



Sunrise

Wednesday, 09 March 2016

Rates: Supply and commodities only game in town today

We retain the collapse of the Japanese longer end of the curve yesterday, which has been largely reversed today though. A sign that liquidity is drying up? Today's empty calendar means that commodities and equities are key, but ahead of the ECB we don't expect significant moves.

Currencies: Dollar little affected by the commodity correction

Yesterday, the dollar lost only slightly ground even as sentiment turned negative due to a repositioning in commodities. Sterling fell prey to intraday profit taking, but reversed most of the losses later on. Today, trading in the major dollar cross rates remains dependent on global market sentiment. EUR/USD traders are counting down to the ECB policy decision.

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 the US, **the S&P ended a 5-day rally**, falling more than 1% yesterday led by a 4% drop in energy shares as also the oil price dropped lower. This morning, **most Asian shares trade lower too**. Chinese stocks underperform losing 2.5%.
- Donald Trump won yesterday the Republican race for the White House in Mississippi and Michigan**, bringing him closer to victory ahead of the big contests next week in Florida and Ohio. On the Democratic side, **Hillary Clinton won convincingly in Mississippi, but suffered a surprise loss in Michigan**, where Sanders won.
- The EU said yesterday **that the economies of France, Italy and Portugal have excessive imbalances and require tighter monitoring**, urging them to move quickly with economic changes. In general, the main reasons for concern are the persistence of very high levels of indebtedness, vulnerabilities in the financial sector and deteriorating competitiveness.
- The People's Bank of China allowed the renminbi to weaken today**, by setting the midpoint slightly lower, ending four sessions of strengthening. Also the off-shore yuan weakens.
- Crude oil prices reversed early gains** yesterday to end the session roughly 3% down, ending a rally that started in the final days of February. The Brent oil price fell back below \$40/barrel on fresh signs of oversupply and weak demand.
- Today, the **eco calendar is empty** both in the US and euro zone, while in the **UK, industrial production** data will be released. **The Bank of Canada will decide on rates**.

Rates

Bonds profit from risk aversion and collapse Jap. yields

Global core bonds eked out moderate to juicy gains as oil and equities suffered and an amazing rally took place at the longer end of the Japanese bond market. Weaker Chinese trade data and a disappointing EU Summit on the refugee crisis weighed on sentiment. The outperformance of the very long end could be largely attributed to moves on the Japanese yield curve. Japanese yields dropped up to 22.5 bps at the 30-yr tenor (to an all-time low of 0.46%) following a very strong 30-yr government bond auction. Typical investors (life insurers) faced surprising competition from atypical investors (banks) hunting for positive yield at these tenors. Japanese yields are negative up until 12-years (see graph below). This strange move should not go unnoticed at the ECB, whose policy also risks to oblige certain investors to reach out for very long tenors to avoid negative yields and thus certain future losses, weighing on bank profitability and increasing risks in case of a turnaround in yields. **Today, the Japanese 30-year yield has moved up again to pre-auction levels. However, such wild moves at the very long end are disturbing.**

The intraday trading profile of Bund and US Note future differed and also didn't move in sync with the moves of oil and equities. The Bund eked out its gains at the start of European trading as risk aversion spilled over from Asia. It moved sideways soon to lose some ground in European after-trading. US Treasuries rose throughout most of the session to lose some minor gains due to profit taking and a weak 3-year Note auction (see lower) at the end. **US Treasuries outperformed German Bunds in a daily perspective.** The US yield curve shifted 7 to 8 bps lower with the 2-yr underperforming (-4 bps). The German curve bull flattened with yields 1.5 bps to 5.2 bps (30-year) lower. **Technically, the US 30-yr yield failed to move above key resistance.**

On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 2 bps with Spain (+2 bps, new 30y syndication) and Portugal (+7 bps, ahead of tomorrow's supply) underperforming. Greek bonds took comfort (-35 bps) from Monday's Eurogroup meeting. International creditors will restart negotiations in Athens to complete a first review of the third bailout.

