Sunrise

Thursday, 31 March 2016

Rates: Technical trading ahead of payrolls?

Risks for today's eco data are on the upside of expectations, but following Yellen's dovish comments and ahead of the payrolls, we don't expect a negative reaction in US Treasuries. Higher EMU inflation could keep the Bund below the 164 contract high though. End of quarter buying is a technical element in favour of core bonds. Oil price swings are a wildcard.

Currencies: EUR/USD nears 1.1376 resistance

Yesterday, the dollar remained on the defensive in the wake of Tuesday's soft Yellen comments. EUR/USD came within reach of the 1.1376 resistance. A good US ADP report didn't help the dollar. Today's data might be slightly USD supportive, but we doubt the US currency will sustainably gain ahead of the payrolls.

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	↗

- Yellen's dovish message continued to support sentiment yesterday with **US Equities gaining another 0.5%,** also supported by another strong ADP report. This morning, **Asian shares trade mixed to slightly higher**. Chinese stocks outperform gaining approximately 1%, paring losses for the quarter.
- **A key lending rate between Hong Kong banks fell into negative territory for the first time.** The renminbi-based overnight Hong Kong interbank offer rate, or CNH Hibor, was set at -3.725%, its lowest level since being launched.
- **The Brent crude oil price reversed its strong gains yesterday to end the session slightly lower (at $39.26/barrel).** The turnaround came after mixed US inventory data, showing that stockpiles rose less than expected, but refiners continued to ramp up production.
- **German retail sales fell unexpectedly in February, by 0.4% M/M** and also the previous month's figures were downwardly revised, pointing to poor consumer spending at the start of the year.
- **UK GfK consumer confidence was stable at its lowest level in one year in March** as worries about the EU referendum and the ongoing euro zone crisis weigh on sentiment, the Market Research firm added.
- Today, the **eco calendar** contains the **first estimate of euro zone HICP inflation** for March, the UK lending data, final estimate of UK Q4 GDP, German unemployment figures, US jobless claims and the US Chicago PMI. Fed's Dudley is scheduled to speak.

Rates

Oil-driven volatility on core bond markets

Markets calm down again after sharp reaction on Yellen's dovish speech

Short end US market still doing well though, steepening the curve

Spread narrowing continues at slow pace

	US yield	-1d
2	0,7526	-0,0356
5	1,2468	-0,0404
10	1,8071	0,0001
30	2,6358	0,0300

	DE yield	-1d
2	-0,4870	0,0030
5	-0,3340	0,0100
10	0,1430	0,0130
30	0,8291	0,0250

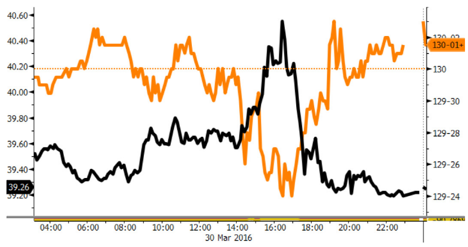
Following Wednesday's Yellen-dominated core bond rally, US Treasury trading was devoted to curve positioning. German bonds couldn't catch up with US Treasury post-Yellen gains. After an initial attempt to rally failed, the Bund hovered near Wednesday's close. German inflation rose more than expected, but EMU confidence data disappointed. However, core bond markets ignored the releases. Comments of Fed Evans & ECB Coeure, weak German Bobl & BTP auctions and a robust US ADP employment report couldn't bring much animus to the bond market neither. **At the start of US dealings, a temporary spike higher in oil prices weighed on core bonds, while equities largely kept their gains. However also the oil up-move was short-lived, core bonds rapidly returned to where they were trading. The US short end ultimately still profited from Yellen's speech. In a daily perspective,** German yields rose between 0.8 bps (2-yr) and 2.6 bps (30-yr), steepening the curve. The US yield curve steepened with yields 2.8 bps and 3.6 bps lower at the front end (2- and 3-yr) and 1.9 bps to 5.4 bps higher at the longer end (10- and 30-yr). **On intra-EMU bond markets**, peripherals outperformed core bonds with 10-yr yield spreads versus Germany 2-to-4 bps lower (Greece outperformed: -22 bps).

