



## Sunrise

Monday, 11 April 2016

### Rates: Sentiment-driven trading

Higher oil prices weighed on core bond last Friday with US Treasuries underperforming. Today's eco calendar is empty, leaving trading subject to risk sentiment, technical considerations and oil prices. On intra-EMU bond markets, discussions on an Italian bank bailout plan take center stage.

### Currencies: dollar holds near the recent lows

On Friday, the dollar rebounded temporary against the euro and the yen, but the gains could not be sustained. This morning, USD/JPY is again testing the recent lows. There are few eco data on the calendar to guide trading today. Oil and global risk sentiment will set the tone for USD 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 reversed most of their initial gains on Friday** to end the session with only limited gains. This morning, **Asian shares trade mixed**. Chinese stocks outperform, while Japanese ones continue to underperform, hit by a stronger yen.
- **China's consumer prices continued to rise strongly last month mainly driven by higher food prices**. CPI inflation was unchanged at 2.3% Y/Y, slightly below the market consensus which was looking for a pick-up to 2.4% Y/Y. The decline in producer prices slowed significantly, to -4.3% Y/Y from -4.9% Y/Y.
- **Crude oil prices jumped more than 5% on Friday**, boosted by hopes on a deal to cap output and on expectations that oversupply might wane. The Brent oil price trades currently above \$42/barrel and is nearing the recent highs (around \$43/barrel), reached last month.
- **ECB's Mersch warned during the weekend that extraordinary measures to spur growth may eventually show diminishing returns**, while the quantitative easing programme carries a certain risk.
- **Italy's Finance Minister has called a meeting today with executives from Italy's largest financial institutions to agree final details of a last resort bailout plan**. According to people involved, the plan looks like the one created in Spain, but might be insufficient.
- **Today, the eco calendar is thin** with only Italian production data on the agenda. Fed's Dudley and Kaplan are scheduled to speak and after close, Alcoa kicks off the **US Q1 earnings season**.

# Rates

**Bear steepening US yield curve driven by rebound oil price**

	US yield	-1d
2	0,7027	-0,0089
5	1,151	-0,0098
10	1,715	0,0035
30	2,5517	0,0166

**Italian banking sector cause of concern. Bailout plan/bad bank?**

	DE yield	-1d
2	-0,5080	-0,0120
5	-0,3870	-0,0050
10	0,0990	0,0040
30	0,7538	0,0273

**Empty eco calendar today; remains thin later this week**

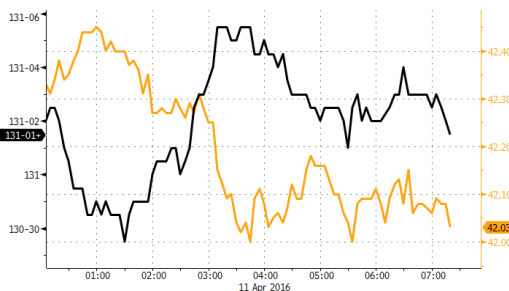
**More cracks in peripheral bond rally amid dovish ECB**

**Global core bonds** reversed part of Thursday's gains with German Bund outperforming US Treasuries. Higher oil prices weighed on bonds, with Brent crude back above \$42/barrel in the run-up to the Doha meeting (April 17) about an oil production freeze. Risk sentiment made a turn for the better during European dealings, but proved to be fragile in the US. At the end of the session, the US yield curve bear steepened with yields 0.7 bps (2-yr) to 3.7 bps (30-yr) higher. Changes on the German curve ranged between -0.6 bps (2-yr) and +3.3 bps (30-yr).

