



## Sunrise

Friday, 15 April 2016

### Rates: Higher oil prices push core bonds lower

Risk sentiment will be the most important guidance for core bonds today, as US data may turn out mixed. There is scope for end-of-week profit taking in (European) equities and maybe an anticipation on a buy-the-rumour sell-the-fact in oil prices (ahead of the decision oil-producers). If so, the profit taking in bond markets may be (temporarily?) halted.

### Currencies: Dollar ignores disappointing US price data

Yesterday, the dollar maintained its recent gains even as US inflation was lower than expected. Today's data could be still be mildly supportive for the dollar. Oil and comments from the G20 meeting are a wildcard for currency trading.

### 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 yesterday's session unchanged** following mixed eco data, while earnings were overall slightly stronger. This morning, **also Asian shares show little momentum**, trading narrowly mixed.
- **China's economic growth slowed further at the start of the year, to 6.7% Y/Y in the first quarter**, in line with market expectations and staying on track to meet the government's target of 6.5% to 7% for the year.
- **IMF Chairwoman Lagarde signalled yesterday that the €86 billion Greek bailout may need to be completely renegotiated** with more realistic fiscal targets before they will take part in the rescue, adding that current targets would require heroic efforts by the Greek people.
- **Despite slowing Chinese growth, March retail sales, industrial output, investments and new loans were all better than expected**, suggesting that activity picked up towards the end of the quarter, but the surge in credit raised also questions over the sustainability of the debt-fuelled expansion.
- **Bank of Japan officials are becoming more open to increasing monetary stimulus by buying more exchange-traded funds invested in shares**, Reuters reports quoting sources familiar with the matter, as an eventual renewed stock markets tumble and weak global growth threatens the fragile recovery.
- Today, the **eco calendar** contains the US Empire State manufacturing index, US industrial production and US University of Michigan consumer confidence. **The IMF/World Bank and G20 meetings start in Washington. On Sunday, OPEC and non-OPEC members will meet in Doha to discuss a potential output freeze.**

# Rates

## Downward correction extended

Yesterday, global core bonds lost more ground on the back of increasing oil prices, higher revised EMU CPI inflation and further improving risk sentiment.

Lower than expected US inflation could only temporarily turn the tide for the better, but it might have avoided a still worse turn for USD Treasuries, especially as weekly claims matched the lowest level since 1973. Core bonds closed near the intraday lows despite a late session selling wave of oil and to a lesser extent a decline in equity prices which eventually closed the session little changed. **The US 30-yr bond auction and Irish 10-yr bond auction were strong.** Atlanta Fed **Lockhart** said that he changed his view and that an April rate hike no longer made sense. He expects a soft Q1 GDP number and the Fed has more work to do on inflation. Markets had already dismissed the idea of an April rate change. All these elements contributed to some volatility, but couldn't change the direction anymore. **In a daily perspective**, the US yield curve traded 2 bps (2-yr) to 3.7 bps (5-yr) higher, the belly underperforming. The German yield curve shifted 1.3 bps (2-yr) to 4.1 bps (10-yr) higher. Changes on **intra-EMU bond markets** were limited between -2 bps (Ireland/Portugal) and +2 bps (Italy).

*Core bonds lose ground on higher oil and risk on.*

*Lower US CPI had little impact*

*Little change in peripheral spreads*

	US yield	-1d
2	0,7699	0,0077
5	1,2483	0,0260
10	1,7885	0,0193
30	2,5936	0,0077

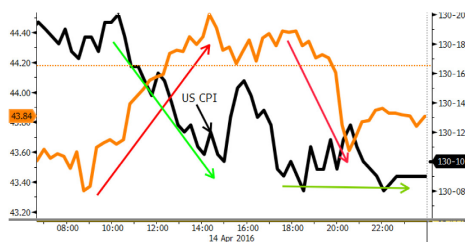
	DE yield	-1d
2	-0,5000	0,0120
5	-0,3560	0,0270
10	0,1690	0,0380
30	0,8490	0,0244

