



Sunrise

Tuesday, 14 November 2017

Rates: Bearish sentiment on bond market remains in place

Today's eco calendar heats up, but (US) eco data might be overshadowed by tomorrow's CPI and retail sales. A speech by Atlanta Fed Bostic will be closely monitored. He's relatively new on the Fed, but votes on policy next year. If he indicates willingness to hike rate 3 times next year, we might get more repositioning (bear flattening US yield curve).

Currencies: Euro holds the lead as risk rally slows

USD/JPY again held up well yesterday even as risk sentiment turned less buoyant. EUR/USD kept a cautious upward bias. Today's eco calendar heats up. Especially US PPI might move the dollar, but the focus remains on tomorrow's US CPI and retail sales. Sterling traders will keep a close eye at UK CPI and at the debate on the Brexit withdrawal bill

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** closed with small gains after a weak opening. **Overnight**, Asian stock markets trade mixed with Japan slightly outperforming this time.
- **Theresa May bowed to pressure from pro-European Conservatives by offering the British parliament a full vote on a final divorce deal**, the latest sign of how political turmoil within her government is taking a toll on her Brexit plans.
- **China's economy cooled further last month**, with industrial output, fixed asset investment and retail sales missing expectations as the government extended a crackdown on debt risks and factory pollution.
- **Venezuela was declared in default by S&P Global Ratings** after missing two interest payments on its debt. The nation owed investors about \$200 million and failed to pay by the end of a 30-day grace period.
- **Treasury Secretary Mnuchin said the Trump administration wouldn't support tax legislation with a corporate tax rate of more than 20%** as part of any future compromise between the House and the Senate.
- The number of banks deemed systemically important and subjected to extra regulation in the US would drop by two-thirds under **plans to roll back Obama-era reforms (Dodd-Frank) that have attracted bipartisan support**.
- **Today's eco calendar heats up** with UK inflation data , EMU Q3 GDP, EMU industrial production, German ZEW investor sentiment and US NFIB small business sentiment and US PPI. Several central bankers speak including ECB Draghi, Fed Yellen, BoE Carney and BoJ Kuroda in Frankfurt.

Rates

Core bonds grind lower into US close

	US yield	-1d
2	1,68	0,03
5	2,07	0,02
10	2,41	0,01
30	2,86	-0,01

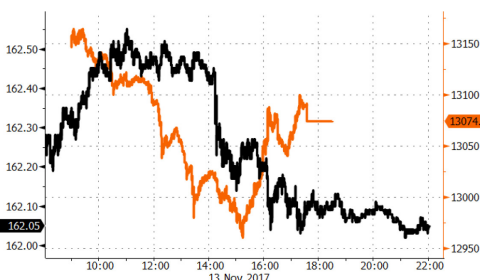
Global core bond trading remained confined to tight ranges. An attempt to rise on weak stock markets (-1%) during European dealings rapidly ran out of steam. As the US trading session got going, core bonds even faced new selling pressure as stock markets rebounded in the US session. Yesterday's eco calendar was empty and might have kept investors sidelined ahead of central bank speakers and key US eco data. **At the end of the day**, the German yield curve shifted 0.1 bp (30-yr) to 0.7 bps (10-yr) higher. The US yield curve flattened with yield changes ranging between +2.7 bps (2-yr) and -0.9 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 2 bps with Spain (-5 bps), Portugal (-7 bps) and Greece (-12 bps) outperforming. Catalan president Puigdemont suggested he is open to alternatives to Catalan independence.

	DE yield	-1d
2	-0,74	0,01
5	-0,32	0,00
10	0,42	0,01
30	1,32	0,00

Busy agenda today

The eco calendar heats up today with **US PPI, US NFIB small business optimism, German ZEW investor sentiment, EMU Q3 GDP and EMU industrial production, but we don't expect them to really move markets**. US eco data risk being overshadowed by tomorrow's CPI and retail sales. German ZEW is expected to stabilize near multiyear highs for the headline number, supported by the stock market rally (which lasted until last week). EMU Q3 GDP is forecast to remain strong at 0.6% Q/Q while industrial production are outdated.

