



## Sunrise

Monday, 29 February 2016

### Rates: US Treasuries underperform on strong US eco data

On Friday, global core bond fell prey to profit taking with US Treasuries hit the most. German bonds were barely changed. Today, the G-20 inaction leads to risk-off, a bond positive. Weak EMU inflation is another positive, but no big surprise. The Bund opened little changed as the contract highs loom and nearly overbought conditions keep investors cautious.

### Currencies: Dollar eases this morning after good gains on Friday

On Friday, the dollar was supported by a decent equity sentiment and by strong US eco data. EUR/USD dropped to the low 1.09 area. USD/JPY tested the 114 area. This morning, the dollar returns part of Friday's gains as global markets are disappointed by the lack of action from the G20 to support global growth.

### 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 failed to safeguard early gains on Friday** to end the session mixed. The S&P dropped 0.2% as the oil price dropped lower too. This morning, **most Asian shares trade lower** as the G20 failed to bring any clear commitment to boost growth.
- **Chinese stocks lose up to 5.5% this morning with the Shanghai composite approaching its lowest level since late 2014** after the G20 failed to agree on specific measures to boost growth. On Sunday, the vice-governor of the Chinese central bank reaffirmed confidence in the strength of the yuan.
- **The G20 failed to agree on a joint push for new stimulus measures at the meeting in Shanghai this weekend**, but leaders **promised to use fiscal policy flexibility** to strengthen growth, job creation and confidence amid mounting concerns over the potency of monetary policy.
- **Ireland's Prime Minister Kenny saw his support slump in the country's general elections.** The ruling Fine Gael won 31 seats in parliament, closely followed by opposition party Fianna Fail, who gained 30 seats. The ruling coalition has now lost its majority.
- **German retail sales started the year on a strong note**, increasing by 0.7% M/M in January, twice as much as expected. Also the December figure was revised higher, from -0.2% M/M to 0.6% M/M.
- Today, the **eco calendar** contains the first estimate of euro zone HICP inflation for February, UK M4 and mortgage approvals, US pending home sales and the US Chicago PMI.

# Rates

## US Treasuries underperform on strong US eco data

*German bonds mixed as strong equities/oil balanced weak eco and inflation*

*US Treasuries lost more ground as stronger eco data trumped softer equities.*

*Again strong performance Portugal*

	US yield	-1d
2	0,7895	0,0553
5	1,2268	0,0502
10	1,7416	0,0189
30	2,6156	0,0192

On Friday, global core bonds fell prey to profit taking ahead of the weekend. Moves during the European session were limited as strong equity gains and higher oil prices were compensated by weaker than expected EMU economic confidence and an unexpected fall in German (and French) HICP inflation below zero. During the US session, the constellation changed. Equities slid lower as oil prices dropped sharply, but stronger US eco data (upward revision Q4 GDP to 1%), stronger PCE and an upward revision of Michigan consumer sentiment together with a weak 7-year Note auction dominated bond trading. So, US Treasuries underperformed German Bunds on the back of stronger eco data. In a daily perspective the US yield curve shifted higher by 3.6 bps to 6.7 bps (5-yr). The German yield curve steepened with 2-and 5-year yields down 1 bp, while 10s and 30s were 0.9 and 3.3 bps higher. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed moderately (4/5 bps) for Spain and Italy to sharply for Portugal (-26 bps) and Greece (-35 bps) Portuguese bonds show strength since this week's approval of the 2016 budget, which got also a positive reception at Moody's.

