



Sunrise

Tuesday, 22 March 2016

Rates: Downward bias on the back of stronger eco data

Today's eco calendar heats up with EMU PMI's, German ZEW & IFO and US Richmond Fed manufacturing index. Risks are on the upside of expectations which is a negative for core bonds. More Fed governors hit the stage with Chicago Fed Evans expected to counter recent hawkish rhetoric by Bullard, Williams and Lockhart.

Currencies: Dollar off recent lows, but gains stay modest

In technical trade, the dollar held a marginally positive bias yesterday. Today, the focus is on the EMU sentiment indicators. We see room for a positive surprise. However, even that scenario is no guarantee for sustained directional gains of the euro. Sterling is again in the defensive as political uncertainty weighs.

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 extended their gains** yesterday in an uneventful session without clear market driver. This morning, **Asian shares trade mixed. Japanese stocks outperform boosted by a weaker yen.**
- **The economic costs of Britain exiting the EU would outweigh the potential benefits and may put the UK's Aa1 credit rating at risk**, rating agency Moody's warned. Also the **CBI said leaving the EU could blow a £100 billion hole in the UK economy** and could cost up to 950 000 jobs.
- **The recent rise of the Australian dollar was getting a bit ahead of itself given** the outlook for commodity prices and US interest rates, **RBA Governor Stevens** said this morning. The Aussie dollar however strengthened this morning as Stevens sounded optimistic on the Australian economy.
- **Japanese manufacturing activity contracted this month for the first time in almost one year** as new export orders shrank sharply, the preliminary estimate of the Markit PMI showed this morning.
- **Moody's Investors Service warned late yesterday it is reviewing Deutsche Bank's credit rating for possible downgrade**, citing risks to the bank's profitability and cost-cutting plans in worsening markets. **S&P affirmed the AA/AA+ credit rating of New Zealand** with a stable outlook.
- **The eco calendar heats up today** with the euro zone PMI's, the German IFO business climate indicator, the German ZEW, UK inflation data and US Richmond Fed index.

Rates

US Treasuries underperform on 1st hawkish Fed talk

Yesterday, global core bonds traded with a downward bias after an initial jump higher with US Treasuries underperforming German Bunds. Higher oil prices and hawkish Fed comments partly explain the move. Risk sentiment on equity markets didn't impact trading. In a daily perspective, the US yield curve shifter higher in a parallel way with yields up between 3.7 bps and 4.5 bps. Changes on the German yield curve varied between -0.3 bps (2-yr) and +3.6 bps (30-yr). On intra-EMU bond markets, most spreads marginally narrowed.

Modest losses core bonds

US Treasuries underperform on hawkish Fed talk

	US yield	-1d
2	0,8722	0,1182
5	1,3778	0,2512
10	1,9138	0,2871
30	2,7145	0,2131

	DE yield	-1d
2	-0,4730	-0,0020
5	-0,2900	0,0030
10	0,2260	0,0130
30	0,9371	0,0305

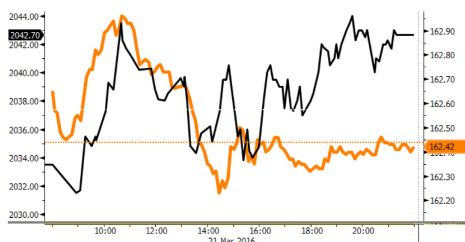
Richmond Fed Lacker, hawkish non-voter, said that he's confident that inflation will return to 2%: "The recent data on inflation - because they have come in firmer than expected - suggest that upside risks to inflation have increased maybe not significantly, but I think noticeably and materially". **SF Fed governor Williams** (heavyweight centrist non-voter), told MNI that he will be **advocating for another interest rate hike as early as the April meeting** or, failing that, at the June meeting provided that the economy continues to do as well as it has been. He said that "in a vacuum, if it weren't for global factors, we would be rising rates sooner and I think more quickly than we are because of the global factors and because of the uncertainties around these factors at the zero lower bound". **Atlanta Fed Lockhart**, another centrist, said that improving eco data justified a further step, possibly as early as in April. Since the FOMC meeting, 4 governors (also Fed Bullard, voter) already gave an opinion that cannot be but considered as more hawkish than the Fed statement and Yellen's press conference last week. Today, that may change with **Chicago Fed Evans**, known for his very dovish stance.