*Upside risks NY manufacturing index and Michigan consumer confidence*

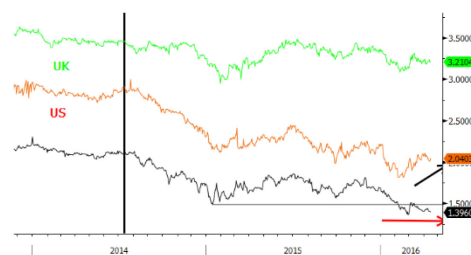
*Downside risk US production*

## Busy calendar to close trading week

In March, **the Empire State manufacturing index** showed a significant rebound, jumping again into positive territory. For April, the consensus is looking for a further, albeit limited increase from 0.62 to 2.0, but we believe that the **risks are for a stronger increase** following a general improvement in other business confidence indicators too. **Industrial production** is expected to have declined further in March, by 0.1% M/M, mainly due to weakness in mining. Manufacturing output, on the contrary, is forecast to show a limited increase by 0.1% M/M. For both we **see downside risks** as hours worked in the manufacturing sector dropped, while also mining production is reported to be on a downward trend. Finally, **University of Michigan consumer confidence** is forecast to have improved from 91 to 92 early April following three consecutive monthly declines. A continued improvement in labour market conditions and reports of higher wages should support sentiment, while higher gasoline prices might be a slightly negative. As Conference Board's consumer confidence improved significantly recently, we see risks for **a higher Michigan reading** too.



*US T-Note future (black) and Brent future (orange): Higher oil prices (and stocks) initially behind drop in core bonds. Eco data had no lasting impact and neither had late session reversal lower in oil*



*5-yr/5-yr inflation expectations: US and EMU CPI reports had no noticeable impact. In longer term perspective, US expectations creeping higher (on higher oil prices and maybe on Fed dovishness)*

R2	164,6	-1d
R1	163,74	
<b>BUND</b>	<b>163,39</b>	<b>-0,3700</b>
S1	160,81	
S2	160,11	

### Strong \$12B 30-yr US Bond auction

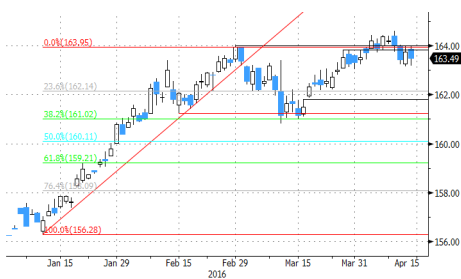
The US Treasury ended its mid-month refinancing operation with a strong \$12B 30-yr Bond auction. The auction stopped 2 bps through the 1:00 PM bid side, with the best bid cover (2.40) so far this year. Bidding details showed especially strength in the indirect bid, while the dealer bid continued to disappoint. The 30-yr Bond auction followed a solid 3-yr Note auction and a strong 10-yr Note auction earlier this week.

### Mixed signals from trading factors: stocks, oil and data?

**Overnight**, most Asian equities trade marginally lower. Chinese Q1 GDP data were perfectly in line with expectations, but industrial production data and retail sales improved more than expected. Oil prices and the US Note future trade stable, suggesting a neutral opening for the Bund.

**Today's** EMU eco calendar is empty. Risk sentiment will be the most important guidance at the start of trading. Will we get some profit taking on this week's impressive equity gains? If so, it could protect the intraday downside of the Bund. In the US, the calendar is interesting with Empire Manufacturing, industrial production and University of Michigan consumer sentiment. The outcome could be mixed with risks for weaker production data and stronger survey data. Yesterday, disappointing CPI numbers couldn't trigger US Treasury gains, **confirming the profit taking sentiment on core bond markets currently. Therefore, the onus might be on the upside surprises and weigh further on US Treasuries.** Chicago Fed Evans (dove) speaks on policy, but his views are well-known. We keep a close eye at **oil prices** as well and believe that a buy-the-rumour, sell-the-fact reaction after Sunday's Doha meeting is possible. **That could temporary halt the downward correction on bond markets.**

**Technically, the US Note future** broke first resistance (129-26) as Yellen was more dovish than at the March policy meeting. A stronger batch of eco data couldn't turn the tide. Next resistance at 131-14 managed to hold and suggests return action lower. **We would short US Treasuries. The German 10-yr yield headed for a test of the all-time low (0.05%). We became wary at those absurd levels and started selling Bunds below 0.10% as we "fear" a sudden correction like this time last year. The same ingredients are available: a unilaterally positioned market (long), low liquidity, more Fed tightening ahead and improving growth perspectives.**



German Bund: time to add short positions



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Test 131-12 rejected. More downside?