Today, the calendar doesn't contain key eco data

The Bank of Canada meets and so does the Reserve Bank of New Zealand (after trading) No policy changes are expected, but the statements may be interesting.

Bull flattening German curve

US Treasury curve shifts lower and outperforms German one

Japanese 30-yr yield collapses

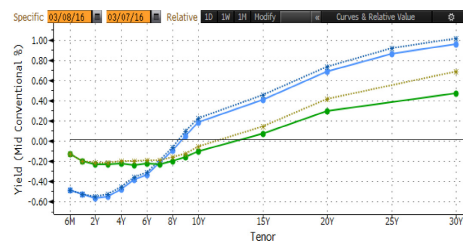
Underperformance Spain, Portugal and outperformance Greece

	US yield	-1d
2	0,8781	-0,0118
5	1,3597	-0,0245
10	1,848	-0,0227
30	2,655	-0,0194

	DE yield	-1d
2	-0,5570	-0,0090
5	-0,3680	0,0070
10	0,1840	-0,0450
30	0,9887	-0,0362



MSCI world equities (white) and Chinese exports (blue) (one year): China eco performance has impact on global risk sentiment



Japanese (green) & German (blue) curves (one-day differences): Japanese curve flattens sharply as investors fight for long term JGBs with still positive yield

R2	166,63	-1d
R1	164	
BUND	163,17	0,7700
S1	162,11	
S2	161,23	

Germany, Portugal, and US supply market

The German Finanzagentur taps the on the run 2-yr Schatz (€4B 0% Mar2018). Total bids averaged €5.65B at the previous 4 Schatz auctions. So, we expect enough demand to cover the relatively low amount on offer despite the record low yield. **The Portuguese debt agency sells the off the run 15-yr PGB (3.85% Apr2021) and the on the run 10-yr PGB (2.875% Jul2026) for a total amount of €1-1.25B.** Portuguese bonds cheapened in the run-up to this auction, but bonds on offer trade normal on the curve. The left minority government remains a political risk while Portuguese bonds proved to be very vulnerable during the risk aversion since the start of the year. That could weigh on demand, but we think that the ECB's QE programme remains the overruling argument with some investors profiting from the recent increase in yields. **The US Treasury started its mid-month refinancing operation with a weak \$24B 3-yr Note auction.** The auction stopped with a tail and the bid cover was the smallest since July 2009. Bidding details were below average as well with especially an anaemic dealer bid. Today, the US Treasury holds a \$20B 10-yr Note auction. Currently, the WI trades around 1.86%.

Eyes on commodity markets

Overnight, most Asian equity markets trade mixed with Japan (-1%) and China (-2%) underperforming. The oil price trades with a small upward bias and the US Note future is lower suggesting some weakness in the Bund as well.

Today's eco calendar is empty apart from supply. We believe that commodity markets will remain responsible for intraday gyrations on bond markets. Will yesterday's significant downward correction in eg iron ore continue? If so, that's positive for core bonds. Ahead of the ECB meeting, we don't expect technically significant moves though.

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. The US 10-year yield struggles to stay above though. 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 hardly affected by risk-off sentiment

R2	1,1376	-1d
R1	1,1193	
EUR/USD	1,0976	-0,0041
S1	1,081	
S2	1,0711	

Asian equities correcting further

Commodities in focus

Impact on major USD cross remains limited

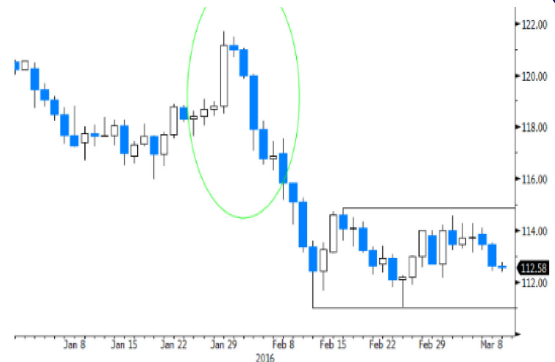
Dollar hardly affected by risk-off correction

On Tuesday, global sentiment turned risk off. Initially, the losses on European and US equity markets remained limited. The dollar lost a few ticks against the euro and the yen but both cross rates remained in well-known territory. Later the session, a sell-off in commodity related assets put equities under further pressure. The impact on the major dollar cross rates remained moderate. USD/JPY closed the session 112.62 from 113.46, but most of the losses already occurred early in the session. EUR/USD finished the day at 1.1011, almost unchanged from Monday.