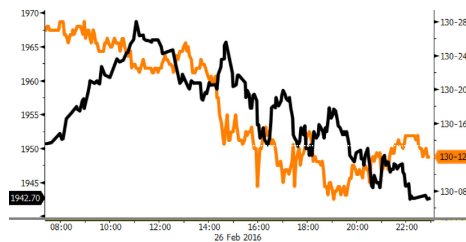
*Downside risks for HICP inflation*

*Downside risks US Chicago PMI*

	DE yield	-1d
2	-0,5440	-0,0120
5	-0,3660	-0,0100
10	0,1430	0,0090
30	0,8539	0,0207

## Focus on EMU HICP inflation today

Euro zone HICP inflation is forecast to have slowed again in February. The consensus is looking for a slowdown from 0.3% Y/Y to 0.0% Y/Y, but we see risks for inflation to turn negative again. On Friday, also German, French and Spanish inflation surprised all on the downside of expectations. In the US, the Chicago PMI is expected to have dropped from 55.6 to 52.8 in February after a strong rebound in January. After the strong pick-up in January however, we see risks for a lower outcome.



T-Note future (orange) and S&P future (black) (intraday): Profit taking core bonds and US equities on strong US data



Brent tries to move above first resistance, but cannot hold onto gains keeping picture undecided.

The G20 meeting concluded with a message that markets worry too much, despite a lot of negative developments throughout the world. There is no need to major policy changes, according to the G20. We are not in crisis mode, said Eurogroup chief Dijsselbloem. The reality is that the various countries didn't find common ground. The US and China pleaded for more fiscal stimulus, but Germany thought that structural reform was needed, while the UK was concerned about a currency war via central banks cutting rates even deeper into negative territory. This resulted is a compromise of a stepped-up combination of monetary policy, government spending and structural changes. Ministers agreed to inform each other of all major changes in currency policies and committed

again not to devalue their currencies to gain competitive advantages. **Brexit would be a shock for the global economy. We suspect that the inability of the G20 to come up with some coherent stimulus pact will weigh on riskier asset prices and benefit core bonds.**

**Today: Core bonds higher on disappointing G-20?**

R2	167	-1d
R1	166,25	
<b>BUND</b>	<b>166,03</b>	<b>-0,0900</b>
S1	165,53	
S2	163,79	

**Overnight**, Asian equity markets, especially Japan and China slid, maybe due to the inability of the G-20 to come out with a global plan to tackle current problems. Commodities are generally lower, but crude was a bit higher, maybe on a message that US drillers cut the number of active rigs. US Note future is up 6/32 overnight and so is gold. So, a risk-off sentiment may reign at the European open. Will it last?

**Today's eco calendar is thin.** Lower than expected EMU HICP is a bond positive, but following national data on Friday no big surprise. The Chicago PMI might be weaker too and could have a temporary positive impact. **The risk off sentiment is intrinsically bond positive, but will it continue throughout the day? Investors might be mostly sidelined, awaiting the key US data later this week and the Fed and ECB meetings later this month. Most end-of month extension buying is over.** Core bond markets will again be sensitive to oil (in better shape?) and equities (undecided?, try to establish bullish double bottom). **The Bund outperformed the US Note future last week and might be more vulnerable to short term profit taking move given the stretched long uptrend and the near overbought conditions. We nevertheless keep a guarded positive bias for core bonds today, but levels are too high to step in. Medium term outlook is still bullish.**

**Technically**, the US Note future lost its uptrendline (131-08+), but remains in tight range near the highs. We expect sideways trading ahead, roughly between 129 and 133. The picture for the Bund is still better with uptrendline intact and highs under test in past sessions. Medium term, the German 10-yr yield is only 10 bps away from the all-time low (0.05%). A test in the run-up to the March ECB-meeting is possible.



