



Sunrise

Monday, 21 March 2016

Rates: Range bond trading ahead this week?

This week's eco calendar is thin both in Europe and the US with main markets closed on Friday. Wildcards for trading are speeches by Fed governors and the US durable goods (Thursday). These market conditions suggest that volumes could be lower than usual with trading in the Bund and US Note future confined to sideways ranges.

Currencies: Dollar stages cautious rebound

On Friday, the dollar regained slightly ground as the post-Fed decline petered out. Today, there are no high profile items to guide USD trading. A further decline of oil might be slightly positive for the dollar. However, we don't expect the USD currency to break key technical levels.

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 on Friday**, despite weaker consumer confidence. The Dow rose for a sixth straight session. This morning, **Asian shares trade mixed**. **Chinese stocks outperform** after authorities loosened controls on investors borrowing money to buy shares. **Japanese markets are closed**.
- **The rebound in crude oil prices ran into resistance on Friday** after data showed US oil producers increased the number of rigs drilling for oil, ending three straight months of weekly declines. The Brent crude oil price dropped from the highs around \$42.50/barrel (intra-day high) to \$41/barrel currently. The WTI dropped this morning below \$39/barrel.
- **EU and IMF officials left Greece yesterday and will only return after Easter as discussions over fiscal targets, pension cuts and tax reforms drag on**. Greek Prime Minister Tsipras suggested earlier he wanted to wrap up talks swiftly to start talks on debt relief.
- **China's vice premier said the economy is showing signs of improvement**, while the central bank governor said capital outflows have slowed significantly, although he warned about the high level of corporate debt.
- **Rating agency Standard & Poor's confirmed the BB+/B sovereign rating on Portugal and maintained its stable outlook**, saying the recovery will moderate this year and they expect the new government to remain committed to policies that will further underpin fiscal consolidation.
- Today, the **eco calendar** is thin with only the UK CBI industrial trends survey and US existing home sales. Japanese markets are closed in observance of Vernal Equinox Day.

Rates

Rangebound trading at end of hectic trading week

Modest gains in calm session

German curve bull flattened; US curve bull steepened

Little changes in peripheral spreads

	US yield	-1d
2	0,754	-0,0894
5	1,1266	-0,2213
10	1,6267	-0,2412
30	2,5014	-0,1614

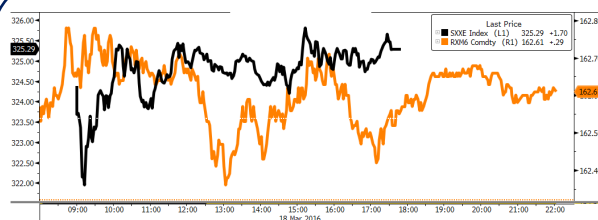
Bullard remains in hawkish camp

Explores provocative theory that says lower rates lead to lower, not higher inflation (expectations)

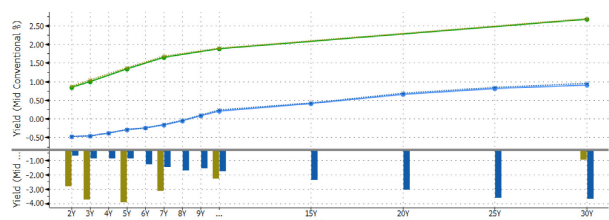
	DE yield	-1d
2	-0,4710	-0,0040
5	-0,2930	-0,0040
10	0,2130	-0,0070
30	0,9066	-0,0348

On Friday, global core bonds eked out some modest gains in an essentially sideways oriented pre-weekend session. In the Asian session, US Treasuries found their composure following a weak US close on Thursday. In Europe, the Bund started strong, but eventually fluctuated up and down in a sideways range for the remainder of the session, like US Treasuries. In the morning session, there was some fuss about an interview with ECB Praet, who explicitly said that the deposit rate can still go lower, contradicting his boss, Mario Draghi, who strongly suggested the opposite on Thursday. During US dealings, Michigan consumer confidence disappointed. Markets ignored the release, as they did with Praet's and Fed Bullard's comments (see lower). In a daily perspective, the German yield curve bull flattened with yields 0.6 bps (2-yr) to 3.7 bps (30-yr) lower. Changes on the US yield curve varied between -1bp (30-yr) and -3.7 bps (5-yr), bull steepening the curve. On intra-EMU bond markets, 10-yr yield spread changes versus Germany were little changed with Portugal underperforming (+7 bps) ahead of the S&P rating decision (BB+ rating affirmed, outlook stable).

