



## Sunrise

Thursday, 22 September 2016

### Rates: Fed on hold, US Treasuries outperform

The US yield curve bull flattened after the FOMC meeting as the Fed governors once again lowered their future interest rate projections, including the neutral rate. However, Yellen also said that the case for a rate hike has strengthened with balanced risks to the outlook, suggesting a rate hike later this year.

### Currencies: Dollar slightly softer post-Fed

Yesterday, USD/JPY soon reversed the initial post-BOJ gains. The dollar lost modest ground across the board as the Fed left its policy rate unchanged. However, the context for EUR/USD probably hasn't changed much as the focus remains on the chances for a December rate hike. The yen shows tentative strength post-BOJ.

### 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 rebounded following the FOMC decision** to close up by 1% led by the energy and utilities sectors. This morning, **most Asian shares** trade in positive territory too, although gains remain contained. Japanese markets are closed.
- **The US Federal Reserve decided yesterday to keep its monetary policy unchanged**, but said the case for a rate hike had strengthened, although it was preferred to wait for more evidence of continued progress towards its objectives. The rate projections were once again lowered further.
- Overnight, **the Reserve Bank of New Zealand kept its benchmark interest rate unchanged at 2%**, but said current projections and assumptions indicate that **further policy easing will be required** to ensure that future inflation settles near the middle of the target range. The kiwi dollar strengthened marginally.
- In his first appearance as head of **the Reserve Bank of Australia**, Philip Lowe gave an **upbeat assessment on the economy**, saying that commodity headwinds are easing. Lowe said that interest rates could drop further, but they were unlikely to resort to unconventional measures. The Aussie dollar strengthened further after the comments.
- **Crude oil prices broadened their gains yesterday supported by strong inventory data**, which showed stockpiles falling by 6.2 million barrels last week to the lowest level since February. The Brent crude oil price jumped above \$47/barrel and the WTI above \$45.75/barrel.
- Today, the **eco calendar** contains the UK CBI industrial trends survey, the US initial jobless claims, existing home sales and European Commission's consumer confidence. ECB President Draghi, BoE Governor Carney and Fed's Lockhart are scheduled to speak.

# Rates

## Fed postpones rate increase

	US yield	-1d
2	0,7784	-0,0082
5	1,1887	-0,0229
10	1,6546	-0,0538
30	2,3783	-0,0784

The FOMC decided not to raise rates now, but instead to wait for further evidence of continued progress towards its objective, even as the case for an increase has strengthened. The Fed now sees risks to the economic outlook as roughly balanced, whereas in July it stated that risks had diminished. Three dissenters voted for an immediate increase. The FOMC seems ready to increase rates once in 2016 (dot plot) and we think that the December meeting might be more opportune than the November one. The projected rate path shifted once again lower with the neutral rate at an historical low of 2.875%

[\(See flash report for full coverage\).](#)

The outcome was no big surprise and market reactions limited. The curve bull flattened with yields flat (2-yr) to 5 bps (30-yr) lower. The lower “neutral rate” was of course very positive for the long end. At the shorter end of the curve little happened, partly because a September rate increase was only for 20% discounted and partly because the market still doubts whether the Fed will move in 2016 and only leans towards the end of H1 of 2017 for the next rate hike.

## BOJ decision won't hurt longer term bonds

**Take away from the BOJ decision for bonds:** The BOJ kept its policy rate unchanged at -0.1% and kept its QQE target stable at 80 trillion yen (annually). The BOJ said for the first time that it will continue to expand the monetary base until inflation is stable above 2%. The “above” is a novelty. Other central banks may go (in the far future) in a similar direction of raising their inflation target. In the case of Japan, the problem is not the target though, but the inability to bring inflation to the target. We see little in the measures that may succeed in doing that. The BOJ tweaked its QQE to avoid the negative consequences of negative rates on e.g. banks, by scraping its average maturity target of JGB holdings. The BOJ clearly targets LT rates (0% for 10-yr JGB and wants a steep(er) curve. The changes bring no additional easing of policy, even as such easing remains possible at a future meeting. **Both the FOMC and BOJ decisions are intrinsically bond positive and lower the risk on a sharp upward move of longer term bond yields. Such a risk had risen in the run-up to the BOJ meeting and after Draghi's lukewarm defence of the QE programme at the September meeting.**