# Currencies

*Dollar holds up well despite lower than expected US inflation*

R2	1,1714	-1d
R1	1,1495	
<b>EUR/USD</b>	<b>1,1259</b>	<b>-0,0004</b>
S1	1,1144	
S2	1,1058	

*Chinese growth meets expectations*

*Muted market reaction*

*USD maintains recent gains*

*US eco data might be slightly USD supportive*

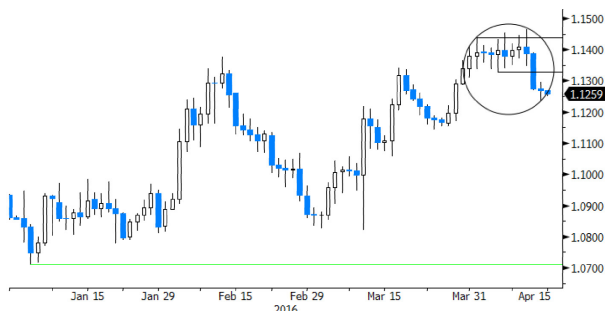
*Dollar rebound holds within established ranges*

## Dollar ignores disappointing US price data

On Thursday, the dollar rebound took a breather as the equity rally slowed and US inflation disappointed. This capped further USD gains, but the greenback quite easily maintained this week's gains. That's remarkable given the post-Fed weakness of late. EUR/USD closed the session at 1.1268, almost unchanged from Wednesday. USD/JPY finished the session at 109.40 (from 109.34 ).

**Overnight**, Chinese Q1 GDP was exactly in line with expectations at 6.7% Y/Y. March industrial production was substantially stronger at 6.8% Y/Y. The market reaction to the data is muted. Most regional equity indices show modest losses, which is probably some short-term profit taking on recent gains. The Aussie dollar temporary gained a few ticks , but AUD/USD fails to break to new highs as the commodity rally slows. EUR/USD holds yesterday's tight range and trades around 1.1260. USD/JPY remains well supported, trading in the 109.60 area.

Today, the **eco calendar** contains the **US Empire State manufacturing index**, **US industrial production** and the **first estimate of April University of Michigan consumer confidence**. Citigroup announces Q1 earnings, Fed's Evans is scheduled to speak and the IMF/World Bank/G20 meetings take place in Washington. Consensus expects a limited further increase for the **Empire State manufacturing index**. We see risk for a stronger report. **Industrial production** is expected to have declined further in March, by 0.1% M/M, but manufacturing output, is forecast to show a limited increase. For both we see downside risks. Finally, **University of Michigan consumer confidence** is forecast to have improved from 91 to 92 following three consecutive monthly declines. A continued improvement in labour market conditions and reports of higher wages should support sentiment. We see risks for a higher Michigan reading too. **Yesterday, the dollar (and the US interest rate markets) ignored a lower than expected CPI report. Is this an indication that enough Fed softness is discounted and that the dollar is now more sensitive to positive US data surprises rather than negative ones? The jury is still out.** In a day-to-day perspective, we assume that the downside of the dollar is rather well protected unless really bad news kicks in. EUR/USD and USD/JPY remain confined to tight ranges though. Even after the recent USD rebound, no key technical levels are broken. Oil and the comments from the G20 meeting are a wildcard. We maintain a cautiously positive dollar bias in a daily perspective.



EUR/USD: USD maintains this week's gains



USD/JPY extends cautious rebounds

The dollar lost ground after the March ECB and FOMC meetings. **EUR/USD set a new 2016 high at 1.1465. However, the key 1.1495 resistance remained intact. This week's price action suggests that the topside of EUR/USD became better protected. We see no trigger for a clear directional move in EUR/USD short-term. Medium term, the dollar probably needs really good news from the US to regain substantial ground.** The soft Fed approach and risk aversion pushed USD/JPY below the 110.99/114.87 range. The pair reached a new correction low below 108. USD/JPY had moved into oversold territory though, so there was room for a technical rebound this week. A protracted USD/JPY rebound probably needs a sustained improvement global risk sentiment or **can official talk on more BOJ easing or 'verbal interventions' stop the yen rebound (cf G20)?** A move above 110.67 would call off the downside alert.

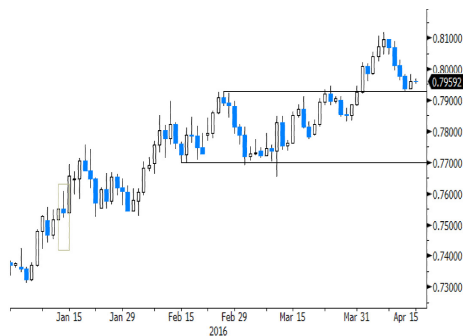
R2	0,8153	-1d
R1	0,8117	
<b>EUR/GBP</b>	<b>0,7954</b>	<b>-0,0016</b>
S1	0,7925	
S2	0,7774	

