



Sunrise

Tuesday, 19 April 2016

Rates: Downward bias, but trading could slow ahead of ECB

Today's eco calendar remains rather thin which means that risk sentiment and oil prices remain key drivers for core bond markets. A further rebound should weigh on core bonds though trading could slow ahead of Thursday's ECB meeting.

Currencies: Dollar trades mixed as equities an oil ignore Doha failure

Yesterday, the dollar rebounded against the yen as oil and equities reversed opening losses. EUR/USD showed no clear trend. Sterling extends its rebound as there were no additional negative headlines on Brexit. Today, USD trading will again be at the mercy of global risk sentiment. Sterling traders will keep an eye at a hearing of BoE's Carney before parliament

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** erased opening losses in line with Europe and closed the day around 0.5% higher. Overnight, **Asian stock markets** catch up with those gains with Japan outperforming (+3%), as the yen weakens.
- **Boston Fed President Rosengren**, dovish voting member of the FOMC, says that he doesn't think the financial markets have it right. The Fed will be raising rates faster than what's reflected in those markets.
- **The Bank of Korea decided to leave the Base Rate unchanged at 1.5%** for the intermeeting period. The BoK did knife its growth and inflation forecasts for this year though, respectively from 3% to 2.8% and from 1.4% to 1.2%.
- **Argentina** has secured one of the most anticipated market comebacks in recent history, ending 15 years in exile with a sale of debt that has attracted bids of more than \$65bn.
- **Australia's central bank** said a "very accommodative" policy is appropriate given low inflation and reaffirmed the currency's strength could complicate the economy's rebalancing away from mining.
- **Today's eco calendar** remains thin with the German ZEW survey, US housing starts & building permits and more earnings (Goldman Sachs, Intel, Yahoo!,...). The ECB publishes its bank lending survey and on the US political front, New York holds primaries.

Rates

Core bonds lose modestly ground as risk-on dominates

Core bonds lose ground as oil recovers and equities rise

Yield curves bear steepen

Rosengren disagrees with markets rate assessment

Global core bonds opened stronger on the back of the collapsed Doha talks, but lost ground afterwards as oil recouped all of the losses and equities gained ground. So, the "Asian" risk-off mutated into a risk-on with average volumes traded, which is good for a Monday. The eco calendar was empty and there was little event news. Equities reacted positively to better-than-expected earnings which were nevertheless weak. The Belgian debt agency successfully tapped the market. NY Fed Dudley didn't bring much new saying that significant uncertainties and headwinds to growth have not fully abated. He remained optimistic though on unemployment and inflation. **In a daily perspective, the German yield curve bear steepened with yields 0.7 bps (2-yr) to 3.8 bps (30-yr) higher. The US yield curve shifted in a similar fashion with yields 0.8 bps (2-yr) to 2.1 bps (30-yr) higher. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed 2-to-7 bps for the peripherals (Spain outperforming).**

	US yield	-1d
2	0,7576	0,0364
5	1,2385	0,0505
10	1,7763	0,0490
30	2,5822	0,0448

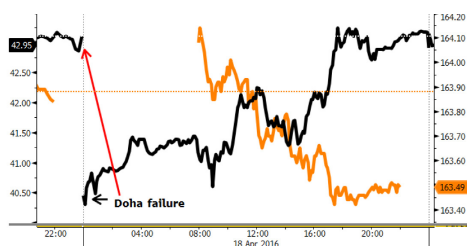
	DE yield	-1d
2	-0,4980	0,0110
5	-0,3610	0,0300
10	0,1610	0,0430
30	0,8405	0,0380

Overnight, **Boston Fed Rosengren**, a traditional dove, said the economy is much healthier than the forecasts implied by the markets. According to him, investors expect the Fed to raise rates by about 25 bps a year over the next three years. **This would likely result in an overheating that necessitates the Fed eventually to raise rates more quickly than desirable which could endanger the ongoing recovery.** So, he still favours a somewhat steeper path (2 hikes in 2016?).