*FOMC hints at one 2016 rate increase*

*Lower neutral rate positive for longer term US bonds*

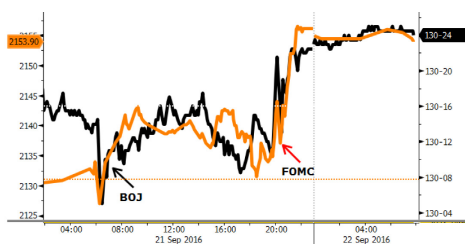
*Reactions on BOJ and FOMC modest and logical.*

	DE yield	-1d
2	-0,6640	0,0010
5	-0,5170	-0,0180
10	0,0040	0,0180
30	0,5891	0,0058

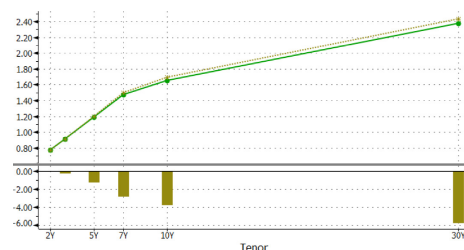
*BOJ doesn't ease policy, but changes framework*

*Tweaking BOJ inflation target might be template for others, but not for foreseeable future*

*New inflation target lacks credibility and won't affect inflation expectations*



T-Note future (black) and S&P future (orange) intraday: Treasuries recoup losses after BOJ decision and gain modestly on FOMC



US yield curve flattens modestly after FOMC as long end profits from lowering neutral rate, while short end cannot gain

## Calendar better filled, but FOMC decision to linger on

In the last three month, **European Commission's consumer confidence** weakened slightly to levels seen earlier in the year, but for September a limited improvement from -8.5 to -8.2 is expected. German consumer confidence improved, but Belgian consumer sentiment weakened due to country specific reasons and therefore an **upward surprise is likely** for the euro area measure. In the US, **initial jobless claims** are forecast to have edged up marginally higher in the past week from 260 000 to 261 000. In the week after the Labour Market holiday there might be some additional volatility. We see **risks for an upward surprise** as the previous week was one day shorter which might have depressed claims somewhat. Finally, **US existing home sales** are expected to have increased following a dip in July. The consensus (including us) is looking for an increase by 1.1% M/M to 5.45 million,

R2	165,67	-1d
R1	164,29	
<b>BUND</b>	<b>164,47</b>	0,5300
S1	163	
S2	162,56	

## Fed: lower for longer

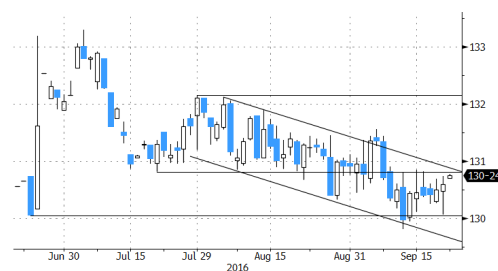
**Overnight**, Asian equities trade benefit from the Fed's decision to hold off a rate hike. Japanese stock markets are closed for Autumnal Equinox Day. The US Note future and Brent crude trade also marginally higher. We expect a somewhat stronger opening for the Bund as well.

**Today's** eco calendar contains US weekly claims, existing home sales and EMU consumer confidence. These second tier data won't impact markets after the BoJ and Fed meetings. Speeches by ECB president Draghi and Atlanta Fed Lockhart could be more interesting, but probably won't shake markets neither. Draghi will probably, if anything, reiterate that technical committees are assessing the ECB's options. Official communication will only follow in December. Lockhart is a centrist Fed member but his tenure at the Fed ends shortly, limiting the importance of his words. Overall, we expect that the downside in the Bund (163) and US Note future (130-01+) is better protected. In the wake of the Fed, core bonds might trade with an upward bias today.

**Overall, we favour more range trading for the Bund within the post-Brexit range between 163-165.63. The trading range for the US Note future is expected to be 130-01+ to 132-05, at least until the first week of October (ISM's/payrolls) or until Washington-based Fed governors change the tone of their public comments (Oct 14, Yellen speech).**



German Bund: Range trading between 163 and 165.63



US Note future: Downside better protected short term after dovish FOMC

# Currencies

## Dollar modestly softer after FOMC meeting

*USD/JPY versing post- BOJ gains to end the day substantially lower.*

*EUR/USD records modest gains after the FOMC meeting*

R2	1,1366	-1d
R1	1,1252	
<b>EUR/USD</b>	<b>1,1206</b>	0,0076
S1	1,1123	
S2	1,1046	