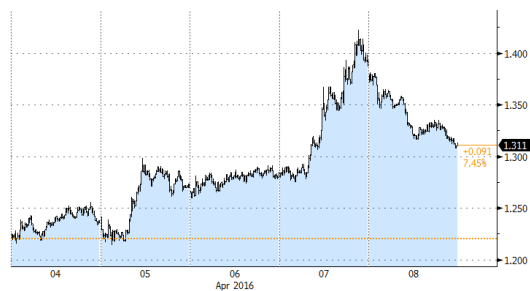
On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed by 8 to 12 bps for Greece, Portugal, Spain and Italy. Worries about the Italian banking sector triggered quite some nervousness last week. **Over the weekend, Italian FM Padoa-Schioppa called a meeting tonight with Italy's largest financial institutions to agree final details of a last resort bailout plan for the financial sector.** The plan is the latest attempt to boost confidence about the Italian banking sector following 4 bailouts of smaller banks last year and the passage of a law to speed up the sale of bad loans. The latest effort was triggered by a €2B capital call by regional Banco Popolare di Vicenza, which is wholly underwritten by UniCredit. The latter looks set to be left holding part of the shares given weak demand.

The **US eco calendar is empty today**, while in the euro zone only second-tier Italian production data will be released. Alcoa kicks off **the Q1 earnings season** and **Fed's Dudley and Kaplan are scheduled to speak.** Influential NY Fed governor Dudley speaks on community development and is unlikely to touch on monetary policy which he did last Friday. Dudley's views are very close to Fed chairwoman Yellen's cautious approach. Dallas Fed Kaplan speaks at a community forum. Last week, he sounded rather neutral though he added that we're approaching the period when the Fed can take the next rate hike.

Later this week, the eco calendar remains very thin in Europe with only industrial production data and final CPI releases. The most interesting item on the US calendar are Wednesday's retail sales. Chinese Q1 GDP data (Friday), the IMF-Worldbank meeting (weekend), corporate earnings and the Doha oil meeting will also draw attention.



Oil price (black) and T Note future (orange): Higher oil prices weigh on US treasuries



Italian 10-yr yield (intraday, last week): volatility driven by uncertainty financial sector?

US-Ger

R2	165	-1d
R1	164,43	
<b>BUND</b>	<b>164,2</b>	<b>-0,1700</b>
S1	160,81	
S2	160,11	

## Huge redemptions supportive for this week's supply

**This week's scheduled EMU bond supply comes from the Netherlands, Germany, Italy and Ireland.** Tomorrow, the Dutch debt agency taps the on the run 30-yr DSL (€0.75-1.25B 2.75% Jan2047) while the German Finanzagentur holds an inflation-linked auction. On Wednesday, the Italian treasury launches a new 3-yr BTP (€3-3.5B 0.1% Apr2019) while tapping the on the run 7-yr BTP (€2.25-2.75B 0.95% Mar2023), the off the run BTP (3.5% Mar2030) and the on the run 30-yr BTP (2.7% Mar2047). The treasury aims to raise a combined €1.5-2B with the latter two bonds. On Thursday, the Irish debt agency holds an auction but the bond on offer still needs to be announced. **This week's auctions will be supported by several redemptions:** Finland (€6.5B), the Netherlands (€11.5B), Germany (€15B) and Italy (€16.25B).

**In the US, the Treasury starts its mid-month refinancing operation** tomorrow with a \$24B 3-yr Note auction. The auction will be followed by a \$20B 10-yr Note auction on Wednesday and a \$12B 30-yr Bond auction on Thursday.

## Sentiment-driven trading

**Overnight**, most Asian equity markets trade weaker with China outperforming (+2%). Brent crude remains around \$42/barrel while the US note future is stable. We expect a neutral opening for the Bund.

**Today's** eco calendar is empty apart from speeches by NY Fed governor Dudley and Dallas Fed Kaplan. We don't expect them to leave a trace on markets. **Therefore we mainly look at general risk sentiment and oil prices to guide trading.** We have no strong view for today's session. Developments on peripheral markets are interesting as well (cf Italian banking sector, see above). More uncertainty/sell-off in the periphery is positive for the Bund and vice versa.

**Technically, the US Note future** broke first resistance (129-26, previous neckline double top) as Yellen was more dovish than at the March policy meeting. A strong batch of eco data (payrolls, ISM's) couldn't turn the tide. Next resistance is at 131-14. **The German 10-yr yield is heading for a test of the all-time low (0.05%). We are wary at current absurd levels and "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. Therefore, we would start selling Bunds.**



German Bund: time to add short positions



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Testing 131-12.