This morning, sentiment in Asia remains fragile as the fall-out from the commodity correction continues. Most regional indices trade with modest losses, with China underperforming. The focus remains on the gyrations in commodities. It is still early days, but first indications suggest a slowdown of the sell-off in the likes of copper and oil. That said, the fall-out from the commodity correction on global currency remains very limited. This applies even to commodity currencies like the Aussie dollar. AUD/USD trades still north of 0.74 even after yesterday's setback in commodities. USD/JPY also holds up very well given the risk-off correction. The pair trades little changed in the 112.55 area. EUR/USD dropped back below the 1.10 level overnight and trades in the 1.0975 area.



EUR/USD: holding near 1.10 ahead of the ECB meeting.



USD/JPY holding in the middle of consolidation pattern

The eco calendar is again thin

Countdown to the ECB meeting continues

The eco calendar in the US and in Europe is almost empty. So, developments on global markets should set the tone for trading in the major currency cross rates. However, both USD/JPY and EUR/USD had good reasons to 'ignore' yesterday's risk-off correction. Markets are cautious to push USD/JPY aggressively lower as the BOJ might come into play (at least verbally) in case of a return to the range bottom (111 area). EUR/USD traders stay in wait-and-see modus ahead of tomorrow's ECB decision. Yen buying due to risk-off sentiment to some extent takes place via EUR/JPY, rather than via USD/JPY. This might be a slightly negative for EUR/USD short-term (Cf price action this morning). Investors will remember the rebound of the euro after the ECB decision 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.

In the afternoon, the Bank of Canada will decide on its policy. No change is expected. Last month's unchanged decision marked the start of quite an impressive rebound of the Canadian dollar.

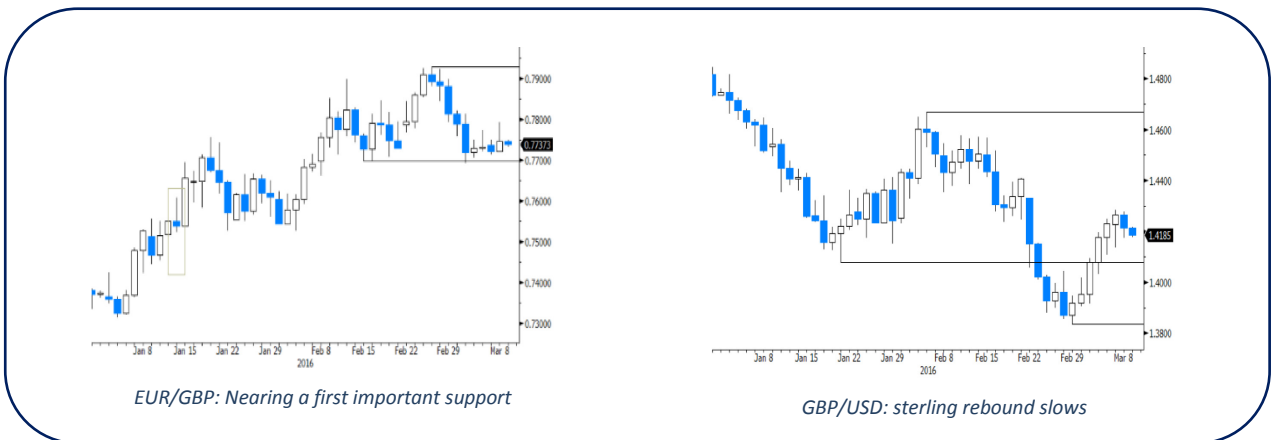
Sterling rebound slows, but no real correction (yet)

