



## Sunrise

Friday, 13 October 2017

### Rates: Geopolitics vs US eco data

Today's eco calendar heats up in the US. We expect strong eco data with upside risks to core inflation. Such outcome is negative for US Treasuries. Any downward reaction in core bonds will probably be short-lived with geopolitical uncertainty high on the agenda. Ahead of the weekend, safety flows might dominate.

### Currencies: Will US data be strong enough to support further USD gains

The dollar bottomed yesterday. A series of key US data including the CPI and the retail sales have the potential to move the dollar today. The data are expected strong, but looking at this week's mediocre USD performance, success isn't guaranteed.

### 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 stocks slipped from record highs to finish the day in the red.** JPMorgan and Citigroup presented mixed third-quarter results while AT&T dragged telecoms lower. **Asian equities trade positive** this morning with Japan outperforming.
- **Central banks risk destabilizing the financial system if they extend bond-buying programmes for too long, ECB Coeuré said.** Chief economist **Praet recently said that the programme might be extended for nine months or more**, underscoring the difference of opinion on the ECB board.
- **EU leaders will refuse to open talks with the UK on post-Brexit transition at next week's summit** because of the lack of progress on a divorce settlement, dealing a blow to British efforts to break a deadlock in negotiations.
- **China's imports (18.7% Y/Y) and exports (8.1% Y/Y) grew at a faster pace in September** than in August, suggesting that the country is still expanding at a healthy clip despite widespread forecasts of an eventual slowdown.
- **President Trump** signed an order to make it easier for Americans to buy bare-bones health insurance plans, **using his presidential powers to undermine Obamacare** after fellow Republicans in Congress failed to repeal the 2010 law.
- **Ireland's recovery** from the crash that led to an international bailout has reached a symbolic turning point as **the country's "bad bank" pays off the final slice of the €30.2bn senior debt it borrowed to clean up the financial system.**
- **Today's eco calendar** heats up in the US with September CPI, retail sales and October Michigan consumer confidence. Fed Rosengren, Evans & Kaplan and ECB Mersch & Constancio are scheduled to speak.

# Rates

## Core bonds gain some ground ahead of today's data

### Modest gains for core bonds

Italy outperforms, Spain underperforms slightly

	US yield	-1d
2	1,51	-0,01
5	1,94	-0,02
10	2,32	-0,03
30	2,85	-0,04

Core bond markets eked out some gains in another consolidating session. The US Note future temporarily lost ground on strong PPI and low claims data, but the move didn't last long. That may change today if the triplet of CPI, retail sales and consumer confidence surprise on the upside (see below). A strong 30-yr bond auction and fresh geopolitical concerns about Iran helped sustain yesterday's bid. US president Trump will decide today whether to prolong the Iran deal or step out of the multinational agreement.

In a daily perspective, US yields declined by 0.6 bps to 3.6 bps, flattening the curve. German yields declined by 1 bp (30-yr) to 2.5 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany were mixed with Italian BTP's outperforming (-3 bps) following a good auction and as the lower house approved via 3 confidence votes changes to the electoral law. It now goes to the Senate. Spanish spreads widened 2 bps, after Wednesday sharp narrowing and waiting on the Catalan response to PM Rajoy's question (threat).

