



## Sunrise

Tuesday, 08 March 2016

### Rates: Risk-off at the start, but Thursday's ECB meeting looms

Risk sentiment soured overnight following weak Chinese trade data and a disappointing EU Summit. That should give some positive momentum for core bonds at the start of trading. Given the thin eco calendar, we expect moves to be limited though in the run-up to Thursday's ECB meeting.

### Currencies: dollar loses slightly ground in technical trading

Yesterday, there was no clear driver for EUR/USD trading, but finally the dollar drifted slightly lower in technical, order driven trade. Today, the calendar is again thin. A soft risk sentiment suggests that the dollar might remain in the defensive this morning. Sterling traders will watch a hearing of BoE governor Carney on Brexit before the UK 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	→

- In an uneventful session, **US Equities reversed early losses to close the session mixed**. The S&P closed above the psychological barrier of 2 000. **This morning, sentiment in Asia weakened** as Chinese data disappointed, but overall losses remain contained.
- The EU and Turkey agreed on the outlines of a new broader accord aimed at stemming the flow of migrants pouring into Europe**. Under the provisional agreement, the EU agreed to speed up its work on Turkey's EU membership application and Ankara's bid for visa free access for its citizens to the bloc.
- Chinese exports showed in February its biggest decline since 2009**, falling by 25.4% Y/Y in dollar terms and imports dropped by 13.8% Y/Y, confirming again that weakness in global trade is weighing on the Chinese economy, while also domestic demand remains poor. Part of the weakness might however be related to the Lunar New Year holidays.
- Euro zone Finance Ministers will begin discussing debt relief for Greece after international lenders verify that Athens has carried out promised reforms**, Dijsselbloem said yesterday, adding that debt talks will focus on extending maturities, grace periods and on some interest rate reductions.
- Crude oil prices extended their rebound yesterday** with the Brent jumping above \$40/barrel and the WTI closing just below \$38/barrel. Signs that oil drilling is declining and expectations for a new meeting between major producers supported the move.
- Today, the **eco calendar** contains the second estimate of EMU Q4 GDP and US NFIB small business confidence. **EU Finance Ministers meet in Brussels**.

# Rates

## Range-bound trading amid empty calendar

### Modest yield changes

#### Underperformance Spain, Portugal and Greece

	US yield	-1d
2	0,8899	0,0042
5	1,3842	-0,0048
10	1,8707	-0,0104
30	2,6744	-0,0250

### Fed Brainard urges to be patient

#### Fed vice-chair Fischer sees signs of rising inflation

	DE yield	-1d
2	-0,5480	-0,0050
5	-0,3750	-0,0190
10	0,2290	-0,0060
30	1,0249	0,0207

### EU Summit: Turkey runs the show

#### Proposals unlikely to address the problem, but likely to stir more controversy

#### EU weakness laid bare

### Upside risks US NIFB sentiment

#### Details EMU Q4 GDP to be released

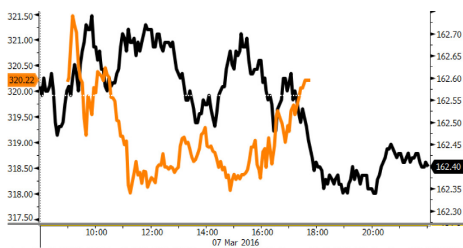
Yesterday, global core bonds traded in narrow sideways ranges amid an empty eco calendar. The impact of (higher) commodities and (lower) equities cancelled each other out. In a daily perspective, German yields declined by 1 bp (2-yr) to 1.9 bps (5-yr) with the 30-yr underperforming (+1.4 bps). The US curve bear flattened with yields 4.4 bps (2-yr) to 1.1 bps (30-yr) higher. On **intra-EMU bond markets**, 10-yr yield spreads versus Germany ended nearly unchanged with Greece (+6 bps), Portugal (+5 bps) and Spain (+2 bps) underperforming (see sunset report for details). Fed talk didn't affect markets.

