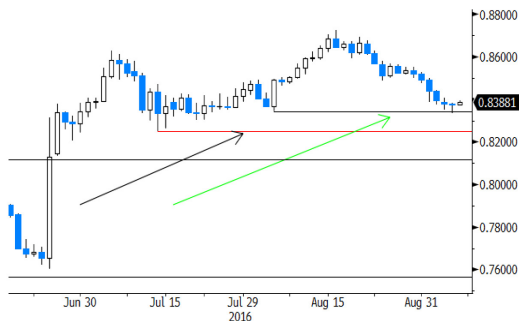
Cable propelled higher on USD weakness

On Tuesday, the shockingly weak US non-manufacturing ISM also changed the trading dynamics in the major sterling cross rates even as this was a dollar move rather than a sterling move. EUR/GBP set a minor correction low in the 0.8334 area just before the US ISM, but rebounded in line with EUR/USD later to close the session at 0.8375 (from 0.8379). Cable initially hovered in the 1.3350 area, but dollar weakness post-ISM propelled the pair higher to close session at 1.3440 (from 1.3304).

R2	0,8815	-1d
R1	0,8725	
EUR/GBP	0,8385	0,0021
S1	0,8344	
S2	0,8251	

Today, the Halifax housing prices and the July production data will be published. For production, a slightly monthly decline is expected. Of late, the UK currency reacted positively to good UK data. However, even in case of a positive surprise, we expected the reaction of sterling to be modest. **Markets will also keep a close eye at an appearance of several BoE members including BoE' Carney at a hearing before Parliament.** The BoE chairman will face questions on its negative assessment of the Brexit risk. Markets will look for clues whether the BoE has become less inclined to ease policy further. However, we expect Carney to keep a balanced approach on this issue. **Even so, the hearing might be slightly supportive for sterling in a daily perspective.**

Sterling had a strong run of late as the UK economy showed remarkable resilience post Brexit. EUR/GBP declined off the 0.8724 post Brexit top. Sterling momentum remains constructive, but gradually a lot good news is discounted. To have technical relevance, EUR/GBP should drop below 0.8344/33 and even 0.8251. This is possible, but not so easy. Cable also showed a positive momentum. A first resistance at 1.3372 has been regained. 1.3481/1.35 is key before concluding the bottoming out process after the steep post-Brexit fall is finished. **We expect the sterling rebound to slow.**



EUR/GBP first important under test, but no sustained break yet



GBP/USD: breaks out of triangle pattern confirmed with key resistance at 1.3481 and 1.35.

Calendar

Wednesday, 7 September		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	2.8%
16:00	JOLTS Job Openings (Jul)	5635	5624
Canada			
16:00	Bank of Canada Rate Decision	0.50%	0.50%
Japan			
01:50	Official Reserve Assets (Aug)	A: \$1256.1B	\$1264.8b
07:00	Leading Index CI (Jul P)	A: 100.0	99.2
07:00	Coincident Index (Jul P)	A: 112.8	111.1
Australia			
03:30	GDP SA QoQ / YoY (Q2)	0.4%/3.2%	1.1%/3.1%
UK			
09:30	Halifax House Prices MoM & 3Mths/Year (Aug)	-0.1%/7.0%	-1.0%/8.4%
10:30	Industrial Production MoM / YoY (Jul)	-0.2%/1.9%	0.1%/1.6%
10:30	Manufacturing Production MoM / YoY (Jul)	-0.3%/-1.7%	-0.3%/0.9%
16:00	NIESR GDP Estimate (Aug)	--	0.3%
Germany			
08:00	Industrial Production SA MoM / WDA YoY (Jul)	A:-1.5%/-1.2%	1.1%/0.9%
Norway			
10:00	Industrial Production MoM / WDA YoY (Jul)	--/--	-5.1%/-8.7%
Sweden			
09:30	Riksbank Interest Rate	-0.50%	-0.500%
Events			
03:15	Fed's Williams Speaks on Outlook in Reno, Nevada		
10:30	Danish Bond Auction	a	
11:03	Swedish Bond Auction (SEK 3.5B 1% Nov2026)		
11:15	BOE's Cunliffe on Panel at Bruegel Think Tank in Brussels		
11:30	German Bund auction (0% 2026)		
15:15	BOE's Carney, Cunliffe, Forbes, McCafferty Speak in London		
16:00	Fed's Lacker & George Appear Before House Financial Services Committee		
20:00	U.S. Federal Reserve Releases Beige Book		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	1,54	-0,08	US	0,73	-0,06	DOW	18538	18538,12
DE	-0,12	-0,07	DE	-0,67	-0,03	NASDAQ	for Exch - NQI	#VALUE!
BE	0,11	-0,07	BE	-0,62	-0,03	NIKKEI	17012	17012,44
UK	0,66	-0,05	UK	0,08	-0,04	DAX	10687,14	10687,14
JP	-0,05	-0,03	JP	-0,20	-0,02	DJ euro-50	3070	3070,16

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,341	-0,002
3y	-0,237	1,023	0,437	Euribor-1	-0,37	Libor-1 USD	0,27	0,27
5y	-0,165	1,119	0,488	Euribor-3	-0,30	Libor-3 USD	0,38	0,38
10y	0,240	1,370	0,717	Euribor-6	-0,20	Libor-6 USD	0,52	0,52

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1255	0,0108	EUR/JPY	114,06	-1,40		180,8951	1351	47,38
USD/JPY	101,35	-2,27	EUR/GBP	0,8385	0,0020	-1d	0,90	24,49	-0,41
GBP/USD	1,3417	0,0096	EUR/CHF	1,0902	-0,0025				
AUD/USD	0,7674	0,0046	EUR/SEK	9,5355	0,00				
USD/CAD	1,2844	-0,0070	EUR/NOK	9,2084	-0,01				

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