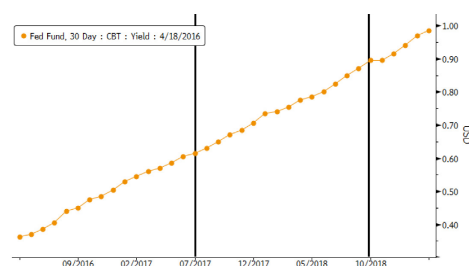
Busy eco calendar and ongoing earnings season

Upside risks US and EMU eco data

Following two consecutive monthly declines, **the German ZEW indicator** picked up in March as market tensions eased compared with the start of the year. In April, a further albeit limited increase from 4.3 to 8.0 is expected, but we believe that the risks are for an upward surprise, supported by a rebound in equity markets. In the US, **housing starts and permits** are forecast to remain mixed. Housing starts are expected to have declined by 1.0% M/M in March to 1 166 000, following a 5.2% M/M increase in February. Permits on the contrary, are expected to have increased by 2.0% M/M to 1 200 000 after a 2.2% M/M decline in February. Improving weather conditions should start to support activity and therefore we believe that starts might surprise on the upside. For permits, we see upside risks too after weaker data in the previous three months.



Bund future (orange) and Brent future (black): Initial decline of oil rapidly reversed, putting the Bund in the defensive.



FF strip curve: Market discounts only 2 rate hikes (see vertical lines) until end of 2018. Rosengren, dove, disagrees with markets.

R2	165	-1d
R1	164,6	
BUND	163,49	-163,0900
S1	160,81	
S2	160,11	

Downward bias, but trading could slow ahead of ECB

Overnight, risk sentiment remains positive with Asian stocks catching up with Europe/WS yesterday. Main indices trade around 1% higher with China underperforming (flat) and Japan outperforming (+3%). The US Note future trades slightly lower on the back of comments by Boston Fed Rosengren (see above) while Brent crude erased all post-Doha losses. We expect a neutral to slightly weaker opening for the Bund.

Today's eco calendar contains German ZEW, US housing starts and US building permits. Risks are on the upside of expectations, but these second tier data don't often influence markets. If any, they could be slightly negative for core bonds. Focus will remain on general risk sentiment and oil prices. A further rebound could weigh further on bonds. We hold our downward bias, but trading could slow ahead of Thursday's ECB meeting.

Technically, the US Note future remains below 131-14 resistance (upper band sideways range). **We would short US Treasuries and aim for return action lower as US markets are too dovish positioned. We also hold on to our sell-on-upticks approach in the Bund. We "fear" that a sudden correction like this time around last year could be around the corner. The same ingredients are available: a unilaterally positioned market (long) with absurd low yield levels, 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

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,1323	0,0039
S1	1,1234	
S2	1,1144	

Dollar shows mixed picture in a session devoid of important economic news

Asian equities regain ground

Korean Won, Aussie en Kiwi dollar trade at multi-month highs (vs.dollar)

USD/JPY rebounds. EUR/USD holds on above 1.13

ECO calendar moderately interesting

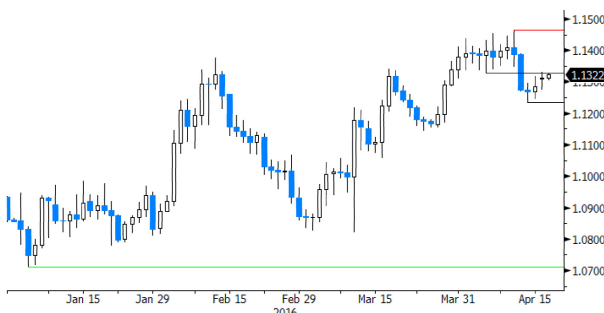
Dollar shows no clear trend

Dollar shows mixed picture as oil and equities rebound

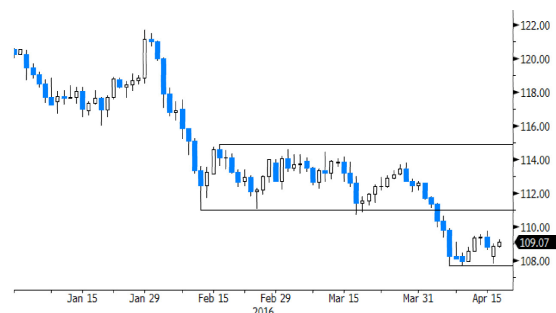
On Monday, the dollar started with a negative bias as the failed Doha meeting on oil production cuts triggered a risk-off trade in Asia. However, the impact on European and US markets was moderate and equities and oil rebounded. The dollar traded mixed and struggled to prevent further losses against the euro. EUR/USD hovered in the 1.13 area to close the day at 1.1313 (from 1.1284 on Friday). USD/JPY reversed earlier losses as oil and equities rebounded intraday. The pair finished the session at 108.82 (from 108.76)