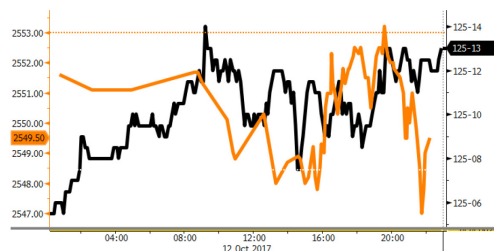
## US eco calendar heats up

The triplet of US inflation, retail sales and Michigan consumer confidence is potentially market-moving. Consumer inflation likely increased sharply, especially due to higher gasoline prices (a hurricane effect). We are especially looking to the core inflation, which in August showed signs of bottoming out after months of a steady decline in the inflation rate (Y/Y). Yesterday's core PPI showed an upward surprise, while headline PPI was strongly influenced by higher energy prices. While headline CPI estimates are already high at 0.6% M/M and 2.3% Y/Y, the core might surprise on the upside (expected 1.8% Y/Y up from 1.7% Y/Y previously). Retail sales are expected very strong (1.7% M/M). Unit car sales rebounded and sales at gasoline station should have done well (price effect). However, also core sales should have rebounded. Given the high expectations, we side with the consensus. We see no reasons why consumer sentiment should have declined from cycle highs. The combination of these results, if confirmed, would further galvanise expectations that the Fed will increase rates in December and maybe stimulate markets to discount more rate hikes in 2018 than hitherto. Fed governors Evans, Kaplan & Rosengren and ECB Mersch & Constancio speak.

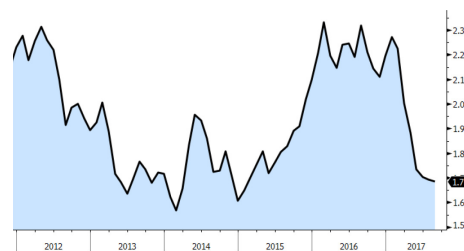
### US CPI to surprise on upside

US Retail sales and consumer sentiment to be strong

	DE yield	-1d
2	-0,70	-0,01
5	-0,28	-0,03
10	0,45	-0,02
30	1,30	-0,01



T-note future (black) & S&P future (orange)(intraday): Core bonds trade with slight upward bias. Equities close with minor losses



US core CPI slid lower since early 2017, defying conventional wisdom. Finally bottoming out? Outcome may be important for markets.

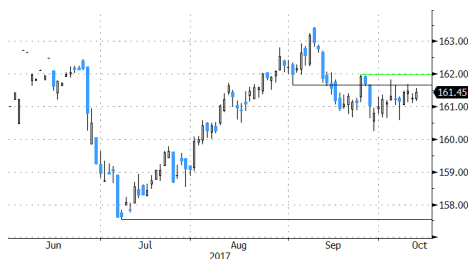
R2	163,43	-1d
R1	161,98	
<b>BUND</b>	<b>161,48</b>	<b>0,19</b>
S1	160,49	
S2	159,80	

## Geopolitics vs US eco data

Most Asian stock markets trade positive overnight, outperforming WS. The US Note future trades stable, suggesting a neutral opening for the Bund.

**Today's eco calendar heats up in the US. We expect strong eco data with upside risks to core inflation. Such outcome is negative for US Treasuries. In yield terms, we could see a new test of the resistance level at the 5-yr (1.97%), but we don't anticipate a break higher.** Tests in the US 10-yr yield (2.4%) and 30-yr yield (2.95%) are unlikely as this week's correction went further at the longer end of the curves. **Any downward reaction in core bonds will probably be short-lived with geopolitical uncertainty high on the agenda. Ahead of the weekend, safety flows might dominate. Catalan President Puigdemont is running out of time to answer to Madrid, Austrian elections will probably lead to a right government and US President Trump threatens to blow up the nuclear pact with Iran.** Central bank speakers are wildcards for trading. With the key October 26 ECB meeting rapidly approaching, any comments on APP could become market sensitive. We expect an extension from December 2017 to June 2018, while lowering the monthly amount of purchases from €60 bn to €30 bn starting in January. Recent rumours suggests halving the pace of purchases, but a 9-month extension instead of 6 months.

**Technically,** US yields ran into resistance after Friday's payrolls, initiating some short term consolidation. A December rate hike is now almost completely discounted. **Adding the geopolitical context and US/German stock markets at record levels (ready for some profit taking?) even suggest a small positive bias for core bonds in.** We hold a sell-on-upticks strategy both in the US Note future (entry around 126) and the Bund (entry levels around 162).



German Bund: Sell-on-upticks around 162, anticipating ECB announcement



US Note future: Almost completely retraced Summer rally. US 10y yield's failed test of 2.4% suggests some ST consolidation

# Currencies

## Key US data to decide on next USD move?

### Dollar decline slows

Yesterday, the USD bottomed after a decline earlier this week. Especially EUR/USD declined modestly off yesterday morning's correction top. USD/JPY continued to trade with cautiously negative bias. A further decline in US jobless claims and rise in the core US PPI were slightly supportive for the dollar. EUR/USD finished the session at 1.1830 (from 1.1859). USD/JPY closed the session at 112.28 (from 112.50).