St-Louis Fed Bullard said that prudent policy suggests edging the policy rate and the balance sheet to more normal levels as the FOMC's goals have been met and as the policy stance is still extreme (300 bps below neutral FF rate and balance sheet \$3.5 tr larger). "The zero rate policy has usually been viewed as temporary, but has been in place for 7 years, far beyond the duration consistent with the ordinary business cycle." Bullard explored the neo-Fisherian idea that zero rates might lead to lower instead of higher inflation (expectations). If the private sector determines the real rate than the nominal rate (set by Fed) would determine the expected rate of inflation he argued (Fisher equation: nominal rate = real rate + expected inflation.). Higher nominal rate would therefore push the expected inflation higher contrary to conventional wisdom, while zero rates would lead to lower inflation. Bullard, is currently on the hawkish camp, even if he admitted that the neo-Fisherian theory, he explored, is still way off his thoughts on the relationship between rates and inflation. NY Fed Dudley and Boston Fed Rosengren's speeches were silent on monetary policy.



Bund future (orange) & EuroStoxx (black) (intraday): Largely sideways trading ending with modest gains for both.



German (blue, bull flattening) & US (green, bull steepening) yield curves: curve changes reflect the expected monetary policy stance. EMU: low for long. US: lower policy rate than expected recently

US Existing sales and central bankers on the calendar

In February, US existing home sales are forecast to have dropped following already two consecutive monthly declines, notably by 2.9% M/M to 5.31 million.

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Existing home sales are close to the post-crisis highs, while inventories are near record low levels, which suggests that there is limited room for sales to increase much further. **We see risks for a downward surprise. Fed Lacker (hawk) and Lockhart (centrist)** may give us some more insights in the FOMC decision.

Low EMU bond supply this week

R2	164	-1d
R1	163,4	
BUND	162,61	0,1900
S1	160,81	
S2	160,11	

This week's EMU bond supply is rather thin. Today's Belgian auction was cancelled because of the syndicated 30-yr deal earlier this month. **Tomorrow, the Dutch debt agency issues a new 10-yr DSL (€4-6B 0.5% Jul2026) via Dutch Direct Auction.** On Wednesday, the **German Finanzagentur holds a 30-yr Bund auction (€1B 2.5% Aug2046).** On Thursday, Italy concludes by selling inflation-linked bonds. This week's auctions won't be supported by bond redemptions. **On Wednesday, the US Treasury starts its end-of-month refinancing operation with a \$13B 2-yr FRN auction.** The refinancing operation continues next week with 2-yr, 5-yr and 7-yr Note auctions.

Bonds: Rangebound trading this week?

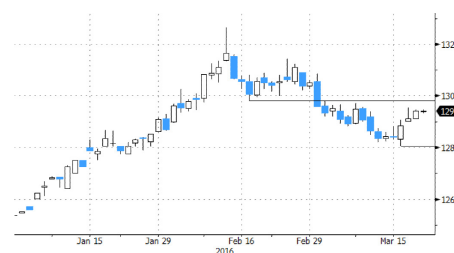
Overnight, most Asian equity indices trade mixed with China outperforming (+1%). Easier margin lending standards could explain the Chinese performance despite warning by the PBOC on elevated corporate debt. Oil prices have a marginal downward bias, while US Treasuries are stable. We expect a neutral opening for the Bund.

Today's eco calendar is nearly empty with only second tier US existing home sales. Speeches by Fed Lacker (hawk) and Lockhart (centrist) are wildcards for trading. Also later this week, the European and US eco calendars remain thin with main markets closed on Friday. That could lower volumes this week and result in more sideways, range-bound price action. Sentiment on equity markets and oil prices could still trigger some volatility. The Bund starts the week in the middle of the 160.81/164 trading range. For the US Note future, it will be interesting to see whether first resistance (129-26, previous neckline double top) is able to hold.

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 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