Several central bankers speak at a press conference in Frankfurt today (20th Euro Finance week). ECB Draghi, Fed Yellen, BoE Carney and BoJ Kuroda participate in a policy panel "at the heart of policy: challenges and opportunities of central bank communication". We don't expect them to do a putsch on current policy thinking. Chicago Fed Evans, ECB Nouy and ECB Lautenschlaeger also appear at the event. **The speech with most market moving potential is probably the one from Atlanta Fed Bostic**. He's a relatively new Fed governor who votes on policy next year. He talks on the economic outlook and monetary policy and will probably for the first time give more insight on his thinking and views for 2018. **The rotation in voting regional Fed governors is expected to produce a more hawkish profile next year** with Cleveland Fed Mester (moderate hawk), SF Fed Williams (moderate), the still to be appointed Richmond Fed governor (anticipate hawk) and Bostic (unknown) replacing Chicago Fed Evans (dove), Philly Fed Harker (moderate), Minneapolis Fed Kashkari (arch dove) and Dallas Fed Kaplan (moderate).



German Bund future (black) & Dax index (orange) (intraday): Bund's performance remains lacklustre despite fragile risk sentiment



US 2-yr yield extends its move higher, approaching 1.7% for the first time since end 2008.

R2	165,18	-1d
R1	163,43	
BUND	162,06	-0,11
S1	160,49	
S2	159,80	

The Netherlands and Germany tap market

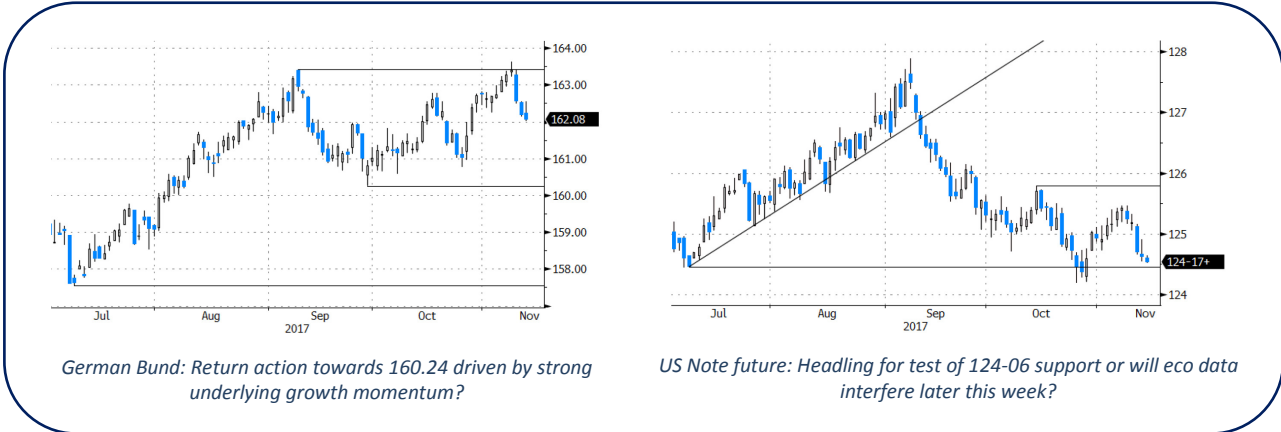
The Dutch debt agency sells up to €3 bn in a 10-yr DSL auction (0.75% Jul2027). The bond on offer traded stable in ASW spread terms going into the auction, but is a tad cheap on the Dutch curve. We expect a plain vanilla auction. **Germany** holds a €5bn Schatz (0% Dec2019) auction. Total bids at the previous 4 Schatz auctions averaged €5.31B, but the new commitment by the ECB on APP could create stronger demand today.

Bearish sentiment on bond market remains in place

Asian stock markets trade weaker overnight, with Japan this time slightly outperforming. The US Note future is stable, suggesting a neutral opening for the Bund.