Today, nice eco calendar

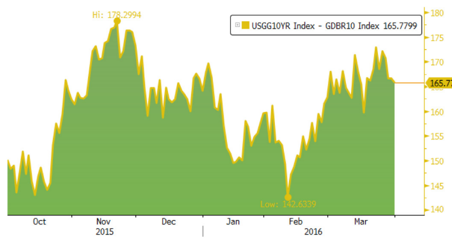
Upside risks EMU HICP inflation & Chicago PMI

Downside risks US initial claims

Following a significant drop in February, **euro zone HICP inflation** is forecast to pick up again in March, rising from -0.2% Y/Y to -0.1% Y/Y. Headline inflation is expected to be supported by higher prices ahead of Easter, while also the recent rebound in the oil price might start to affect inflation. Despite significant negative base effects, **we still see risks for an upward surprise**, especially after yesterday's higher German and Belgian inflation data. In the **US, initial jobless claims** are expected unchanged at 265 000, but also here **we see risks for a better (lower) outcome.** Finally, also the **Chicago PMI** is expected to show a rebound in March, rising from 47.6 to 50.8. Almost all regional business confidence indicators were sharply stronger than expected and **a similar rebound in the Chicago PMI is not excluded**.



T-Note future (orange) & Brent oil (black) (intraday): Sideways bond trading interrupted by temporary oil price spike



US-German 10-yr yield spread narrowing as dovish Fed Yellen is partially transmitted into US longer end.

US-Germa

Sunrise Market Commentary

Thursday, 31 March 2016

R2	165	-1d
R1	164	
BUND	**163,26**	-0,5000
S1	160,81	
S2	160,11	

Solid US 7-yr Note auction

The US Treasury concluded its end-of-month refinancing operation yesterday with a solid $28B 7-yr Note auction. The auction stopped through the 1:00 PM bid side, but the bid cover (2.51) was good. Bidding details were close to average with especially a strong direct bid. This 7-yr Note auction followed weak 2-yr and 5-yr Note auctions earlier this week.

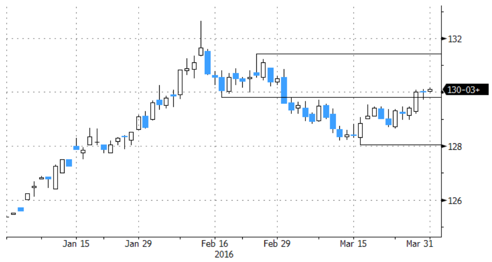
Technical trading ahead of payrolls

Overnight, Asian equity markets trade mixed in uneventful trading. Oil prices are marginally lower and the US Note future stable. We expect a neutral opening for the Bund.

Today's eco calendar contains EMU CPI, US weekly jobless claims and Chicago PMI. Risks are on the upside of expectations, but following Yellen's comments and ahead of the payrolls, **we don't expect a negative reaction in US Treasuries.** Higher EMU inflation could keep the Bund below the 164 contract high though. **End of quarter buying and the end of the US refinancing operation are technical elements in favour of core bonds.** Swings in oil prices are a wildcard. The influential NY Fed governor Dudley (after closure) is expected to echo Yellen's remarks.

Technically, the Bund remains ready for a test of the upper bound of the 160.81-164 sideways trading range. We don't expect a break higher, but wait to install a sell-on-upticks approach. The US Note future broke first resistance (129-26, previous neckline double top) as Yellen was still more dovish than at the March policy meeting. Next resistance is 131-14. We favour sideways trading going forward in a wider range (128-01+ to 131-14).

German Bund: Heading for test of upper bound 160.81-164 trading range. No break expected.



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26) ahead of payrolls.

Currencies

EUR/USD still near 1.1376 key support

Dollar remains on the defensive in the wake of soft Yellen comments

On Wednesday, the dollar declined further on Tuesday's soft Yellen comments. EUR/USD came within reach of the 1.1376 resistance, as oil temporarily rebounded in early US dealings. However, a real test/break didn't occur, as oil fell back lower. The US ADP labour report was slightly stronger than expected, but hardly supported the dollar. EUR/USD closed the session at 1.1338 (from 1.1291 on Tuesday). USD/JPY finished at 112.43 (from 112.70). So, USD/JPY didn't profit from a constructive equity sentiment.

Asian equities show a mixed picture

Dollar holds with reach of the recent lows

Commodities shows signs of fatigue

This morning, Asian equities show a mixed picture. Japanese and Chinese indices trade in positive territory. Oil drops a bit further. Global commodities are trading with a negative bias, which If continued, it might be a negative for risk sentiment. AUD/USD holds in the 0.7660 area, within reach of the recent highs. USD/JPY continues to struggle and trades in the 112.25 area, close to the post-Yellen lows. EUR/USD hovers sideways in the lower half of the 1.13 big figure.