Overnight, Asian equity markets reverse part of the post-Doha decline with Japan and commodity-sensitive countries outperforming, while China underperforms. The Bank of Korea left its policy rate unchanged at a record low 1.5%, but reduced its 2016 growth forecast to 2.8%. The Korean won trades at its strongest level since early November. USD/JPY rebounds north of 109. The Aussie (0.7775 area) and the kiwi dollar (0.6995 area) both trade at the highest level since June last year. EUR/USD trades with a marginally positive bias changing hands in the 1.1325 area. Overnight, Fed Rosengren sounded less dovish than is usually the case. However the limited rise in US yields had no significant impact on EUR/USD trading.

Today, the **eco calendar** contains the German ZEW indicator and US housing starts and permits, while the ECB Q2 Bank Lending Survey is published. The **US earnings season** might get some attention with Goldman Sachs and Johnson & Johnson reporting before market and Intel and Yahoo after market. The German **ZEW indicator is expected to have risen slightly** in April for the second month in a row (from 4.3 to 8). We see room **for an upward surprise**. In the US, **housing starts and permits** are expected mixed. Housing starts are expected to have declined. Permits on the contrary are expected to have increased. For both data series we put **the risk for an upward surprise**. **Both the ZEW and the US housing data often have only a modest, intraday impact on FX**. Their impact goes via global risk/equity sentiment. **So, a constructive outcome might be slightly supportive for the dollar, especially for USD/JPY. The impact on EUR/USD might be limited. In a day-to-day perspective, the rebound in oil and equities prevented USD/JPY yesterday to fall to new lows and this may continue today.** Last week's (cautious) rebound of the dollar against the euro stalled. **For now, we don't see a trigger for a clear directional move.** The ECB meeting on Thursday is the next important point of reference.



EUR/USD: no clear trend for now



USD/JPY: downside test again rejected, for now

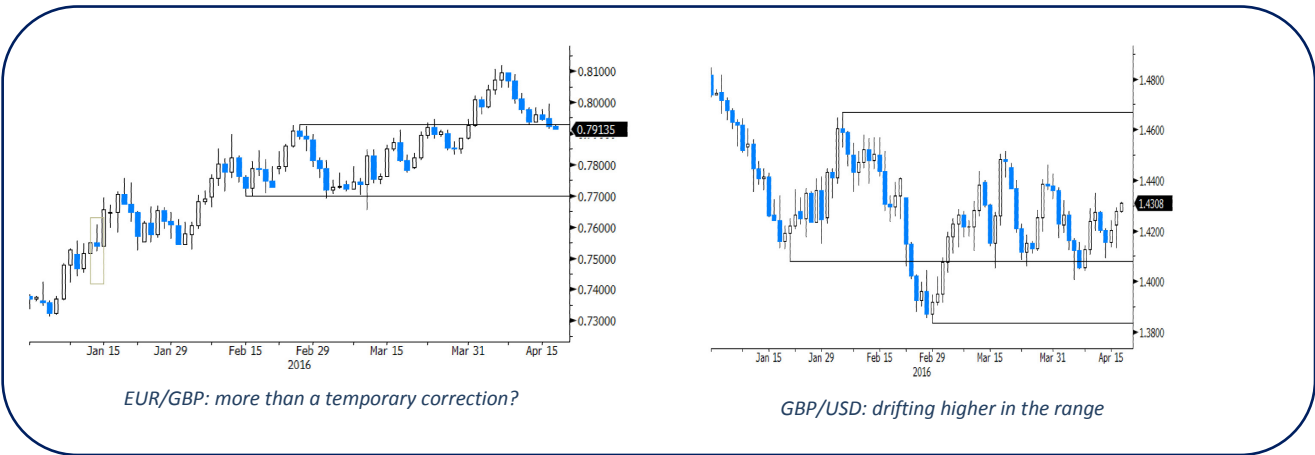
The dollar lost ground after the March ECB and FOMC meetings. **EUR/USD set a new 2016 high at 1.1465, but the key 1.1495 resistance remained intact. Last week's price action suggests that the topside of EUR/USD is better protected. We see no trigger for a clear directional move in EUR/USD short-term. Medium term, the dollar needs really good eco news 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, which was almost retested yesterday. Japan apparently didn't get much support at the G20 to weaken the yen via interventions. So, Japanese authorities apparently lack tools to prevent further yen strength if sentiment would turn again risk off. We don't row against the yen positive tide for now.