**Fed Brainard**, a dove, expects continued gains in employment and an eventual rise in inflation to 2%, but she especially mentioned downside risks to this scenario in her speech. Therefore she **urged the Fed to be patient**. **Vice-chair Fischer sounded totally different** and contested the idea that the link between low employment and inflation is broken. He added that it may reassert itself and **was happy to see signs inflation was rising due to the strong labour market**. This sets the stage for discussions at the March FOMC, but we continue to think that rates will be kept unchanged for now.

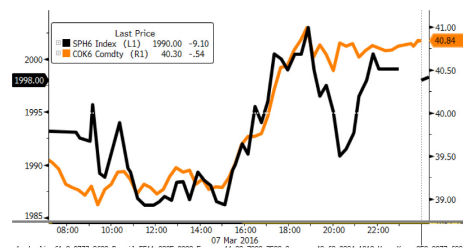
**The EU Summit on the Refugee crisis didn't conclude with a full agreement, but some progress has been made**. It looks like Turkey got support for their demand for an extra €3B aid and for a plan to airlift refugees landed in Greece back to Turkey in exchange for a welcome in Europe of refugees that stayed in Turkey in a bid to show that it doesn't pay to make a risky journey over the sea. Greece would also get more money (€700M). It seem leaders are also ready to backup Turkey's largely moribund request for EU membership and to waive visa requirements on Turkish people travelling to Europe. **A follow-up Summit is planned for March 17-18. The plan may give some temporary respite for the upcoming German State elections, but doesn't look to us a firm answer to the crisis and thus risks to unravel soon.**

## Today, the calendar remains razor thin and uneventful

In the **euro area**, **Q4 GDP** will most likely be confirmed at 0.3% Q/Q, in line with Q3 growth. Interesting will however be the first release of the details (see update on our app later today). In the US, **NFIB small business confidence** is forecast to show a marginal uptick, from 93.9 to 94.0. Following slightly better ISM's, we see risks for an **upward surprise**. Smaller firms should profit from lower oil prices and will fell less pain from a stronger US dollar.



Bund future (black) and EuroStoxx (orange) (intraday): Largely sideways bond trading with oil-related drop after closure cash market.



Oil (orange) & S&P (black): correlation still visible, but S&P closes less strong than oil.

### Austria, Spain and US supply market

R2	166,63	-1d
R1	164	
<b>BUND</b>	<b>162,4</b>	0,1800
S1	162,11	
S2	161,23	

The Austrian debt agency kicks off this week's EMU bond supply by tapping the off the run 15-yr RAGB (3.5% Sep2021) and on the run 10-yr RAGB (0.75% Oct2026) for a combined €1.1B. Both bonds traded rather stable in ASW-spread terms going into the auction. On the Austrian curve, the Oct2026 RAGB is a tad cheap compared to surrounding bonds. Overall, we expect a plain vanilla auction. The Spanish treasury is expected to launch a new 30-yr Obligacion (Oct2046) in the near future, subject to market conditions. This week's auctions will be supported by a €13B Schatz redemption. **The US Treasury starts its mid-month refinancing operation with a \$24B 3-yr Note auction.** Currently, the WI trades around 1.065%.

### Risk-off, but no significant changes ahead of ECB?

**Overnight**, most Asian equity markets trade up to 1% lower following very weak Chinese trade data. The disappointing EU Summit outcome could influence risk sentiment (negative) as well. Oil prices are somewhat off yesterday's high reached after a rally during US dealings but Brent oil is still above \$40/barrel. The US Note future profits slightly, suggesting strength for the Bund as well in the opening.

**Today's eco calendar contains the 2<sup>nd</sup> reading of EMU Q4 GDP and US NFIB small business optimism.** Risks for the latter are on the upside of expectations, but unlikely to influence trading in a lasting way. Risk sentiment will be the main driver and currently suggests some upside for core bonds today. However, ahead of Thursday's ECB meeting, we don't expect big changes. Greek bonds could underperform further as yesterday's Eurogroup meeting was rather inconclusive. The only minor improvement is that international creditors will travel back to Athens to discuss proposed reform measures.