### Sterling ignores BoE policy statement

**Yesterday morning** sterling lost slightly ground ahead of the BoE policy announcement. There were rumours that two policy members seriously considered a rate cut. The BoE as expected left its policy unchanged, while sounding cautious on the economy. The bank elaborated in extenso on the potential impact of a Brexit scenario on the economy and on markets. As the recent fall of sterling was presumably mostly due to uncertainty regarding Brexit, the BoE doubted that it would persist over time. If so, it should also limit its economic impact. In the end, the BoE policy decision had no lasting impact on sterling trading. EUR/GBP closed the session at 0.7960 (from 0.7937); cable finished at 1.4155 (from 1.4204)

**Today**, only the UK February construction output data will be published. A modest rebound after a poor January figure is expected. Any market reaction to the report will only be of intraday significance at best. So, sterling trading will be at the mercy of global market trends. For now, it looks as if the topside in EUR/GBP is better protected as long as negative headlines on Brexit are avoided.

**The technical picture of EUR/GBP improved further as the pair broke above the resistance at 0.7929/31 and 0.8066. The recent sterling decline has been fast, raising the chances for a (temporary) pause, which finally occurred this week. Even so, we assume that sterling sentiment will remain fragile as long as the polls indicate a neck-and-neck race for the 23 June referendum.**



EUR/GBP: more than a temporary correction?



GBP/USD: holding a sideways range

# Calendar

Friday, 15 April		Consensus	Previous
<b>US</b>			
14:30	Empire Manufacturing (Apr)	2.00	0.62
15:15	Industrial Production MoM (Mar)	-0.1%	-0.5%
15:15	Capacity Utilization (Mar)	75.3%	76.7%
15:15	Manufacturing (SIC) Production (Mar)	0.1%	0.2%
16:00	University of Mich. Sentiment (Apr P)	92.0	91.0
22:00	Total Net TIC Flows (Feb)	--	\$118.4b
22:00	Net Long-term TIC Flows (Feb)	--	-\$12.0b
<b>Canada</b>			
15:00	Existing Home Sales MoM (Mar)	--	0.8%
<b>Japan</b>			
06:30	Industrial Production MoM YoY (Feb F)	A-5.2%/-1.2%	-6.2% / -1.5%
06:30	Capacity Utilization MoM (Feb)	A -5.4%	2.6%
<b>China</b>			
04:00	Industrial Production YTD / YoY (Mar)	A5.8%/6.8%	5.4% / --
04:00	Retail Sales YTD / YoY (Mar)	A10.3%/10.5%	10.2% / --
04:00	Fixed Assets Ex Rural YTD YoY (Mar)	A 10.7%	10.2%
04:00	GDP YTD YoY (1Q)	A 6.7%	6.9%
04:00	<b>GDP SA QoQ YoY (1Q)</b>	<b>A 1.5%/6.7%</b>	<b>1.6% / 6.8%</b>
<b>UK</b>			
10:30	Construction Output MoM YoY (Feb)	0.0% / 0.7%	-0.2%/-0.8%
<b>EMU</b>			
08:00	EU27 New Car Registrations (Mar)	A 6.0%	14.3%
11:00	Trade Balance SA (Feb)	21.5b	21.2b
<b>Italy</b>			
10:00	Trade Balance Total (Feb)	--	35m
10:30	General Government Debt (Feb)	--	2191.5b
<b>Belgium</b>			
15:00	Trade Balance (Feb)	--	8.5m
<b>Norway</b>			
10:00	Trade Balance NOK (Mar)	--	9.5b
<b>Events</b>			
<b>Citigroup (14:00) Announces Q1 Earnings</b>			
18:30	Fed's Evans Speaks on Economy and Policy in Washington		
15-16/04	<b>IMF, World Bank &amp; G20 Meeting in Washington</b>		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,79	0,02	US	0,77	0,00	DOW	17926 17926,43
DE	0,16	0,03	DE	-0,50	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,56	0,04	BE	-0,44	0,01	NIKKEI	16848 16848,03
UK	1,45	0,01	UK	0,45	0,02	DAX	10093,65 10093,65
JP	-0,11	-0,02	JP	-0,26	0,00	DJ euro-50	3061 3060,86

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,34 -0,003
3y	-0,125	0,977	0,873	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,023	1,187	1,023	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,555	1,628	1,447	Euribor-6	-0,14	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,12605	-0,0005	EUR/JPY	123,32	0,08		174,774	1230,89	43,91
USD/JPY	109,53	0,11	EUR/GBP	0,7957	-0,0015	-1d	-0,88	-2,91	0,28
GBP/USD	1,4145	0,0016	EUR/CHF	1,0889	0,0002				
AUD/USD	0,7707	0,0047	EUR/SEK	9,171	-0,02				
USD/CAD	1,2816	-0,0038	EUR/NOK	9,2720	-0,02				

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