



## Sunrise

Tuesday, 15 March 2016

### Rates: Some downside risks for core bonds

After an uneventful session yesterday, upside risks for US eco data may test the resolve of core bonds. However, the approach of the FOMC meeting may keep many investors sidelined. The Bund's technical picture is under threat.

### Currencies: US data in focus ahead of FOMC meeting

Yesterday, the dollar showed no clear trend as investors kept a cautious approach ahead of the FOMC policy decision. Today, the focus is on the on the US data, with the retail sales taking centre stage. Sterling is losing some momentum as investors prepare for Thursday's BoE policy decision.

### 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 ended a lacklustre session broadly unchanged.** The S&P closed marginally lower while the Nasdaq and Dow showed limited gains. **This morning, sentiment in Asia weakened** with shares showing broad-based losses.
- **The Bank of Japan decided this morning to keep its monetary policy unchanged,** although they offered a bleaker view on the economy and warned on waning inflation expectations.
- **China's central bank has drafted rules for a tax on foreign exchange transactions,** which could help curb currency speculation, Bloomberg reports quoting people familiar with the matter. The tax would not be designed to disrupt hedging and other FX transactions undertaken by companies, they added.
- **French Prime Minister Valls retreated on one of the key elements of the government's labour reform bill** after protests against the measures. The jobs bill would have been one of the boldest measures to overhaul France's two-tier labour market.
- **Russian President Putin ordered yesterday his armed forces to start pulling out of Syria,** saying they had largely met their objectives and it was time to focus on peace talks.
- Today, the **US eco calendar is well-filled** with **the retail sales**, PPI inflation, the US Empire State manufacturing index and NAHB housing market sentiment. **EU General Affairs Ministers meet in Brussels.**

# Rates

## Core bonds mixed in thin, uneventful opening session

*Low volume session with insignificant moves in core bond markets*

*Oil driver of intraday moves*

*Peripheral spreads narrow*

Global core bonds traded with a slight upward bias well into the US session, after which selling kicked in that lasted during the remainder of the US session. US bonds outperformed German bonds slightly, but yield changes were minor. Amid an uneventful calendar, oil drove core bonds. Oil initially fell lower after Iran refused to speak about output reduction, but turned North in mid US session, when German bonds started to decline. The eco calendar was completely empty apart from strong Euro zone industrial production data that had little impact though. Traded volumes were very modest. European equities eked out some gains while US ones ended mixed. In a daily perspectives the US yield curve bull flattened with yields flat (2-yr) to 2.5 bps lower (10-yr). In Germany, yields were marginally higher (1.4 bps for the 5-yr), but the 30-yr yield fell by 0.2 bps. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed marginally (2-to-3 bps).

	US yield	-1d
2	0,9519	-0,0038
5	1,4694	-0,0130
10	1,9522	-0,0194
30	2,7279	-0,0182

## Busy US eco calendar ahead of FOMC decision

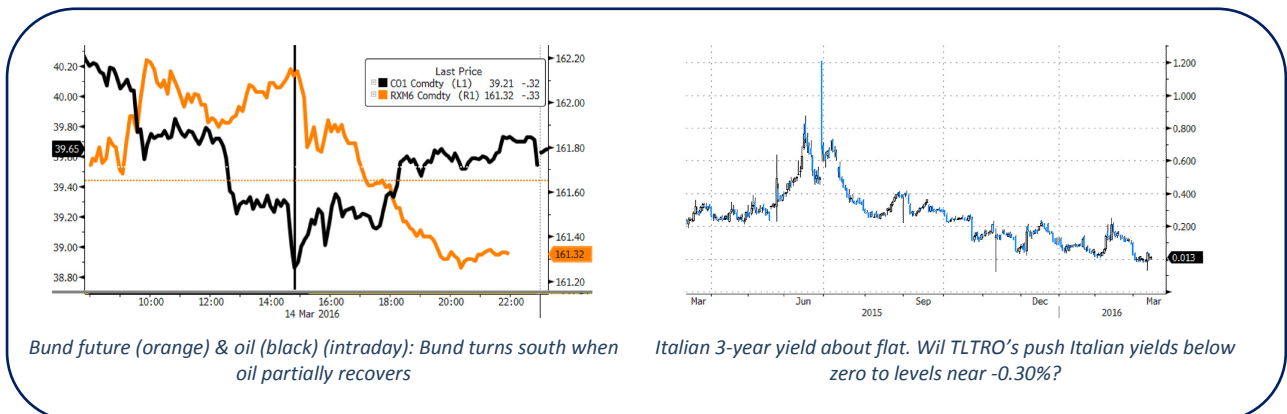
*Upside risks retail sales and NY Fed manufacturing survey*