**Last week, three important markets more or less simultaneously broke 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 (especially US Treasuries). The Bund also fell below a steep uptrend line since the start of the year, but the German 10-yr yield remains below 0.3% resistance (neckline double bottom). Ahead of the ECB meeting, we don't expect that to change.**



German Bund (June contract): Technical picture becomes less bullish. Sideways trading ahead of the ECB?



US Note future (June contract): break below double top suggests more downside

# Currencies

## Dollar in wait-and-see modus

*Dollar captured in technical trade with no clear trend*

R2	1,1376	-1d
R1	1,1193	
EUR/USD	1,1017	0,0024
S1	1,081	
S2	1,0711	

*Asian equities falling prey to profit taking*

*Regional eco data are mixed*

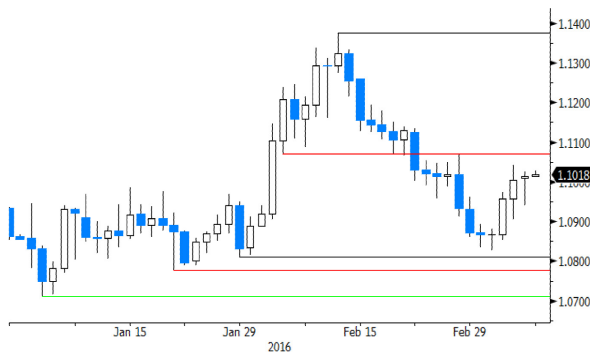
*Commodity rally takes a breather*

*Today the eco calendar is again thin*

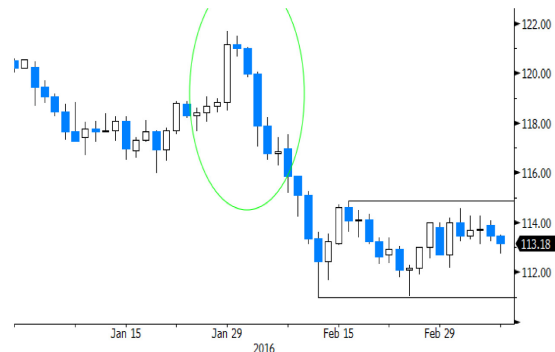
On Monday there was no clear story for global USD trading and changes were minimal. Interest rate differentials between the US and Germany widened in favour of the dollar. EUR/USD initially drifted south even as risk sentiment deteriorated in early Europe. In technical trade during the US session, the dollar finally lost ground against most majors. EUR/USD closed the session at 1.1014 little changed from Friday. USD/JPY lost also further ground even as the Dow and the S&P held in positive territory. The pair closed the session at 113.46 (from 113.74).

**This morning**, sentiment in Asia turned negative. Regional data are mixed. Japan Q4 GDP was unexpectedly revised slightly higher to -1.1% annualized, but Chinese trade data, especially exports, declined an awful lot. Remarkably, the sell-off of Chinese equities slowed afterwards. The PBOC set the yuan rate stronger at 6.5041, mirroring global dollar weakness. The off shore yuan stabilized. The commodity rally is running into resistance. **The Aussie dollar trades off yesterday's multi-month top, but holds north AUD/USD 0.74.** USD/JPY dropped temporary below 113, but is now changing hands in the 113.15 area. EUR/USD is little changed in the 1.1015 area.

**The eco calendar is again thin.** In the euro area, Q4 GDP will most likely be confirmed at 0.3% Q/Q, but the details of the report are interesting. In the US, **NFIB small business confidence** is forecast to show a marginal uptick, from 93.9 to 94.0. Following slightly better US ISM's, we see risks for an **upward surprise.** **However, the report has seldom a lasting impact on USD trading.** The EU and Turkey are said to have made progress to address the refugee problem, but the deal still has to be finished, probably at 17/18 march summit. The problem might temporary go out of the spotlights as a driver for markets.