*USD remains slightly in the defensive after unchanged Fed decision.*

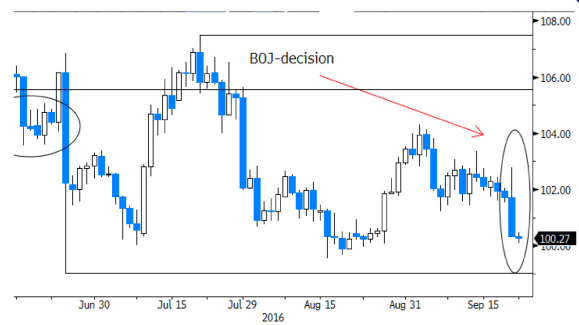
On Wednesday, the BOJ policy decision initially drove the action. USD/JPY jumped briefly from the 101.50 area to the 102.75/80 area, but the decline of the yen evaporated soon and USD/JPY returned to the levels at the time of the BOJ decision. The absence of further BOJ easing was the prelude for yen strengthening. USD strength pushed EUR/USD temporary to the 1.1123 support, but the pair settled soon again in the mid 1.12 area, awaiting the Fed decision. The Fed left its policy unchanged, but said the case for a rate hike has strengthened. The economic projections were little change but the expected Fed rate path and the long term neutral rate were again lowered. The impact on the dollar was modest. US ST term yields were little changed. The chances on a December rate hike rose only marginally. EUR/USD rose from the 1.1160 area to the high 1.11 area and closed at 1.1189 (from 1.1151). The intraday decline of USD/JPY slowed, but the pair still closed the day near the lows at 100.32 (from 101.70).

**Overnight**, Japanese markets are closed. Most other Asian markets show gains of around 1%, prolonging the positive reaction in the US on the Fed decision. **The dollar remains slightly in the defensive across the board.** AUD/USD is changing hands in the mid 0.7650 area. RBA governor Lowe said it was unlikely the central bank would have to use unconventional monetary policy. The reaction of the AUD was limited. **The reserve bank of New Zealand** as expected left its policy unchanged. NZD/USD Trades little changed in the 0.7335 area. In the wake of yesterday's Fed decision the dollar is losing slightly further ground. USD/JPY trades in the 100.25 area. EUR/USD hovers near the 1.12 big figure.

Today, we look out for the EC consumer confidence. **Consumer confidence** weakened slightly over the past three months to levels seen earlier in the year. A limited improved from -8.5 to -8.2 is expected. We see **upward risks**. In the US, **initial jobless claims** are forecasted marginally higher from 260 000 to 261 000. We see **risks for an upward surprise due to technical factors**. Finally, **US existing home sales** are expected to have increased 1.1 M/M following a dip in July. The data might be slight EUR/USD positive, but we don't expect a lasting impact.



EUR/USD: dollar slightly softer post Fed



USD/JPY struggles post BOJ

*Global picture for the dollar (EUR/USD)  
little changed.*

*Downside of USD/JPY more vulnerable*

EUR/USD tested yesterday support at 1.1123, but the test was rejected as the dollar couldn't maintain its post-BoJ gains. Later, the USD lost some further ground after the Fed decision. **We assume that Fed decision hasn't changed the broader picture for EUR/USD.** Markets will be sensitive whether the data support the case for a December rate hike. **Swings in the December rate hike expectations will probably be the most important driver for USD trading going forward.** The dollar might lose slightly further ground short-term, but as long as the market implied probability of a Fed rate hike remains at current levels, the downside of the dollar remains probably well protected. For now, we prefer more range trading in the 1.1123/1.1366 range and a sell-on-upticks approach. **USD/JPY** was in the defensive of late. Markets were reluctant to hold big yen shorts going into the BOJ policy decision. They were right to do so. The post-BOJ yen weakening was very short-lived and reversed. We stay cautious on USD/JPY long exposure. However, the **99.54/99.02 area will remain a strong support. 104.32 is the first main resistance.** We expect the established 99.89/104.32 range to hold, but downside risks have grown post BOJ/FED.

R2	0,8725	-1d
R1	0,8582	
<b>EUR/GBP</b>	<b>0,8582</b>	0,0006
S1	0,8344	
S2	0,8251	

**Sterling correction slows**

**On Wednesday**, trading in EUR/GBP and cable entered calmer waters after the recent swings/decline. **There was little fall-out from the BOJ policy decision on sterling.** The UK monthly budget data showed a slightly bigger deficit than expected. A survey of the BoE showed resilience in consumer spending and the housing market. However, the BoE local agents saw reluctance to hire and to invest. Contrary to what was the case of late, the slightly negative outcome of the survey had no impact on sterling trading. There was some volatility around the Fed policy decision, but also the impact of the Fed on sterling was limited. EUR/GBP closed the session at 0.8587 (from 0.8584). Dollar weakness post-Fed lifted cable back above 1.30

**Today, the UK calendar contains the CBI industrial trends survey.** The report is interesting, but often ignored by markets. **If there would be a loss of momentum in the order data, it might be slightly negative for sterling in a daily perspective.** Yesterday, sterling entered calmer waters. **This process might continue a bit longer as global sentiment on risk might remain mostly supportive post-Fed.** That said, the fear for a hard Brexit might still resurface. In this context, we don't expect any GBP rebound to go really far. A sell-on-sterling on upticks approach remains preferred.