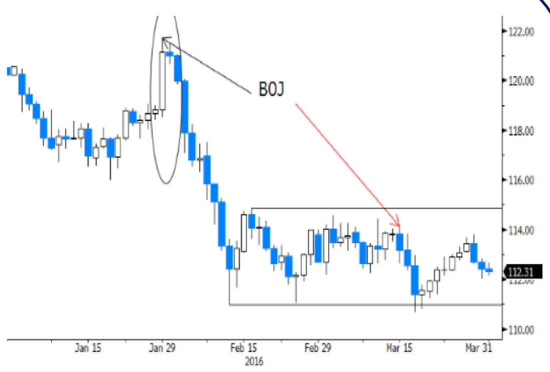
R2	1,1495	-1d
R1	1,1376	
EUR/USD	**1,1324**	0,0021
S1	1,1144	
S2	1,1058	

EMU inflation, US jobless claims and Chicago PMI in focus

Dollar to remain on the defensive ahead of the payrolls.

Today, the eco calendar is modestly interesting. **EMU HICP inflation** is forecast to pick up in March from -0.2% Y/Y to -0.1% Y/Y. **We see risks for an upward surprise**, especially after yesterday's higher German and Belgian inflation data. The **US initial jobless claims** are expected unchanged at 265 000. Also here **we see risks for a better (lower) outcome**. Finally, also the **Chicago PMI** is expected to show a rebound from 47.6 to 50.8. Almost all regional business confidence indicators were sharply stronger than expected and **a similar rebound in the Chicago PMI is possible.** The data context (price data in Europe and activity data in the US) and the risks (upside risks for both) are quite similar to yesterday. Usually, this context is potentially positive for the dollar. However, in the wake of Yellen's soft comments, it wasn't true yesterday. A slowdown in the equity rally also won't help the dollar on an intraday basis. **In a day-to-day perspective, we expect the dollar to stay on the defensive with markets looking forward to tomorrow's US payrolls.** The 1.1376 resistance remains the first important level on the charts. A sustained break is unlikely before the payrolls.

EUR/USD: ST rang top under test



USD/JPY (YTD) :drifting back lower in the range

After the ECB meeting and the dovish mid-March FOMC meeting, the dollar was sold. EUR/USD broke above the 1.1200/1.0810 range. However, the USD losses remained moderate as several Fed speakers kept the door open for a rate hike, even at the April meeting. The resistance at **1.1376 initially wasn't challenged, but came with reach yesterday, after soft comments from Yellen. The risk of an test of the upper boundary of the range is growing. 1.1495 remains the key line in the sand medium term.** The soft Fed approach pushed USD/JPY temporary below the 110.99/114.87 range. The move was countered by warnings from the BOJ. Last week's rebound is constructive and leaves the downside of USD/JPY better protected, unless risk sentiment turns outright negative again. The 114.87 range top is the first upside target.

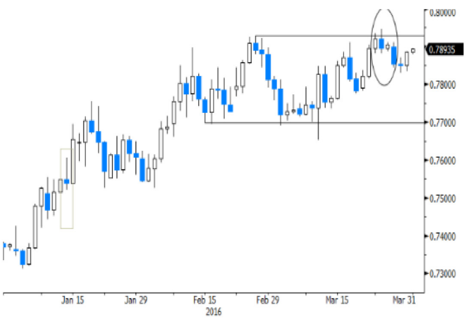
Sterling sentiment remains fragile

R2	0,8066	-1d
R1	0,7947	
EUR/GBP	**0,7893**	0,0041
S1	0,7774	
S2	0,7652	

Yesterday, sterling was initially resilient despite lingering uncertainty on Brexit. Dollar weakness prevailed early in Europe. Cable touched the 1.4450 area. EUR/GBP filled bids in the 0.7835 area, close to Tuesday's correction low. However sterling sentiment dwindled later in the session. Polls on the EU referendum suggest a potential neck and neck race, with the 'leave camp' gaining slightly ground. Sterling reversed earlier gains. EUR/GBP even closed the session higher at 0.7886 (from 07850). Cable finished the session little changed at 1.4378.

This morning, the GFK consumer confidence was reported unchanged at 0 (-1 was expected), but sterling cannot gain on it. Later today, the UK money supply and lending data, the final release of the UK Q4 GDP and the Q4 current account data will be published. The Q4 data are old news for markets unless there is a really big surprise. The lending data are expected softer. BoE governor Carney speaks in Tokyo. We think sterling sentiment will remain fragile.