Key survey data in focus today

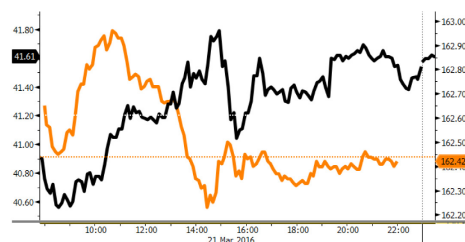
Following two consecutive monthly declines, **the euro zone composite PMI** is expected to have stabilized at 53.0 in March. The consensus is looking for a limited improvement in the manufacturing sector (51.4 from 51.2), while the services PMI is expected unchanged at 53.3. **We believe that the risks are for an upward surprise** as we expect earlier market turmoil and global growth concerns were partially responsible for the weakening in business sentiment. In **Germany, the IFO business climate indicator** is forecast to have picked up slightly to 106. Also here, we see risks for an upward surprise, as well as for the ZEW indicator. In the US, **the Richmond Fed index** is expected to have picked up from -4 to 0. Also here we are more optimistic after positive surprises in the Philly Fed index and Empire state index.

Upward risks for EMU PMI and German IFO & ZEW surveys

Upside risks for Richmond Fed index



Bund future (orange) & S&P future (black) (intraday): Unusual positive correlation in first part of the session. Thin Monday trading responsible?.



Bund future (black) & Brent oil (black): Weak correlation throughout session

R2	164	-1d
R1	163,4	
BUND	162,42	-36,1900
S1	160,81	
S2	160,11	

New 10-yr Dutch DSL

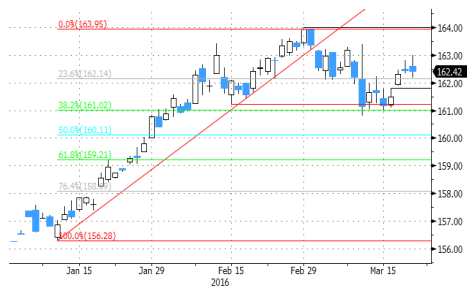
The Dutch debt agency issues a new 10-yr DSL (€4-6B 0.5% Jul2026) via Dutch Direct Auction. On the grey market, the new DSL trades with a 2.6 bps pick-up in ASW spread terms compared to the previous 10-yr benchmark (0.25% Jul2025). That corresponds with a 13 bps pick-up in yield terms. Overall, we expect a plain vanilla deal.

Downward bias on the back of stronger eco data?

Overnight, most Asian equity indices trade mixed between +0.5% and -0.5% with Japanese stocks outperforming in a catch-up move following yesterday's close. Oil prices hold near the recent highs, but the US Note future trades stable. We expect a neutral to slightly softer Bund opening.

Today's eco calendar heats up with EMU PMI's, German Ifo & ZEW and Richmond Fed Manufacturing index. **Risks for the eco data are on the upside of expectations, which is a negative for core bonds.** Central bank speakers include Chicago Fed Evans and Philly Fed Harker. Especially the former is expected to counter recent hawkish post-FOMC talk of Bullard/Williams/Lockhart/Lacker with some dovish rhetoric. Sentiment of equity and oil markets remains a wildcard. **Technically**, the Bund remains in the middle of the 160.81/164 trading range. For the US Note future, it seems that first resistance (129-26, previous neckline double top) will be able to hold. Stronger eco data and more hawkish Fed talk might bring the contract back towards the lower bound of the trading range at 128-01+.

Going forward, we think that there is a firm bottom below rate markets in yield terms as the ECB doesn't intend to lower rates further. **As of last Wednesday, the Fed also put a (temporary) ceiling on rate markets. Therefore, we put our downward bias for core bonds on hold and favour more sideways trading ahead.**



German Bund: sideways trading between 160.81 and 164



US Note future: 129-26 resistance able to hold after dovish Fed?