Post-Fed USD decline peters out

Dollar decline halted on Friday

Asian equities trade mixed with Chinese indices outperforming

Japanese markets are closed

R2	1,1495	-1d
R1	1,1376	
EUR/USD	1,1266	-0,0028
S1	1,1068	
S2	1,081	

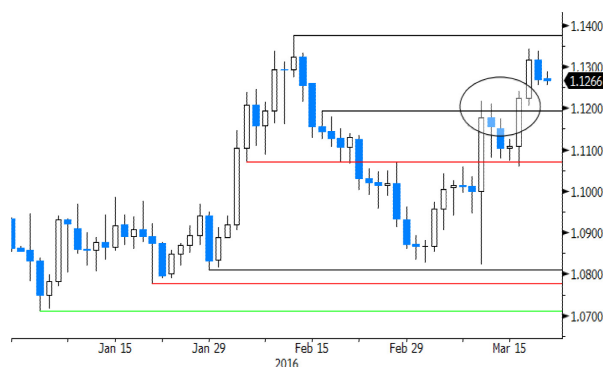
Eco calendar is razor-thin today

Decline of the oil price might be a slight support for the dollar

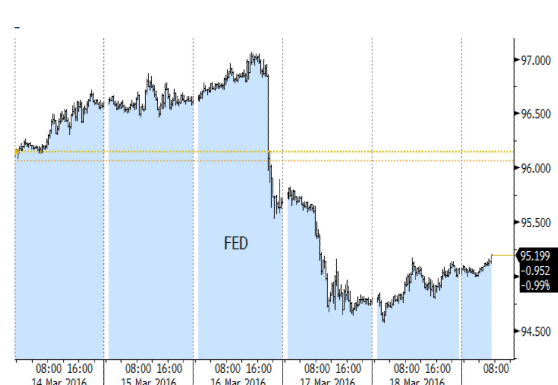
On Friday, global currency markets entered calmer waters as the post-Fed decline of the dollar petered out. The dollar even regained slightly ground against the euro and the yen, but the gains were insignificant from a technical point of view. EUR/USD closed the session at 1.1270 (from 1.1318 on Thursday). USD/JPY finished the week at 111.55 (from 11.39 on Thursday evening).

This morning, Asian equities show a mixed picture. Most indices record modest losses despite a positive close in the US on Friday. Chinese equities outperform as regulators eased the restrictions on margin lending. This is a China-specific issue that shouldn't affect global trading. Oil is trading slightly lower this morning. Commodity currencies are losing some ground with AUD/USD trading at 0.7580. The inverse correlation between the dollar and oil remains in place. The dollar is off the post-Fed lows as oil is drifting south. EUR/USD trades currently in the 1.1265 area. Japanese markets are closed. USD/JPY holds in the mid 111 area.

Today, the eco calendar is again thin. **US existing home sales** are forecast to have dropped in February following already two consecutive monthly declines, notably by 2.9% M/M to 5.31 million. Existing home sales are close to the post-crisis highs, while inventories are near record low levels, which suggests that there is limited room for sales to increase much further. **We see risks for a downward surprise. Fed Lacker (hawk) and Lockhart (centrist)** may give us some more insights in the FOMC decision. There are no high profile factors to guide USD trading this morning. Sentiment might be slightly negative at the start of trading in Europe. In the absence of important eco data, USD traders might keep an eye at oil and other commodities. **A slide of oil might help the dollar to regain some further ground in the wake of last week's post-Fed correction.**



EUR/USD: post-Fed rebound running into resistance



USD (trade-weighted): USD looking for a bottom

Before the FOMC decision, we advocated sideways EUR/USD trading within the 1.1200/1.0810 range. The top of this range was already tested after the ECB meeting and was broken following Wednesday's soft Fed. On Friday, the post-Fed USD decline finally halted. It will take some time for the dollar to digest the U-turn in the Fed interest rate assessment.

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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 also pushed USD/JPY back lower in the 110.99/114.87 sideways range. The pair dropped temporary below this range, but the move was countered by rumours on rate checking from the BOJ. The BOJ will most probably continue to send warning signals in case of a drop below 111. However, for now, USD/JPY fails to 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.

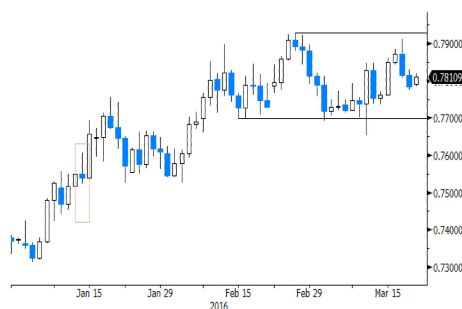
Sterling shows mixed picture after the Fed