*Slight pick-up NAHB sentiment*

*PPI to have picked up.*

Following strong US headline retail sales in January, a modest payback (-0.1% M/M) is expected in February. However, the weakness will be based in gasoline station sales. The control group, which excludes autos and gasoline station sales, is expected to have increased by 0.2% M/M, following a 0.6% M/M increase in January. We believe that the risks are for a stronger outcome. PPI inflation is expected to have picked up from -0.2% Y/Y to 0.1% Y/Y, mainly due to positive base effects. On a monthly basis, prices are forecast to have declined by 0.2% M/M, due to lower energy prices. Core PPI, on the contrary, is expected to have increased by 0.1% M/M, which should push the annual rate up to 1.2% Y/Y from 0.6% Y/Y in January. We have no reasons to distance ourselves from the consensus. The US Empire State manufacturing index is forecast to extend its rebound, with an increase from -16.6 to -11.5 expected. We believe that the risks are for an upward surprise as the details showed signs of improvement last month and also other US business confidence indicators have picked up somewhat. Finally, US NAHB housing market sentiment is expected to have picked up from 58 to 59 in March, following a significant drop in February. More favourable weather conditions might support sentiment

	DE yield	-1d
2	-0,4560	0,0030
5	-0,2520	0,0190
10	0,2960	0,0240
30	1,0489	0,0079



Bund future (orange) & oil (black) (intraday): Bund turns south when oil partially recovers

Italian 3-year yield about flat. Will TLTRO's push Italian yields below zero to levels near -0.30%?

## Downward bias on the back of stronger US eco data?

R2	164	-1d
R1	163,4	
<b>BUND</b>	<b>161,32</b>	<b>-0,4000</b>
S1	160,81	
S2	160,11	

**Overnight**, the Bank of Japan kept monetary policy unchanged. Asian stock markets trade up to 0.5% lower with China underperforming. Oil prices have a small downward bias, but the US Note future can't really profit. Nevertheless, the combination of lower oil and lower stocks could still benefit the Bund in the opening.

**Today's eco calendar heats up in the US (see above)**. Risks for retail sales, Empire Manufacturing and NAHB housing market index are on the upside of expectations. PPI data will be closely looked at as well given recent upticks in other inflation gauges. **The combination of eco releases could be negative for US Treasuries**. However, ahead of tomorrow's FOMC outcome, we don't expect any technically significant moves. **Oil prices could also influence market sentiment**.

Going forward, we think that there is a firm bottom below rate markets in yield terms. The ECB doesn't intend to lower rates further which gives the Fed more leeway to become more hawkish. **The German 10-yr yield tested 0.3% resistance (neckline double bottom). A break higher becomes very likely and would be a signal to sell the Bund**. Three other important markets already broke more or less similar key technical levels. The Brent oil price (\$37.55/barrel), S&P 500 (1950) and US 10-yr yield (1.85%) all moved above resistance levels, painting double bottoms on the charts. **This suggests that risk sentiment changed compared to the beginning of the year (more positive) and gives more downside for core bonds**.



*German Bund (June contract): Bund sell-off despite additional ECB easing. Testing first support around 161.02 (38% retracement)/160.81 (neckline double top)*



*US Note future (June contract): break below double top suggests more downside, but consolidation ahead of the Fed?*

# Currencies

*Dollar mixed in technical trade ahead of the FOMC decision*

R2	1,1376	-1d
R1	1,1193	
<b>EUR/USD</b>	<b>1,11055</b>	<b>-0,0056</b>
S1	1,1068	
S2	1,081	

*Asian equities record modest losses*

*BOJ keeps policy unchanged*

*Oil and commodity currencies ceding part of recent gains*

*The US eco calendar is well filled today*

*Retails sales key release for USD trading ahead of the FOMC decision*

## EUR/USD losing slightly ground ahead of the FOMC

Yesterday, EUR/USD drifted lower in the 1.11 big figure in technical, eco and event-poor trading. The pair closed the session at 1.1103 (from 1.1156 on Friday). USD/JPY held a tight sideways range in the upper half of the 113 big figure. The pair finished at 113.82 little changed from Friday evening (113.86).