EUR/USD: dollar remains in the defensive, but within established ranges



USD/JPY no test of range top yet

Yesterday, dollar was captured in inconsistent, technically driven trading. In the end, it was slightly in the defensive in line with the price action at the end of last week. We started the week neutral on the USD. Asian markets suggest a risk-off start of European trading. However, of late sentiment in Asia was not always copied in Europe and/or in the US.

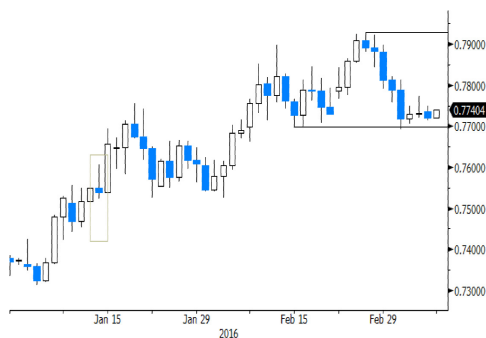
So, the dollar might open with a slightly negative bias in Europe, but the correction shouldn't go really far. We also keep an eye at price developments in commodities and whether it will have an impact on USD trading. Yesterday, the link was weak. Markets will also continue to count down to the ECB decision on Thursday. Investors might fear a similar reaction as in December when Draghi failed to fully meet easing expectations. However, the market is now much less 'euro short' positioned. **We maintain a scenario of sideways EUR/USD trading ahead of the ECB meeting. Resistance comes in at 1.1043/68 and at 1.1193. The 1.0826/10 area marks an important support** which might be difficult to break without an high profile trigger. USD/JPY is blocked in the upper part of the 110.99/114.87 range.

### Sterling rebound slows

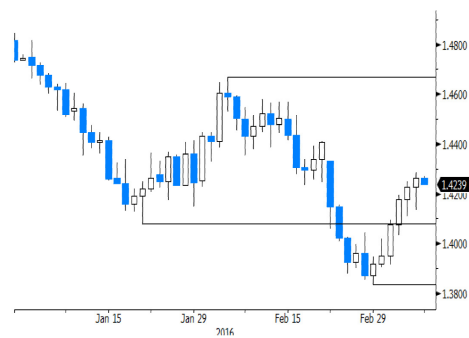
R2	0,8066	-1d
R1	0,7929	
<b>EUR/GBP</b>	<b>0,7734</b>	<b>-0,0006</b>
S1	0,7691	
S2	0,7526	

**On Monday**, there were no eco data on the agenda in the UK. Sterling trading was driven by technical considerations and by the broader USD movements. Cable slightly lost ground in line with EUR/USD but rebounded later in US on overall USD weakness. Cable closed the session at 1.4265 (1.4229 on Friday). EUR/GBP hovered sideways in a tight range close to, but mostly slightly below the 0.7750 handle. The pair finished the day at 0.7721 (from 0.7732).

**This morning**, February BRC like-for-like sales growth declined to 0.1% Y/Y from 2.5% (0.5% was expected). Sterling is losing a few ticks against the euro and the dollar this morning. This is probably due to softer sentiment in Asia rather than the BRC data. **Later today**, there are no important eco data, but BoE governor Carney and BoE's Cunliffe speak at Parliament committee on EU membership Referendum. The hearing might bring some politically sensitive issues, but markets are focused on the probability of a Brexit scenario (e.g. as mirrored in the polls) rather than on the consequences. **There might be a limited negative fall-out on sterling, but we don't expect a big impact.** Last week, sterling rebounded as the Brexit-fears moved to the background, but the rebound slowed at the end of last week. We assume that the short-term bottoming out process can continue, unless there would again be negative news from Brexit. **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 on Wednesday last week. A sustained break below this level would be a first indication that sterling sentiment improves.**