### USD/JPY doesn't profit from Asian equity gains

### Dollar trades cautious ahead of key US data.

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1830	-0,0029
S1	1,1662	
S2	1,1311	

**Overnight**, Asian markets extend gains despite a minor decline in the US yesterday evening. Chinese export and imports rose sharply, suggesting good economic activity. There is again a 'disconnect' between rising Japanese equities and USD/JPY. The latter still struggles not to fall below the 112 barrier even as the Nikkei surpassed the 21 K barrier. The dollar is also losing a few ticks against euro. EUR/USD trades in the 1.1845.

**Today, US inflation, retail sales and Michigan consumer confidence have potential to move the dollar. CPI inflation likely increased sharply**, especially due to higher gasoline prices. We keep a close eye on core inflation. It showed signs of bottoming out in August. The **core might surprise on the upside** (expected 1.8% Y/Y up from 1.7% Y/Y previously). **Retail sales** are expected very strong (1.7% M/M). Car sales rebounded and sales at gasoline station should have done well (price effect). Core sales should also have rebounded. Given the high expectations, **we side with the consensus. A strong set of US eco data, if confirmed, would further galvanise expectations that the Fed will increase rates in December and maybe stimulate markets to discount more rate hikes in 2018 than hitherto.** Aside from the data there is still **plenty of political event risk that might interfere on markets** (Catalonia, elections in Austria, the impact from Trump cutting off subsidies for Obamacare and a declaration of president Trump on Iran). **The impact of each of these factors will be different. An event turning into a risk-off sentiment might be negative for the dollar (e.g. Iran).**

### Market calendar heats up with CPI retail sales and consumer confidence

### Political event risk remains omnipresent



EUR/USD: Will US data be strong enough to support the dollar?



Global risk-on doesn't help USD/JPY

**After a cautious comeback, the dollar lost again ground this week.** USD investors want concrete news on the tax reform, on the economy and on the Fed's rate intentions. **The absence of progress on these issues caused some "by-default" USD selling.** Today's retail sales and CPI might bring some positive economic news. However, the consensus already expects strong data.

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So, we look out whether they are good enough to put a more solid floor under the dollar. After this week's disappointing USD performance, there is no guarantee for success. Especially the USD/JPY performance is a bit worrisome. We first want a sign that the dollar secures solid interest rate support before considering to add USD longs.

From a technical point of view, EUR/USD dropped below the 1.1823/ 1.2070 consolidation pattern last week, but no real test of the **1.1662 support occurred**.

On Wednesday, the pair even returned above the **1.1823 previous range bottom**, which was disappointing for EUR/USD bears. If EUR/USD doesn't resume its gradually downtrend after today's US data, we have to leave our short-term sell-on upticks bias. In that scenario, the 1.20/1.2092 levels might come again on the radar. **The USD/JPY momentum was constructive of late**, but for an important part due to yen weakness. USD/JPY regained 110.67/95 (previous resistance), a short-term positive. The 114.49 correction top is the next important resistance. The rally clearly lost momentum last week. So a break beyond 114.49 is difficult.

### Sterling withstands mini Brexit-storm

Yesterday, **Brexit again dominated sterling trading**. Early in the afternoon, the UK currency was sold off as EU Brexit negotiator Barnier said that the state of the negotiations doesn't allow him to recommend the start of talks on post-Brexit UK/EU trade relationships at next week's EU summit. **Barnier especially spoke very harsh on the financial separation bill as he said the negotiations on this topic were in a deadlock**. The comments pushed sterling off a cliff. EUR/GBP jumped north of the psychological barrier of 0.90. However, later in the session sterling recouped the losses on press headlines the EU would reveal preparations for a transition period next week. EUR/GBP finished the session at 0.8919. Cable finished the session also with a small gain at 1.3262.

**Today**, there are no important UK eco data. So, markets might further adapt positions in the wake of yesterday's Brexit debate. The hope for a modestly constructive attitude at next week's EY U summit might give sterling some temporary downside protection.