US-Germ

# Currencies

## Dollar holds near recent lows

On Friday, the dollar entered calmer waters after being in the defensive for most of last week. EUR/USD stabilised in the upper half of 1.13 in the wake of Thursday's soft ECB talk. However, a real decline of the euro didn't occur. The pair even rebounded later to close the day at 1.1399 (1.1378 on Thursday). An intraday rebound of USD/JPY also couldn't be maintained. The pair rebounded as risk sentiment improved and as (Brent) oil rebounded well north of \$41/barrel. However, the pair also reversed the earlier gains as did US equities. USD/JPY finished the day at 108.07 (from 108.21).

*Dollar decline slows, but US currency holds near the recent lows against the euro and the yen*

*Asian equities trade mixed with China outperforming and Japan underperforming.*

*USD/JPY tests correction low*

R2	1,1714	-1d
R1	1,1495	
<b>EUR/USD</b>	<b>1,14075</b>	0,0039
S1	1,1327	
S2	1,1144	

**Overnight**, Asian equities trade mixed with China outperforming and Japan underperforming. Chinese CPI inflation stabilized at 2.3% Y/Y in March. PPI deflation eased from -4.9% to -4.3%. This easing in price declines supports Chinese equities. Brent oil regains the \$42 p/b level which is also positive. The rebound of oil this time doesn't help the likes of the Aussie dollar. AUD/USD stabilizes in the mid 0.75 area. The dollar remains also in the defensive, especially against the yen. A Japanese official tried to 'correct' PM Abe's comments in the WSJ last week that arbitrary interventions should be avoided. He said that Japan still can intervene in the currency market on one-side currency moves. For now, it doesn't stop the rise of the yen. USD/JPY tested the correction low in the 107.65 area and trades currently around 107.85. EUR/USD trades in the 1.1410 area, marginally higher from Friday's close.

*Eco calendar is almost empty today.*

*Dollar holds near the recent lows*

Today, the **eco calendar in Europe and in the US is almost empty**. Alcoa will kick off the **Q1 earnings season** and **Fed's Dudley and Kaplan are scheduled to speak**. So, global risk sentiment and oil will probably be the main drivers for intraday currency trading. Index futures suggest a slightly negative open in Europe and the US. The rise of the oil also doesn't give a clear guidance for USD trading. If anything, it looks a slightly negative for the US dollar. The soft ECB talk last week capped the rally of the euro, but a real correction didn't occur. The correction top and the EUR/USD 1.1495 resistance stay within reach. So, more technical trading can be expected as global markets await more concrete eco data. For now there is no short-term trigger for a sustained USD rebound. USD/JPY still struggles to prevent further losses. For this cross rate, traders will look for official's comments ahead of the G20 meeting at the end of this week.



EUR/USD holds near the LT range top



USD/JPY tests the recent lows

After the March ECB and FOMC meetings, the dollar was sold. Subsequently, the EUR/USD **1.1376** resistance was **broken after soft comments from Yellen**. **EUR/USD set an new reaction top/2016 high at 1.1454. The 1.1495 resistance is important medium term, but is left intact for now. 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 the risk-off sentiment pushed USD/JPY below the 110.99/114.87 range. The pair set a new correction low below 108 and this level was tested this morning. It is difficult for USD/JPY to regain ground in a sustainable way as long as risk sentiment remains fragile. **We look out whether official talk on more BOJ easing or some kind of verbal interventions can slow/stop the rebound of the yen.** USD/JPY has moved into oversold territory. So, there is room for a technical rebound/consolidation.