R2	0,8066	-1d
R1	0,7929	
EUR/GBP	0,7812	0,0001
S1	0,7652	
S2	0,7526	

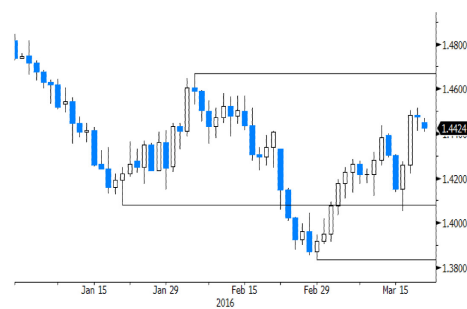
With no important data on the agenda, sterling trading was driven by global factors and technical considerations on Friday. The UK currency maintained Thursday's gains against the dollar even as the dollar was better bid across the board. Cable closed the session at 1.4476 (from 1.4482 on Thursday evening). EUR/GBP continued Thursday's post-BoE decline. The move was partially inspired by the intraday correction of EUR/USD. However, the Brexit storm from earlier last week has calmed down. EUR/GBP dropped below the 0.78 big and closed the session at 0.7784 (from 0.7815).

Overnight, UK Rightmove House prices remained solid at 1.3% M/M and 7.6% M/M. The rise was due to price increases recorded outside London. Later today, the CBI industrial trends will be published. A decline from -17 to -14 is expected. We look out whether sterling can continue its bottoming out process, even in case of a weaker than expected report. This morning at the start of trading, the sterling momentum is clearly less positive than was the case at the end of last week. The UK currency is under moderate pressure against the dollar and euro.

Of late, sterling bottomed out 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 overall post-ECB euro rebound and the pair came close to the 0.7929 resistance. The test was rejected. If this level holds, it could be a first indication that sterling enters calmer waters also against the euro. **The medium-term picture of sterling against the euro remains negative as EUR/GBP holds above the 0.75 area. Short-term, EUR/GBP tested a first support at 0.7696 and temporary broke it. Finally, the test failed though. 0.7652 is the first important support level.**



EUR/GBP: test of key 0.7929 resistance rejected



GBP/USD: rebound running into resistance?

Calendar

Monday, 21 March		Consensus	Previous
US			
13:30	Chicago Fed Nat Activity Index (Feb)	0.25	0.28
15:00	Existing Home Sales Total/MoM (Feb)	5.31m/-2.9%	5.47m/0.4%
UK			
01:01	Rightmove House Prices MoM YoY (Mar)	A 1.3%/7.6%	2.9% / 7.3%
12:00	CBI Industrial Trends Survey -Total Orders (Mar)	-14	-17
EMU			
10:00	Current Account SA (Jan)	--	25.5b
Italy			
10:30	Current Account Balance (Jan)	--	6141m
Spain			
	Trade Balance (Jan)	--	-1793.9m
Events			
	Japanese Markets are Closed in Observance of Vernal Equinox Day		
08:45	ECB's Coeuré Speaks on EMU governance in Paris		
09:15	Fed's Lacker Speaks in Paris at Bank of France		
10:00	Bank of Finland Governor Liikanen speaks on monetary policy		
10:30	ECB's Constancio Speaks at Capital Markets Forum in London		
12:00	Bundesbank Publishes Monthly Report		
12:00	BoE's Forbes Speaks at Forum in London		
17:30	Hiroshi Nakaso, Stefan Ingves Speak in Stockholm		
17:40	Fed's Lockhart Speaks on U.S. Economy in Savannah, Georgia		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,63	-0,24	US	0,75	-0,09	DOW	17602,30
DE	0,21	-0,01	DE	-0,47	0,00	NASDAQ for Exch - NQI	#VALUE!
BE	0,46	-0,01	BE	-0,42	-0,01	NIKKEI	16725,16724,81
UK	1,45	-0,01	UK	0,46	-0,01	DAX	9950,89950,80
JP	-0,10	0,00	JP	-0,23	0,00	DJ euro-50	30603059,77

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,3450,002
3y	-0,114	1,035	0,886	Euribor-1	-0,32	-0,01	Libor-1 USD	0,510,51
5y	0,040	1,256	1,034	Euribor-3	-0,23	0,00	Libor-3 USD	0,590,59
10y	0,567	1,692	1,446	Euribor-6	-0,13	0,00	Libor-6 USD	0,750,75

Currencies		-1d	Currencies		-1d	Commodities	CRB	GOLD	BRENT
EUR/USD	1,1266	-0,0028	EUR/JPY	125,6	0,01		176,3459	1242,91	40,93
USD/JPY	111,49	0,25	EUR/GBP	0,7812	0,0001	-1d	-1,31	-20,45	-0,62
GBP/USD	1,4415	-0,0037	EUR/CHF	1,0927	0,0004				
AUD/USD	0,7583	-0,0063	EUR/SEK	9,2767	0,02				
USD/CAD	1,3057	0,0072	EUR/NOK	9,4362	0,02				

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