Currencies

Dollar marginally stronger in technical trade

Asian equities trade mixed with Japan outperforming

Yen off the recent lows

R2	1,1495	-1d
R1	1,1376	
EUR/USD	1,1259	-0,0007
S1	1,1058	
S2	1,081	

Eco calendar is well filled with Europe taking center stage

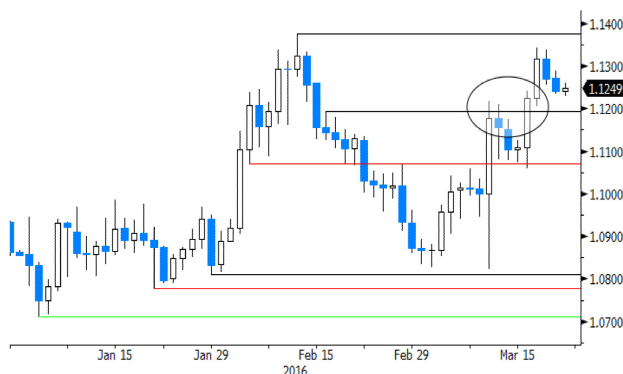
USD trading still at the mercy of conflicting signals

Post-Fed USD decline peters out

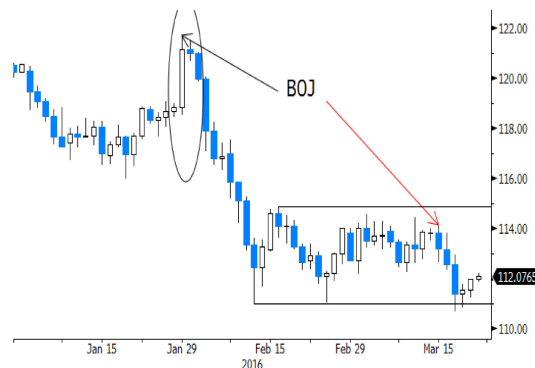
On Monday, there was no clear story to guide USD trading. ECB policy makers kept a soft tone, while Fed speakers were more hawkish. At the margin, this combination was slightly positive for the dollar. US eco data were weaker than expected, but ignored. EUR/USD closed the session at 1.1241 (from 1.1270 on Friday). USD/JPY finished the day at 111.95 (from 111.55 on Friday).

This morning, Asian equities trade mixed. Japanese indices outperform, as they had some catching up to do after yesterday's closure and as the yen is slightly weaker. USD/JPY trades in the 112.10 area, off the correction lows below 111 touched last week. Oil (Brent currently at \$41,50 p/b) is holding near the recent highs. Recently, it looked like the inverse correlation between the dollar and oil was becoming tighter, but this isn't the case now. The dollar is holding relatively strong. EUR/USD trades in the mid 1.12 area. Even commodity currencies like the Aussie dollar (0.7590) and the Canadian dollar (USD/CAD 1.3070) trade slightly off the recent highs, despite the rise in oil.

Today, the focus is on the surveys data in the euro area and in the US. Fed's Evans (doves) is scheduled to speak. Following two monthly declines, the euro zone composite PMI is expected stable at 53.0. We see upward risks as we assume that earlier market turmoil and global growth concerns were at least partially responsible for the weakening in business sentiment. In Germany, the IFO business climate indicator forecast to have picked up from 105.7 to 106.0. Also here, we see risks for an upward surprise. In the US, we see also room for a better than expected outcome of the manufacturing PMI and the Richmond Fed index. In theory, European data should take centre stage. However, it isn't sure that good European data will immediately translate into a stronger euro. A rise in core bond yields, if it occurs, might be slightly USD positive. In a daily perspective we still don't see one dominant factor to guide USD trading. Oil, global interest rate developments US and European data and sentiment on risk might give conflicting signals. In this context, we expect more technical, trade in EUR/USD near current levels. Can USD/JPY can stay away from the recent lows? If so, it suggests a slightly improvement in underlying USD sentiment.