EUR/GBP staged a strong uptrend since April to set a top at 0.9307 late August. **UK price data** and hawkish BoE comments reinforced a sterling rebound. Medium term, we maintain a **EUR/GBP buy-on-dips approach as we expect the mix of euro strength and sterling softness to persist**. The prospect of (limited) withdrawal of BoE stimulus triggered a good sterling countermove, but **this rebound has run its course**. EUR/GBP supports at 0.8743 and 0.8652 are difficult to break. **We look to buy EUR/GBP on dips. Last week's rebound above the 0.89 area improved the ST technical picture of EUR/GBP. EUR/GBP 0.9026 is the 50% retracement of the recent countermove.**

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8919	-0,0049
S1	0,8743	
S2	0,8657	



EUR/GBP rebound slows, but holds north of 0.89



GBP/USD rebounds, mostly on USD weakness

# Calendar

Friday, 13 October		Consensus	Previous
<b>US</b>			
14:30	<b>CPI MoM / YoY (Sep)</b>	0.6%/2.3%	0.4%/1.9%
14:30	CPI Ex Food and Energy MoM / YoY (Sep)	0.2%/1.8%	0.2%/1.7%
14:30	<b>Retail Sales Advance MoM (Sep)</b>	1.7%	-0.2%
14:30	Retail Sales Ex Auto MoM (Sep)	0.9%	0.2%
14:30	Retail Sales Ex Auto and Gas (Sep)	0.4%	-0.1%
14:30	Retail Sales Control Group (Sep)	0.4%	-0.2%
16:00	<b>U. of Mich. Sentiment (Oct P)</b>	95.0	95.1
16:00	Business Inventories (Aug)	0.7%	0.2%
<b>China</b>			
	Trade Balance CNY (Sep)	A 193.00b	286.50b
	Imports YoY CNY (Sep)	A 19.5%	14.4%
	Exports YoY CNY (Sep)	A 9%	6.9%
	Imports YoY (Sep)	A 18.7	13.3%
	Exports YoY (Sep)	A 8.1%9.8%	5.5%
	Trade Balance (Sep)	A \$28.47b	\$41.99b
<b>Germany</b>			
08:00	CPI EU Harmonized MoM / YoY (Sep F)	0.0%/1.8%	0.0%/1.8%
<b>Events</b>			
11:30	ECB Mersch attends conference in Luxemburg		
14:30	Fed Rosengren opens conference on monetary policy		
16:15	ECB Constancio speaks on panel in Washington		
16:25	Fed's Evans Speaks on Economy and Monetary Policy		
17:30	Fed's Kaplan Speaks in Boston		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,32	-0,03		US	1,51	-0,01	DOW	22841,01	-31,88
DE	0,45	-0,02		DE	-0,70	-0,01	NASDAQ	6591,51	-12,04
BE	0,72	-0,02		BE	-0,56	-0,02	NIKKEI	21155,18	200,46
UK	1,38	0,00		UK	0,47	0,01	DAX	12982,89	12,21
JP	0,07	0,00		JP	-0,14	0,00	DJ euro-50	3605,54	-1,85
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0,05	1,88	0,94	Eonia	-0,3610	0,0010			
5y	0,24	2,02	1,10	Euribor-1	-0,3720	0,0000	Libor-1	1,2389	0,0000
10y	0,89	2,28	1,40	Euribor-3	-0,3290	0,0000	Libor-3	1,3586	0,0000
				Euribor-6	-0,2740	0,0000	Libor-6	1,5293	0,0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1830	-0,0029		EUR/JPY	132,83	-0,58	CRB	183,28	-0,22
USD/JPY	112,28	-0,22		EUR/GBP	0,8919	-0,0049	Gold	1296,50	7,60
GBP/USD	1,3262	0,0039		EUR/CHF	1,1540	-0,0004	Brent	56,25	-0,69
AUD/USD	0,782	0,0032		EUR/SEK	9,6052	0,0602			
USD/CAD	1,2475	0,0017		EUR/NOK	9,3468	-0,0470			

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