EUR/GBP: sterling decline slows



GBP/USD: rebounds north of 1.30 post Fed

# Calendar

Thursday, 22 September		Consensus	Previous
<b>US</b>			
14:30	Chicago Fed Nat Activity Index (Aug)	0.15	0.27
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>261k</b>	<b>260k</b>
14:30	Continuing Claims	2140k	2143k
15:00	FHFA House Price Index MoM (Jul)	0.3%	0.2%
15:45	Bloomberg Consumer Comfort	--	42.2
<b>16:00</b>	<b>Existing Home Sales Total/MoM (Aug)</b>	<b>5.45m/1.1%</b>	<b>5.39m/-3.2%</b>
16:00	Leading Index (Aug)	0.0%	0.4%
17:00	Kansas City Fed Manf. Activity (Sep)	-3	-4
<b>UK</b>			
<b>12:00</b>	<b>CBI Industrial Trends Survey - Total Orders (Sep)</b>	<b>-5</b>	<b>-5</b>
<b>EMU</b>			
<b>16:00</b>	<b>Consumer Confidence (Sep A)</b>	<b>-8.2</b>	<b>-8.5</b>
<b>France</b>			
08:45	Business Confidence (Sep)	101	101
08:45	Manufacturing Confidence (Sep)	101	101
08:45	Production Outlook Indicator (Sep)	0	0
08:45	Own-Company Production Outlook (Sep)	0	-1
<b>Norway</b>			
<b>10:00</b>	<b>Deposit Rates</b>	<b>0.50%</b>	<b>0.50%</b>
<b>Sweden</b>			
10:00	Trade Balance (Jul)	--	-1356.6m
<b>Events</b>			
<b>Japanese Markets are Closed for Autumnal Equinox Day</b>			
22SEP-23SEP	First ESRB annual conference in Frankfurt		
22SEP-23SEP	Bank of Italy Governor Visco Hosts OMFIF Meeting on Europe		
10:00	ECB Publishes Economic Bulletin		
<b>15:00</b>	<b>ECB President Draghi Speaks at ESRB Conference in Frankfurt</b>		
15:30	BOE's Cunliffe Chairs Panel at ESRB Conference in Frankfurt		
16:00	ECB's Lautenschläger takes part in panel		
19:00	Fed's Lockhart Gives Introductory Remarks on Labour Market		
19:00	BoE's Forbes Speaks in London		
<b>19:10</b>	<b>BoE's Carney Speaks in Berlin</b>		
<b>US</b>	<b>10Yr TIPS Auction (\$11B)</b>		

# Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	1,65	-0,05	US	0,78	-0,01	DOW	18294	18293,70
DE	0,00	0,02	DE	-0,67	-0,01	NASDAQ	for Exch - NQI	#VALUE!
BE	0,20	-0,03	BE	-0,60	-0,01	NIKKEI	16808	16807,62
UK	0,80	0,00	UK	0,10	0,00	DAX	10436,49	10436,49
JP	-0,03	0,00	JP	-0,21	0,00	DJ euro-50	2982	2982,18

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,347	-0,001
3y	-0,219	1,080	0,442	Euribor-1	-0,37	0,00	Libor-1 USD	0,26	0,26
5y	-0,126	1,203	0,524	Euribor-3	-0,30	0,00	Libor-3 USD	0,38	0,38
10y	0,325	1,484	0,826	Euribor-6	-0,20	0,00	Libor-6 USD	0,52	0,52

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,12065	0,0075	EUR/JPY	112,43	-1,71		184,8602	1331,88	47,22
USD/JPY	100,36	-2,19	EUR/GBP	0,8583	0,0008	-1d	1,89	15,88	0,67
GBP/USD	1,305	0,0076	EUR/CHF	1,0899	-0,0017				
AUD/USD	0,7636	0,0084	EUR/SEK	9,5772	0,00				
USD/CAD	1,3066	-0,0115	EUR/NOK	9,2339	-0,02				

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