Today's eco calendar heats up, but eco data might only be of second tier importance. **Risk sentiment on European stock markets remains fragile, but the German Dax approaches first support around 13 000.** The downward equity correction hasn't run its course yet, but might slow. However, it failed to support core bonds last week/yesterday. A speech by Atlanta Fed Bostic will be closely monitored (see above). If he indicates willingness to hike rate 3 times next year, we might get more repositioning (bear flattening US yield curve). The ECB's conference and the stand-off between US House & Senate Republicans on tax reforms are wild cards.

We have a longer term US Treasury negative bias and aim for return action towards the 124-06 low. Also for the Bund we favoured a sell-on-upticks (around 163.43), targeting 160.24. Support levels in yield terms played their role (German 5y: -0.4%, 10y: 0.3%). Underlying growth momentum remains very strong in EMU and warrants higher (LT) rates. With ECB policy cemented for another year, this should result in a steeper EMU yield curve.



Currencies

Dollar holds tight ranges ahead of key US data

EUR/USD and USD/JPY hold tight ranges ahead of key US data later this week

Yesterday, EUR/USD and USD/JPY trading was similar to what happened at the end of last week. Core yields hardly declined in European risk aversion. EUR/USD traded with a slightly positive bias intraday. High core yields prevented any substantial losses in USD/JPY. Risk sentiment improved in US dealings. It supported USD/JPY, but the dollar remained in the defensive against the euro. EUR/USD finished the day little changed at 1.1667. USD/JPY closed the session off the intraday lows at 113.62.

Dollar shows no clear trend

Asian equities are mostly trading in negative territory. Japan this time is the exception to the rule. Chinese retail sales and production data were a touch softer than expected. USD/JPY is holding in the 113.60 area after yesterday's intraday rebound, but the pair is still locked in tight ranges. Changes in EUR/USD (1.1675) also remain small, but the pair nears 1.1690 resistance.

EUR/USD holds tentative upward bias as risk sentiment turns less buoyant

German **ZEW investor sentiment** and the **details/composition of the EMU Q3 GDP will be published today. We don't expect a big impact on the euro. US PPI is expected to rise 0.1% M/M and 2.5% Y/Y after a bigger rise last month (0.4% M/M and 2.6% Y/Y).** The focus remains on tomorrow's US CPI and retail sales, **but interest rates and the dollar might react to the PPI's, especially in case of a negative surprise.** There were will be many headlines from the ECB conference on Central Bank communication, attended by ECB president Draghi, Fed Chair Yellen, BoE governor Carney and BoJ governor Kuroda. The meeting might yield interesting 'theoretical' insights, but we don't expect CB heads to address actual monetary policy. The US tax bill also remains a wildcard for global trading. **Basically, we expect more technical, sentiment-driven trading.** A soft US PPI or a more pronounced risk-off sentiment might tilt the balance slightly against the dollar. **Tomorrow's US retail sales and CPI have most potential to move interest rates and FX markets this week.** We started the week with a cautious bias on the dollar as the US currency recently was more vulnerable to negative news than the euro. We maintain that USD caution. That said, we don't expect any USD setback to go very far though.

US PPI, CB speeches and global risk sentiment to drive USD trading today

Investors still look forward to tomorrow's key US data

R2	1,188	-1d
R1	1,169	
EUR/USD	1,1667	0,0002
S1	1,1511	
S2	1,1331	



EUR/USD: rebound off recent low. 1.1690 resistance under test ahead of key US eco data



USD/JPY: no sustained downside correction even as risk sentiment eases

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. A sustained break would confirm that the recent EUR/USD uptrend is broken. EUR/USD 1.1423 (38% retracement of 2017 rise) is the next downside target on the charts. A return north of 1.1690, would question recent downside momentum. Next resistance stands at 1.1837/80. **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. We remain cautious to preposition for further USD/JPY gains. Last week's price action was unconvincing despite a solid interest rate support.