R2	0,8153	-1d
R1	0,8117	
EUR/GBP	0,791	-0,0058
S1	0,783	
S2	0,7774	

Sterling rebound continues

On Monday, sterling started under slight pressure on the failed Doha meeting. However, oil rebounded and the decline of European/UK equities was modest, putting a floor under sterling. Later in US dealings, sterling gained ground as global risk sentiment improved. EUR/GBP declined to close the session at 0.7923 (from 0.7944). Cable closed the session at 1.4278 (from 1.4202). An interview of UK's Fin Min Osborne where he elaborated on the negative economic consequences of a Brexit scenario has little impact.

Today, there are no important UK data, but BoE's Carney will speak before a committee of Parliament. He will face a lot of questions on the impact of the EU referendum. However, we don't expect him to give new guidance on monetary policy. At the margin, the hearing might be slightly negative for sterling. Markets will also look forward to the labour market report tomorrow. **The technical picture of EUR/GBP improved, as the pair broke above the 0.7929/31 and 0.8066. The sterling decline has been fast, raising the chances for a (temporary) pause, which occurred last week. The day-to-day momentum for sterling improved of late. Even so, we assume that sterling sentiment will remain fragile as long as the referendum is a neck-and-neck race.**



Calendar

Tuesday, 19 April		Consensus	Previous
US			
14:30	Housing Starts Total/MoM (Mar)	1166k / -1.0%	1178k / 5.2%
14:30	Building Permits Total/MoM (Mar)	1200k / 2.0%	1167k / -3.1%
Japan			
07:30	Nationwide Dept Sales YoY (Mar)	A: -2.9%	0.2%
07:30	Tokyo Dept Store Sales YoY (Mar)	A: -1.1%	2.7%
EMU			
10:00	Current Account SA (Feb)	--	25.4b
11:00	Construction Output YoY (Feb)	--	6.0%
11:00	ZEW Survey Expectations (Apr)	--	10.6
Germany			
11:00	ZEW Survey Current Situation (Apr)	50.8	50.7
11:00	ZEW Survey Expectations (Apr)	8.0	4.3
Italy			
10:30	Current Account Balance (Feb)	--	-1068m
Events			
Johnson & Johnson (12:45), Goldman Sachs (13:30), Intel (22:00), Yahoo! (aft mkt) Announce Q1 Earnings			
01:00	Fed's Rosengren to Speak at Central Conn State University		
10:00	ECB Publishes Bank Lending Survey		
16:35	BOE Governor Mark Carney Speaks in Parliament in London New York Primary		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d	
US	1,78	0,05	US	0,76	0,04	DOW	18004	18004,16
DE	0,16	0,04	DE	-0,50	0,02	NASDAQ	for Exch - NQI	#VALUE!
BE	0,55	0,03	BE	-0,46	0,00	NIKKEI	16813	16813,09
UK	1,48	0,07	UK	0,46	0,06	DAX	10120,31	10120,31
JP	-0,12	-0,01	JP	-0,26	0,00	DJ euro-50	3064	3064,03

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,348	-0,007
3y	-0,125	0,973	0,883	Euribor-1	-0,34	0,00	Libor-1 USD	0,51	0,51
5y	0,016	1,180	1,042	Euribor-3	-0,25	0,00	Libor-3 USD	0,59	0,59
10y	0,546	1,609	1,467	Euribor-6	-0,14	0,00	Libor-6 USD	0,74	0,74

Currencies	-1d		Currencies	-1d		Commodity	CRB	GOLD	BRENT
EUR/USD	1,1323	0,0039	EUR/JPY	123,45	1,62		173,6355	1232,71	42,75
USD/JPY	109,06	1,08	EUR/GBP	0,791	-0,0055	-1d	0,00	-2,79	1,32
GBP/USD	1,4307	0,0145	EUR/CHF	1,0911	0,0001				
AUD/USD	0,7774	0,0117	EUR/SEK	9,1815	-0,01				
USD/CAD	1,2771	-0,0192	EUR/NOK	9,2890	-0,09				

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