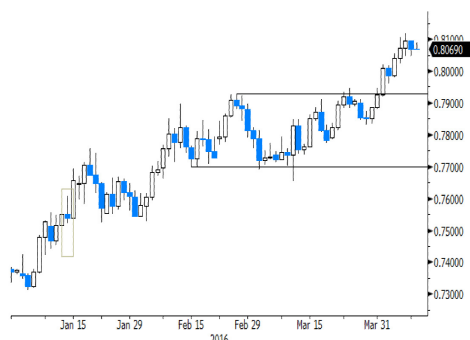
### Sterling decline slows

R2	0,8153	-1d
R1	0,8117	
<b>EUR/GBP</b>	<b>0,8072</b>	<b>-0,0007</b>
S1	0,7947	
S2	0,7774	

**On Friday**, EUR/GBP entered also calmer waters after steep losses earlier last week. The UK currency even largely ignored a set of poor UK eco data. UK manufacturing production dropped 1.1% M/M to be down 1.8% compared to the same month last year (only -0.2% M/M and -0.7% Y/Y was expected). At the same time, the UK trade deficit was much wider than expected. Sterling lost temporary ground against the euro and the dollar immediately after the publication of the data, but recouped most of the losses later in the session. EUR/GBP closed the session at 0.8067 (from 0.8094). Cable finished the day at 1.4128 (from 1.4056). Part of this rebound was still due to USD weakness.

**Today**, the eco calendar in the UK is also empty. The UK CPI data will be published tomorrow. The BoE holds a policy meeting and publishes the minutes on Thursday. Price data are expected slightly higher from the previous month, but the BoE will probably maintain a wait-and-see approach ahead of the June 23 EU referendum. Even so, the recent decline of sterling might slightly change the assessment on the short-term UK inflation outlook. In a day-to-day perspective, the decline of sterling apparently slows. However, with uncertainty on Brexit still omnipresent, a protracted rebound of sterling is unlikely.

**The technical picture of EUR/GBP improved further as the pair broke above resistance at 0.7929/31 and at 0.8066. The recent sterling decline has been fast, which heightens the chances for a (temporary) pause. Even so, we don't try to catch a falling knife and remain cautious on sterling longs.**



EUR/GBP: rally slows (temporary?)



GBP/USD: decline halts on USD weakness

# Calendar

Monday, 11 April		Consensus	Previous
<b>Japan</b>			
01:50	Machine Orders MoM YoY (Feb)	A-9.2%/- 0.7%	15.0% / 8.4%
<b>China</b>			
03:30	CPI YoY (Mar)	A 2.3%	2.3%
03:30	PPI YoY (Mar)	A -4.3%	-4.9%
<b>Italy</b>			
10:00	Industrial Production MoM YoY (Feb)	-0.9% / 1.4%	1.9% / 3.9%
<b>Norway</b>			
10:00	CPI MoM YoY (Mar)	0.3% / 3.2%	0.5% / 3.1%
10:00	CPI Underlying MoM YoY (Mar)	0.4% / 3.4%	1.0% / 3.4%
<b>Events</b>			
<a href="#">Alcoa (after market) Announces Q1 Earnings</a>			
15:25	Fed's Dudley Speaks on Community Development in New York		
19:00	Fed's Kaplan Speaks in Ruston, Louisiana		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,72	0,00	US	0,70	-0,01	DOW	17577 17576,96
DE	0,09	-0,01	DE	-0,52	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,48	0,00	BE	-0,47	-0,01	NIKKEI	15751 15751,13
UK	1,37	0,05	UK	0,37	0,01	DAX	9622,26 9622,26
JP	-0,08	0,00	JP	-0,25	0,00	DJ euro-50	2912 2911,98

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,334 -0,004
3y	-0,138	0,927	0,803	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	-0,010	1,132	0,936	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,494	1,582	1,361	Euribor-6	-0,13	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,14045	0,0034	EUR/JPY	123,02	-0,57		171,0406	1249	41,98
USD/JPY	107,895	-0,84	EUR/GBP	0,8075	-0,0003	-1d	3,52	13,30	1,93
GBP/USD	1,4119	0,0047	EUR/CHF	1,0872	-0,0001				
AUD/USD	0,7555	0,0021	EUR/SEK	9,297	0,01				
USD/CAD	1,2988	-0,0113	EUR/NOK	9,3864	-0,07				

# Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	<b>Prague</b>	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	<b>Bratislava</b>	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	<b>Budapest</b>	+36 1 328 99 85

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