EUR/GBP: Nearing a first important support



GBP/USD: sterling rebound to slow

# Calendar

Tuesday, 8 March		Consensus	Previous
<b>US</b>			
12:00	<b>NFIB Small Business Optimism (Feb)</b>	94.0	93.9
<b>Canada</b>			
14:15	Housing Starts (Feb)	--	165.9k
14:30	Building Permits MoM (Jan)	--	11.3%
<b>Japan</b>			
00:50	GDP SA QoQ (4Q F)	A -0.4%	-0.4%
00:50	GDP Annualized SA QoQ (4Q F)	-1.6%	-1.4%
00:50	Trade Balance BoP Basis (Jan)	-¥520.5b	¥188.7b
00:50	Bank Lending Incl/Ex Trusts YoY (Feb)	A 2.2%/2.2%	2.3% / 2.4%
05:30	Bankruptcies YoY (Feb)	A 4.47%	-6.38%
06:00	Consumer Confidence Index (Feb)	A 40.1	42.5
07:00	Eco Watchers Survey Current (Feb)	A 44.6	46.6
07:00	Eco Watchers Survey Outlook (Feb)	A 48.2	49.5
<b>China</b>			
	<b>Trade Balance (Feb)</b>	<b>A \$32.59b</b>	<b>\$63.29b</b>
	Exports YoY \$/CNY (Feb)	A-25%/-21%	-11%/-6.6%
	Imports YoY \$/CNY(Feb)	A-14%/-8%	-19%/-14.4%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Feb)	A 0.1%	2.6%
<b>EMU</b>			
11:00	<b>GDP SA QoQ YoY (4Q P)</b>	<b>0.3% / 1.5%</b>	<b>0.3% / 1.5%</b>
<b>Germany</b>			
08:00	<b>Industrial Production MoM YoY (Jan)</b>	<b>A 3.3%/2.2%</b>	<b>-1.2%/-2.2%</b>
<b>France</b>			
08:45	Trade Balance (Jan)	-4100m	-3943m
08:45	Budget Balance YTD (Jan)	--	-70.5b
08:45	Current Account Balance (Jan)	--	-0.7b
<b>Spain</b>			
09:00	Industrial Production MoM YoY (Jan)	0.2% / 3.7%	-0.2% / 3.7%
09:00	House transactions YoY (Jan)	--	6.8%
<b>Events</b>			
09:00	<b>EU Finance Ministers Meet in Brussels</b>		
10:15	<b>BoE's Carney, Cunliffe testify to lawmakers on the Referendum on EU Membership</b>		
18:00	BoE's Weale Speaks in Nottingham		
Austria	Bond Auction (€1.1B 3.5% Sep2021, 0.75% Oct2026) (11:15)		
Germany	<b>IL Bond Auction (€0.5B 0.1% Apr2026) (11:30)</b>		
US	<b>3Yr Notes Auction (\$24B) (19:00)</b>		



# Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,87	-0,01	US	0,89	0,00	DOW	17074 17073,95
DE	0,23	-0,01	DE	-0,55	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,53	-0,02	BE	-0,43	-0,02	NIKKEI	16783 16783,15
UK	1,48	0,00	UK	0,35	0,00	DAX	9778,93 9778,93
JP	-0,09	-0,05	JP	-0,24	-0,02	DJ euro-50	3021 3021,09

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,150	1,052	0,874	Euribor-1	-0,28	-0,01	Eonia EUR	-0,239	-0,003
5y	0,016	1,281	1,042	Euribor-3	-0,22	0,00	Libor-1 USD	0,51	0,51
10y	0,590	1,697	1,472	Euribor-6	-0,14	0,00	Libor-3 USD	0,58	0,58
							Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1017 0,0024	EUR/JPY	124,54 -0,38		168,5489	1268,3	40,34
USD/JPY	113,05 -0,61	EUR/GBP	0,7734 -0,0006	-1d	3,51	6,15	0,95
GBP/USD	1,4241 0,0042	EUR/CHF	1,0943 0,0021				
AUD/USD	0,7419 0,0015	EUR/SEK	9,3414 0,01				
USD/CAD	1,3335 -0,0011	EUR/NOK	9,3670 0,03				

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