EUR/USD: dollar slightly stronger in technical trade



USD/JPY: USD rebounds off the recent lows

Before the FOMC decision, we advocated sideways EUR/USD trading in the 1.1200/1.0810 range. However, this range top was broken after Wednesday's soft Fed. It will take some time for the dollar to digest the U-turn in the Fed interest rate assessment. **Still, we don't expect a big sustained jump higher in EUR/USD. 1.1376 is the next important resistance. 1.1495 is the key line in the sand medium term.** The soft Fed approach pushed USD/JPY temporary below the 110.99/114.87 sideways range, but the move was countered by rumours on rate checking from the BOJ. The BOJ will probably continue to send warning signals in case of a drop below 111. However, for now, USD/JPY failed to really rebound off the recent lows. We are in no hurry to go USD/JPY long as we want more confirmation that the BOJ won't have to accept a lower USD/JPY bottom.

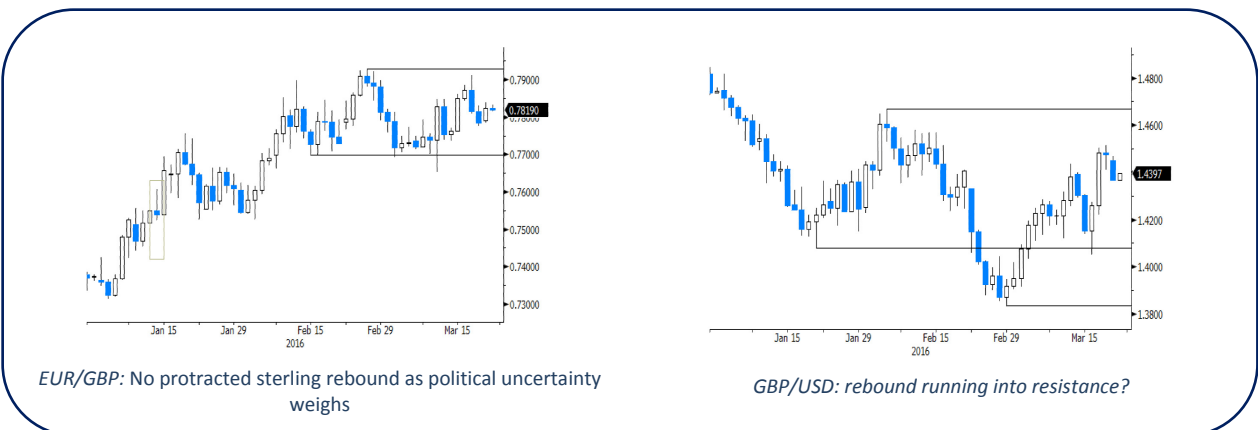
Sterling rebound aborted

R2	0,8066	-1d
R1	0,7929	
EUR/GBP	0,782	0,0008
S1	0,7652	
S2	0,7526	

After rebounding late last week, **sterling traded again with a slight negative bias yesterday. Tensions in the UK government and uncertainty on Brexit weighed.** The Rightmove house prices were strong and CBI orders improved as expected but were ignored. The pair closed the day at 1.4369 (from 1.4476). EUR/GBP traded with an upward bias and set an intraday top around 0.7838. The pair closed the session at 0.7823 (from 0.7784) despite a slight intraday loss of EUR/USD. Sterling weakness prevailed

Today, the UK calendar contains the price data (CPI, PPI, house prices) and the monthly budget data. The price data are usually the more important ones for GBP trading. UK headline CPI is expected to rebound to 0.4% Y/Y (0.4% M/M) from 0.3% Y/Y previously). Headline inflation is expected stable at 1.2% Y/Y. We see slight upward risks. Question is whether slightly higher UK inflation data will be able to support sterling. **There is probably a really big upside surprise needed for markets to reconsider BoE rate hike expectations.** Short-term, uncertainty on Brexit and other political issues remain key for sterling trading.

Sterling selling eased slightly, as Brexit-fears moved (temporary) to the background. For cable, the hypothesis of a bottoming out process remains in place. For EUR/GBP the picture was damaged by the post-ECB euro rebound and the pair came close to the 0.7929 resistance. The test was rejected. If this level holds, it would be a first indication that sterling enters calmer waters also against the euro. However, this hypotheses still needs to be confirmed as Brexit uncertainty still looms. **The medium-term technical picture of sterling against the euro remains negative as EUR/GBP holds above the 0.75 level. EUR/GBP broke temporary below a first support at 0.7696, but the test failed. 0.7652 is the first support.**