Last week, Brexit fears set sterling again under pressure. Cable declined off the 1.45 area, but a first important support at 1.4053 was left intact. EUR/GBP moved temporary above the key 0.7929 resistance, but a sustained break didn't occur. If sustainably broken, it would additionally damage the sterling picture and open the way to the 0.8000/0.8066 area. We stay cautious on sterling long positions.



EUR/GBP: test of the 0.7929 resistance rejected for now.

GBP/USD: cable rebounds on USD weakness

Calendar

Thursday, 31 March		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Mar)	--	21.8%
14:30	**Initial Jobless Claims**	**265K**	**265K**
14:30	Continuing Claims	2200K	2179K
15:00	ISM Milwaukee (Mar)	--	55.22
15:45	**Chicago Purchasing Manager (Mar)**	**50.7**	**47.6**
15:45	Bloomberg Consumer Comfort	--	--
Canada			
14:30	GDP MoM / YoY (Jan)	0.3%/1.1%	0.2%/0.5%
Japan			
07:00	Housing Starts YoY (Feb)	A 7.8%	0.2%
07:00	Construction Orders YoY (Feb)	A -12.4%	-13.8%
UK			
01:05	GfK Consumer Confidence (Mar)	A 0	0
10:30	Net Consumer Credit (Feb)	1.3B	1.6b
10:30	Net Lending Sec. on Dwellings (Feb)	3.6B	3.7b
10:30	Mortgage Approvals (Feb)	73.5K	74.6k
10:30	Money Supply M4 MoM / YoY (Feb)	--/--	0.0%/0.8%
10:30	**GDP QoQ / YoY (4Q F)**	**0.5%/1.9%**	**0.5%/1.9%**
EMU			
11:00	**CPI Estimate YoY (Mar)**	**-0.1%**	**-0.2%**
11:00	**CPI Core YoY (Mar A)**	**0.9%**	**0.8%**
Germany			
08:00	**Retail Sales MoM YoY (Feb)**	**-0.4%/5.4%**	**-0.1%/-1.2%**
09:55	**Unemployment Change (000's) (Mar)**	**-6K**	**-10k**
09:55	**Unemployment Claims Rate SA (Mar)**	**6.2%**	**6.2%**
France			
08:45	CPI EU Harmonized MoM / YoY (Mar P)	0.8%/-0.1%	0.3%/-0.1%
08:45	Consumer Spending MoM / YoY (Feb)	0.2%/0.9%	0.6%/0.6%
Italy			
11:00	CPI EU Harmonized MoM / YoY (Mar P)	2.2%/-0.2%	-0.4%/-0.2%
Spain			
09:00	CPI EU Harmonized MoM / YoY (Mar P)	2.1%/-0.8%	-0.4%/-1.0%
Events			
09:00	BoE’s Carney Speaks at FSB Briefing in Tokyo		
09:00	IMF’s Lagarde, PBOC’s Zhou Speak at French Treasury Seminar		
15:45	Fed’s Evans Speaks on Economy and Policy in New York		
23:00	Fed's Dudley Speaks on Financial Crises in Lexington, VA		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	1,81	0,00	US	0,75	-0,04	DOW	17717	17716,66
DE	0,14	0,01	DE	-0,49	0,00	NASDAQ	for Exch - NQI	#VALUE!
BE	0,38	0,00	BE	-0,42	0,00	NIKKEI	16804	16804,25
UK	1,43	0,02	UK	0,46	0,01	DAX	10046,61	10046,61
JP	-0,05	0,04	JP	-0,24	0,01	DJ euro-50	3044	3044,10

							USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,347	0
3y	-0,119	0,972	0,885	Euribor-1	-0,33	0,00	Libor-1 USD	0,51	0,51
5y	0,027	1,192	1,039	Euribor-3	-0,24	0,00	Libor-3 USD	0,59	0,59
10y	0,545	1,646	1,446	Euribor-6	-0,13	0,00	Libor-6 USD	0,74	0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1324	0,0021	EUR/JPY	127,07	0,19		171,4681	1227,3	38,94
USD/JPY	112,24	-0,04	EUR/GBP	0,7894	0,0042	-1d	0,00	-10,25	-0,48
GBP/USD	1,434	-0,0052	EUR/CHF	1,093	0,0016				
AUD/USD	0,7653	0,0013	EUR/SEK	9,2299	-0,03				
USD/CAD	1,2990	-0,0070	EUR/NOK	9,4219	-0,05				

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