**This morning**, Asian equity markets trade with moderate losses. The BOJ, as expected, kept its policy rate (-0.1%) and expansion of the monetary base unchanged. BOJ stays in wait-and-see modus, as it is assessing the impact of negative interest rate on the economy and the financial system. **The BOJ was slightly more cautious on the economy citing weak exports and production.** It reiterated it could do more if needed. Japanese equities lost slightly ground and the yen strengthened after the BOJ announcement. USD/JPY trades currently in the 113.35 area. Oil also remains under slight downward pressure (Brent near \$39 p/b). **The decline/consolidation in oil and other commodities is capping the rebound in commodity currencies.** AUD/USD returned below the 0.75 mark. EUR/USD shows still no clear trend, as it holds in the low 1.11 area.

**Today**, the focus will be on the US data. Following strong **retail sales** in January, a more modest payback (-0.1% M/M ) is expected, but the control group, which excludes autos and gasoline station sales, is expected to have increased by 0.2% M/M (0.6% M/M in January). **We believe that the risks are for a stronger outcome. PPI inflation** is expected to have picked up from -0.2% Y/Y to 0.1% Y/Y. Core PPI, however, is expected to have increased by 0.1% M/M, which should push the annual rate up to 1.2% Y/Y from 0.6% Y/Y. We have no reasons to distance ourselves from the consensus. We see also **upward risks for the US Empire State manufacturing index** and the **US NAHB housing market sentiment. Decent US retail sales and an uptick in the PPI might be USD supportive even as investors will keep a cautious approach ahead of tomorrow's FOMC decision.** Given the soft market positioning, the risk for the Fed is to be less dovish than expected, keeping the USD downside supported.



EUR/USD: dollar slightly stronger against the euro ahead of the FED decision .



USD/JPY: losing slightly ground post BOJ, but still in sideways range

Of late, we advocated sideways EUR/USD trading within the 1.1193/1.0810 range. The top of this range was extensively tested after last week's ECB meeting but for now no-follow-through USD losses/euro gains occurred. 1.1376 is the next important resistance. We assume that this level will hold, unless the news flow from the US would turn really negative. We look for an EUR/USD topping out process.

USD/JPY perfectly holds within the 110.99/114.87 sideways consolidation pattern. The pair still shows no clear trend, but it looks like the downside is well protected. This is partially due to market fears for BOJ action in case of a sharp rise of the yen. At the same time, the dollar might perform rather well in the run-up to this week's Fed meeting.

### Sterling rebound slows

On Monday, also sterling was captured in technical trading. EUR/USD and cable developed a similar trend. Initially, cable slightly outperformed EUR/USD, keeping EUR/GBP close to, mostly slightly below the 0.7750 barrier. The decline in the oil price initially didn't have much negative impact on sterling. During the US trading session, sterling momentum deteriorated slightly. EUR/GBP regained a few ticks and closed the session at 0.7763 (from 0.7753 on Friday). Cable lost also slightly further ground and finished the day at 1.4302 (from 1.4382 on Friday). Sterling investors apparently take a more cautious approach ahead of the BoE policy decision (Thursday).

Today, investors will continue to adapt positions for more important events to come later this week, as today's calendar is empty. Tomorrow, the key labour market data will be published and UK's Osborne will present the budget. On Thursday, the BoE meets, but no material change from the February assessment is expected. In a day-to-day perspective, sterling is losing some momentum. However, the move shouldn't go far if tomorrow's labour data show decent wage growth.