Calendar

Tuesday, 22 March		Consensus	Previous
US			
14:00	FHFA House Price Index MoM (Jan)	0.5%	0.4%
14:45	Markit Manufacturing PMI (Mar P)	51.9	51.3
15:00	Richmond Fed Manufact. Index (Mar)	0	-4
Japan			
03:00	Nikkei PMI Mfg (Mar P)	A 49.1	50.1
05:30	All Industry Activity Index MoM (Jan)	A 2.0%	-0.9%
06:00	Supermarket Sales YoY (Feb)	A 3.4%	2.3%
08:00	Convenience Store Sales YoY (Feb)	A 1.6%	1.0%
UK			
10:30	CPI MoM YoY (Feb)	0.4% / 0.4%	-0.8% / 0.3%
10:30	CPI Core YoY (Feb)	1.2%	1.2%
10:30	PPI Input NSA MoM YoY (Feb)	0.4% / -7.4%	-0.7% / -7.6%
10:30	PPI Output NSA MoM YoY (Feb)	0.0% / -1.2%	-0.1% / -1.0%
10:30	PPI Output Core NSA MoM YoY (Feb)	0.1% / 0.1%	0.1% / 0.0%
10:30	ONS House Price YoY (Jan)	--	6.7%
10:30	Public Finances (PSNCR) (Feb)	--	-24.9b
10:30	Central Government NCR (Feb)	--	-20.2b
10:30	Public Sector Net Borrowing (Feb)	5.3b	-11.8b
10:30	PSNB ex Banking Groups (Feb)	6.0b	-11.2b
EMU			
10:00	Markit Manufacturing PMI (Mar P)	51.4	51.2
10:00	Markit Services PMI (Mar P)	53.3	53.3
10:00	Markit Composite PMI (Mar P)	53.0	53.0
11:00	ZEW Survey Expectations (Mar)	--	13.6
Germany			
09:30	Markit/BME Manufacturing PMI (Mar P)	50.8	50.5
09:30	Markit Services PMI (Mar P)	55.0	55.3
09:30	Markit/BME Composite PMI (Mar P)	54.1	54.1
10:00	IFO Business Climate (Mar)	106.0	105.7
10:00	IFO Current Assessment (Mar)	112.7	112.9
10:00	IFO Expectations (Mar)	99.5	98.8
11:00	ZEW Survey Current Situation (Mar)	53.0	52.3
11:00	ZEW Survey Expectations (Mar)	5.4	1.0
France			
09:00	Markit Manufacturing PMI (Mar P)	50.2	50.2
09:00	Markit Services PMI (Mar P)	49.5	49.2
09:00	Markit Composite PMI (Mar P)	49.7	49.3
Belgium			
15:00	Business Confidence (Mar)	--	-6.6
Events			
	Utah (Rep. & Dem.), Arizona (Rep. & Dem.), Idaho (Dem.) Primaries		
18:30	Fed's Evans Speaks in Chicago		
Netherlands	DSL Auction (€4-6B New 0.50% Jul2026) (10:00)		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,91	0,29	US	0,87	0,12	DOW	17624 17623,87
DE	0,23	0,01	DE	-0,47	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,47	0,01	BE	-0,41	0,01	NIKKEI	17049 17048,55
UK	1,48	0,02	UK	0,48	0,02	DAX	9948,64 9948,64
JP	-0,09	0,00	JP	-0,23	0,00	DJ euro-50	3049 3048,77

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,115	1,075	0,899	Euribor-1	-0,32	0,00	Eonia EUR	-0,345	0
5y	0,045	1,310	1,053	Euribor-3	-0,24	0,00	Libor-1 USD	0,51	0,51
10y	0,585	1,736	1,473	Euribor-6	-0,13	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,1259 -0,0007	EUR/JPY	126,15 0,55		176,365	1246,96	41,7
USD/JPY	112,08 0,59	EUR/GBP	0,782 0,0008	-1d	0,02	4,05	0,77
GBP/USD	1,4391 -0,0024	EUR/CHF	1,091 -0,0017				
AUD/USD	0,7614 0,0031	EUR/SEK	9,255 -0,02				
USD/CAD	1,3055 -0,0002	EUR/NOK	9,4528 0,02				

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