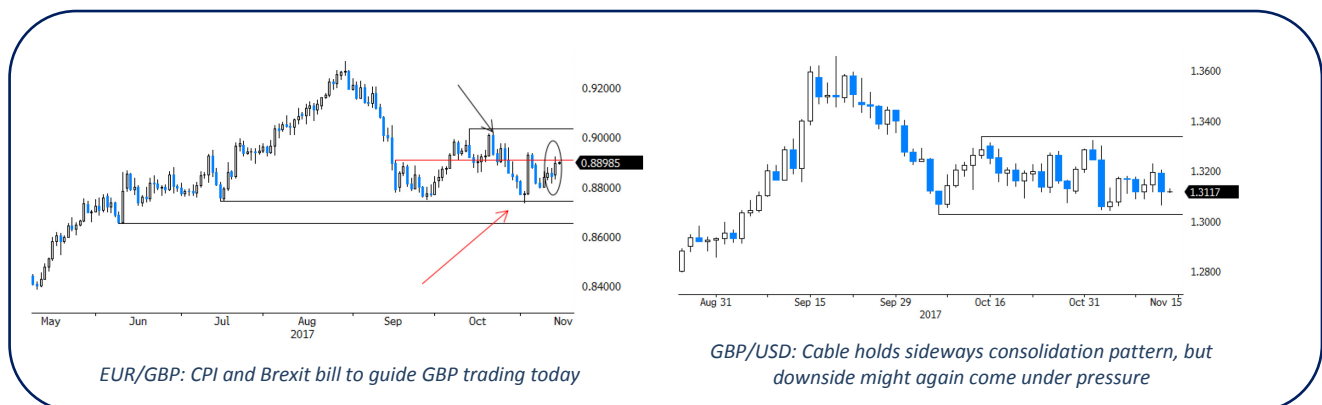
UK CPI to rise north of 3%?

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8896	0,0055
S1	0,8743	
S2	0,8657	

Sterling came again under pressure yesterday as press articles indicated that a growing number of Conservative MP's wants a vote on PM's May leadership, illustrating the deep division within the Conservative party. Several sterling selling waves pushed EUR/GBP to the 0.8920 area. Cable dropped to the 1.3062 area, but the ST range bottom (1.3040/27) was left intact. Later, UK Brexit minister Davis said that Parliament will have a final say on a Brexit deal. The pressure on sterling eased slightly. EUR/GBP finished the session at 0.8896 (from 0.8841).

The October UK price data will be published today. Headline CPI is expected at 0.2% M/M and 3.1% Y/Y. **A rise above 3% was anticipated by the BoE.** The BoE expects it to be temporary as price rises due to sterling's decline will gradually ease. If inflation prints above 3%, Governor Carney has to write an explanation to the Chancellor of the Exchequer. Carney will probably argue that the peak in inflation is (almost) reached. **Sterling might be slightly supported if Carney stresses that some modest further tightening is still possible.** Markets will also keep a close eye at the debate on the 'EU Withdrawal Bill' in Parliament. **This debate will probably create plenty of political noise.** Fortunes for sterling probably won't improve as long as political uncertainty stays as high as it is now.