R2	0,8066	-1d
R1	0,7929	
EUR/GBP	0,7737	0,0003
S1	0,7691	
S2	0,7526	

On Tuesday, BoE governor Carney faced heavy headwinds from Eurosceptic members of Parliament. In a hearing before a committee of the UK Parliament, Carney (and BoE Cunliffe) made some positive comments on the deal PM Cameron reached last month. He warned also for a potential loss of business in case of a Brexit. Initially, sterling gradually lost ground against the euro and the dollar. The 'Brexit turmoil' in Parliament was maybe part of the reason for sterling to return some of its recent gains against the euro and the dollar. However, the correction was short-lived as sterling rebounded later in the session. Cable closed at 1.4174 (from 1.4265). The daily losses of sterling against the euro were limited. EUR/GBP closed the session at 0.7746, from 0.7721.

Today, the UK production data and the monthly NIESR GDP estimate will be published. Both industrial production (.0.4% M/M and 0.0% Y/Y) and manufacturing (0.2% M/M and -0.7% Y/Y) are expected to rebound slightly after a poor December figure. We don't expected a big market reaction. Will sterling be able to profit in case of a better than expected production report?

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.



Calendar

Wednesday, 9 March		Consensus	Previous
US			
13:00	MBA Mortgage Applications (Mar 4)	--	-4.8%
16:00	Wholesale Inventories MoM (Jan)	-0.2%	-0.1%
Canada			
16:00	Rate Decision	0.50%	0.50%
Japan			
00:50	Money Stock M2 YoY (Feb)	A 3.1%	3.2%
00:50	Money Stock M3 YoY (Feb)	A 2.5%	2.5%
07:00	Machine Tool Orders YoY (Feb P)	A -22.6%	-17.2%
New Zealand			
21:00	RBNZ Official Cash Rate	2.50%	2.50%
UK			
10:30	Industrial Production MoM YoY (Jan)	0.4% / 0.0%	-1.1% / -0.4%
10:30	Manufacturing Production MoM YoY (Jan)	0.2% / -0.7%	-0.2% / -1.7%
16:00	NIESR GDP Estimate (Feb)	--	0.4%
France			
08:30	Bank of France Bus. Sentiment (Feb)	101	101
Spain			
09:00	INE House Price Index QoQ YoY (4Q)	--	0.7% / 4.5%
Sweden			
09:30	Household Consumption (MoM) (YoY) (Jan)	--	-1.0% / 2.6%
Events			
10:00	BoE's Bailey Speaks in London		
Germany	Schatz Auction (€4B 0% Mar2018) (11:30)		
Portugal	Bond Auction (€1-1.25B 3.85% Apr2021, 2.875% Jul2026)		
Norway	Bond Auction (NOK3B 1.5% Feb2026) (11:05)		
US	10yr Notes Auction (\$20B) (19:00)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,85	-0,02	US	0,88	-0,01	DOW	16964,10
DE	0,18	-0,05	DE	-0,56	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,51	-0,02	BE	-0,45	-0,02	NIKKEI	16642,20
UK	1,39	-0,09	UK	0,35	0,00	DAX	9692,82
JP	-0,02	0,07	JP	-0,20	0,04	DJ euro-50	3002,01

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,234	0,005
3y	-0,145	1,041	0,839	Euribor-1	-0,29	0,00	Libor-1 USD	0,51	0,51
5y	-0,007	1,261	0,979	Euribor-3	-0,22	0,00	Libor-3 USD	0,58	0,58
10y	0,553	1,678	1,413	Euribor-6	-0,14	0,00	Libor-6 USD	0,74	0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0976	-0,0041	EUR/JPY	123,55	-0,99		171,7029	1255,81	39,84
USD/JPY	112,555	-0,49	EUR/GBP	0,7737	0,0003	-1d	3,15	-12,49	-0,50
GBP/USD	1,4183	-0,0058	EUR/CHF	1,0954	0,0011				
AUD/USD	0,7426	0,0007	EUR/SEK	9,3274	-0,01				
USD/CAD	1,3424	0,0089	EUR/NOK	9,4090	0,04				

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