Of late, sterling bottomed out as the Brexit-fears moved to the background, for cable, the hypothesis of a bottoming out process remains in place. For EUR/GBP the picture is damaged by Thursday's overall post-ECB euro rebound. As is the case for EUR/USD, we look for signs of a topping out process in EUR/GBP. **The medium-term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Short-term, EUR/GBP tested a first support at 0.7696 and temporary broke it last week. Finally, the test failed though. 0.7652 is the first important support level.**

R2	0,8066	-1d
R1	0,7929	
<b>EUR/GBP</b>	<b>0,7782</b>	0,0019
S1	0,7652	
S2	0,7526	



EUR/GBP: test of the downside rejected, for now



GBP/USD: cable rebound running into resistance

# Calendar

Tuesday, 15 March		Consensus	Previous
<b>US</b>			
13:30	<b>Retail Sales Advance MoM (Feb)</b>	-0.2%	0.2%
13:30	Retail Sales Ex Auto and Gas (Feb)	0.2%	0.4%
13:30	<b>Retail Sales Control Group (Feb)</b>	0.2%	0.6%
13:30	<b>PPI Final Demand MoM YoY (Feb)</b>	-0.2% / 0.1%	0.1% / -0.2%
13:30	PPI Ex Food and Energy MoM (Feb)	0.1% / 1.2%	0.4% / 0.6%
13:30	<b>Empire Manufacturing (Mar)</b>	-10.50	-16.64
15:00	<b>NAHB Housing Market Index (Mar)</b>	59	58
15:00	Business Inventories (Jan)	0.0%	0.1%
21:00	Total Net TIC Flows (Jan)	--	-\$114.0b
21:00	Net Long-term TIC Flows (Jan)	--	-\$29.4b
<b>Japan</b>			
	BOJ Annual Rise in Monetary Base (Mar 15)	A ¥80t	¥80t
	BOJ Basic Balance Rate (Mar 15)	A 0.10%	0.10%
	BOJ Macro Add-On Balance Rate (Mar 15)	A 0.00%	0.00%
	<b>BOJ Policy Rate (Mar 15)</b>	<b>A -0.10%</b>	<b>-0.10%</b>
05:30	Industrial Production MoM YoY (Jan F)	A 3.7%/-3.8%	3.7% / -3.8%
05:30	Capacity Utilization MoM (Jan)	A 2.6%	-1.0%
<b>EMU</b>			
11:00	Employment QoQ YoY (4Q)	--	0.3% /1.1%
<b>France</b>			
08:45	CPI EU Harmonized MoM YoY (Feb F)	0.3% / -0.1%	0.3% /-0.1%
<b>Italy</b>			
10:00	CPI EU Harmonized YoY (Feb F)	--	-0.2%
10:30	General Government Debt (Jan)	--	2169.9b
<b>Belgium</b>			
15:00	Trade Balance (Jan)	--	-341.8m
<b>Sweden</b>			
09:30	CPI MoM YoY (Feb)	0.3%/0.4%	-0.3% / 0.8%
09:30	CPI CPIX MoM YoY (Feb)	0.4%/1.2%	-0.4% / 1.6%
<b>Events</b>			
	BOJ Monetary Policy Statement		
09:45	Riksbank's Ingves, FSA's Thedeen Speak at Seminar		
10:00	<b>EU General Affairs Ministers Meet in Brussels</b>		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,95	-0,02	US	0,95	0,00	DOW	17229 17229,13
DE	0,30	0,02	DE	-0,46	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,55	0,03	BE	-0,37	0,01	NIKKEI	17117 17117,07
UK	1,57	0,00	UK	0,54	-0,01	DAX	9990,26 9990,26
JP	-0,01	0,02	JP	-0,16	0,02	DJ euro-50	3092 3091,98

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,243	-0,001
3y	-0,087	1,142	0,931	Euribor-1	-0,30	Libor-1 USD	0,51	0,51
5y	0,085	1,373	1,108	Euribor-3	-0,23	Libor-3 USD	0,59	0,59
10y	0,655	1,772	1,514	Euribor-6	-0,13	Libor-6 USD	0,75	0,75

Currencies			-1d	Currencies			-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,11055	-0,0056		EUR/JPY	125,83	-1,17			172,3838	1230	39,08
USD/JPY	113,275	-0,52		EUR/GBP	0,7782	0,0019		-1d	-1,14	-24,00	-1,25
GBP/USD	1,4268	-0,0104		EUR/CHF	1,0963	-0,0017					
AUD/USD	0,7496	-0,0055		EUR/SEK	9,2728	-0,03					
USD/CAD	1,3295	0,0057		EUR/NOK	9,4198	0,03					

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