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.**



Calendar

Tuesday, 14 November		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Oct)	104.5	103.0
14:30	PPI Final Demand MoM / YoY (Oct)	0.1%/2.5%	0.4%/2.6%
14:30	PPI Ex Food and Energy MoM / YoY (Oct)	0.2%/2.3%	0.4%/2.2%
14:30	PPI Ex Food, Energy, Trade MoM / YoY (Oct)	--/--	0.2%/2.1%
UK			
10:30	CPI MoM / YoY (Oct)	0.2%/3.1%	0.3%/3.0%
10:30	CPI Core YoY (Oct)	2.8%	2.7%
10:30	RPI MoM / YoY (Oct)	0.2%/4.1%	0.1%/3.9%
10:30	PPI Input NSA MoM / YoY (Oct)	0.7%/4.6%	0.4%/8.4%
10:30	PPI Output NSA MoM / YoY (Oct)	0.2%/2.9%	0.2%/3.3%
10:30	PPI Output Core NSA MoM / YoY (Oct)	0.2%/2.2%	0.0%/2.5%
10:30	House Price Index YoY (Sep)	--	5.0%
EMU			
11:00	Industrial Production SA MoM / WDA YoY (Sep)	-0.6%/3.3%	1.4%/3.8%
11:00	ZEW Survey Expectations (Nov)	--	26.7
11:00	GDP SA QoQ / YoY (3Q P)	0.6%/2.5%	0.6%/2.5%
Germany			
08:00	GDP SA QoQ / WDA YoY (3Q P)	A: 0.8%/2.8%	0.6%/2.3%
08:00	CPI EU Harmonized MoM / YoY (Oct F)	A: -0.1%/1.5%	-0.1%/1.5%
11:00	ZEW Survey Current Situation (Nov)	88.0	87.0
11:00	ZEW Survey Expectations (Nov)	18.1	17.6
Italy			
10:00	GDP WDA QoQ / YoY (3Q P)	0.4%/1.7%	0.4%/1.5%
11:00	CPI EU Harmonized YoY (Oct F)	1.1%	1.1%
China			
03:00	Retail Sales YoY / YTD YoY(Oct)	A:10%/10.3%	10.3%/10.4%
03:00	Fixed Assets Ex Rural YTD YoY (Oct)	A: 7.3%	7.5%
03:00	Industrial Production YoY / YTD YoY (Oct)	A: 6.2%/6.7%	6.6%/6.7%
Norway			
06:30	Consumer Confidence (4Q)	A: 17.3	15.7
08:00	GDP QoQ (3Q)	A: 0.7%	1.1%
08:00	GDP Mainland QoQ (3Q)	A: 0.6%	0.6%
Spain			
09:00	CPI EU Harmonised MoM / YoY (Oct F)	0.6%/1.7%	0.6%/1.7%
Sweden			
09:30	CPI MoM / YoY (Oct)	0.1%/1.8%	0.1%/2.1%
09:30	CPI CPIX MoM / YoY (Oct)	0.1%/2.0%	0.2%/2.3%
Events			
09:05	Fed's Evans Speaks in Frankfurt		
10:00	ECB's Lautenschlaeger Speaks in Frankfurt		
10:00	ECB's Nouy Speaks in Frankfurt		
11:00	Draghi, Yellen, Carney, Kuroda Speak in Frankfurt		
11:30	Germany to Sell €5 bn 2019 Bonds		
11:30	Netherlands to Sell up to €3 bn 0.75% 2027 Bonds		
13:45	ECB's Villeroy de Galhau Speaks in Paris		
14:15	Fed's Bullard Speaks on U.S. Economy in Louisville		
14:30	ECB's Benoît Coeuré Speaks in Brussels		
19:05	Fed's Bostic Speaks on Economic Outlook and Monetary Policy		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,41	0,01	US	1,68	0,03	DOW	23439,7	17,49	
DE	0,42	0,01	DE	-0,74	0,01	NASDAQ	6757,595	6,66	
BE	0,63	-0,01	BE	-0,61	0,01	NIKKEI	22380,01	-0,98	
UK	1,33	-0,01	UK	0,49	0,00	DAX	13074,42	-53,05	
JP	0,05	0,00	JP	-0,18	-0,02	DJ euro-50	3574,52	-19,24	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,00	0,93	Eonia	-0,3560	0,0010	Libor-1	1,2461	0,0000
5y	0,22	2,14	1,10	Euribor-1	-0,3710	0,0000	Libor-3	1,4129	0,0000
10y	0,88	2,39	1,37	Euribor-3	-0,3290	0,0000	Libor-6	1,6146	0,0000
				Euribor-6	-0,2750	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1667	0,0002	EUR/JPY	132,57	0,18	CRB	191,45	-0,20	
USD/JPY	113,62	0,09	EUR/GBP	0,8896	0,0055	Gold	1278,90	4,70	
GBP/USD	1,3116	-0,0080	EUR/CHF	1,1624	0,0005	Brent	63,16	-0,36	
AUD/USD	0,7623	-0,0038	EUR/SEK	9,7817	0,0384				
USD/CAD	1,2733	0,0051	EUR/NOK	9,526	0,0383				

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 data of the report and are subject to change without notice.