German Bund: First test contract high failed, but still above trendline



US Note future: uptrendline broken, but now in sideways range near the highs

# Currencies

## Dollar returning part of Friday's gains after G20.

*Dollar supported by strong US eco data and a decent equities*

R2	1,1376	-1d
R1	1,1139	
EUR/USD	1,0954	-0,0096
S1	1,081	
S2	1,0711	

*G20 is not prepared to take coordinated action*

*Asian equity investors are disappointed; Sentiment is risk-off*

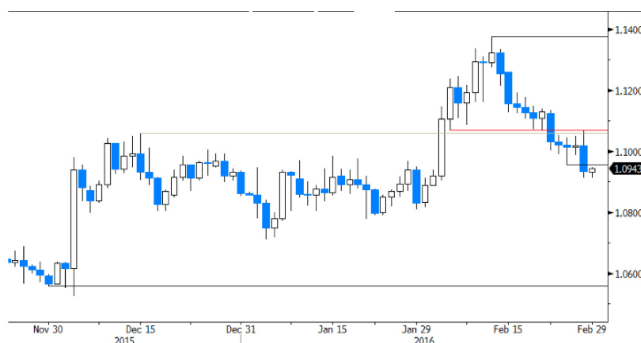
*Today's eco data might be mixed for EUR/USD*

*Risk-off sentiment is a negative for USD/JPY. The picture for EUR/USD remains indecisive*

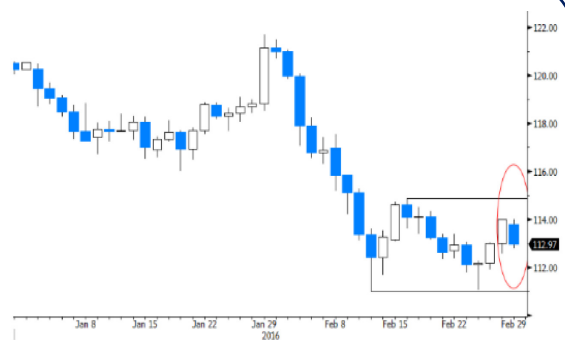
On Friday, the dollar rebounded against the yen and the euro. Initially, the move was supported by a positive equity sentiment. Later in the session, the dollar also profited from better than expected US data. The US Q4 GDP was revised higher, personal spending and income data were stronger than expected and final Michigan consumer confidence was also revised slightly higher. The dollar made a nice comeback during the US trading session. EUR/USD closed the session at 1.0934 (from 1.1018 on Thursday). USD/JPY finished the day at 114.00 (vs 113.00 on Thursday).

During the weekend, the G20 acknowledged that the global recovery remained uneven and that it falls short of the G20 ambition of strong, sustainable and balanced growth. However, the group didn't decide to any additional coordinated action to address global growth fears or on financial turmoil. This morning, most Asian equity markets slid away after decent opening on G-20 disappointment. Especially Chinese equities came under heavy pressure. The PBOC fixed the yuan slightly weaker against the dollar, but this was logical given the rise of the dollar on Friday. There is also market talk of substantial PBOC action to support the yuan. Decent Japanese eco data were ignored. The pair trades currently again below the 113 level. The dollar is also losing slightly ground against the euro. EUR/USD trades currently in the 1.0945 area

Today the consensus expects a decline from 0.3% Y/Y to 0.0% for the headline EMU HICP inflation. After the data from Germany Spain and France, there is even a risk for a negative figure. The core CPI is also expected lower at 0.9% Y/Y (from 1.0%). A soft CPI figure supports ECB's Draghi's case for further aggressive easing and is in theory a negative for the euro. However, question is how this will turn out in a risk-off context. In the US, we see downside risks for the Chicago PMI. So, the data probably won't give a clear guidance for EUR/USD trading. Asian markets turned risk-off after the G20 meeting and this might spill over onto US and European markets. USD/JPY is again suffering the most. The USD/EUR currently still preserves part of Friday's gains. The picture for EUR/USD remains inconclusive due to the risk-off sentiment, but the downward structure of last week remains in place. For now, we see some consolidation ahead of the key US data later this week. The ST bias for USD/JPY turns again negative.



EUR/USD negative structure remains in place after USD rally on Friday.



USD/JPY reversing Friday's gains as sentiment turns risk-off

Monday, 29 February 2016

From a technical point of view, the correction high stands at 1.1376, next important resistance at 1.1495. The dollar slowly fought back, but it had no strong momentum. The decline below 1.1060 was a ST negative for EUR/USD and might have opened the way to the 1.0810/1.0711 support area, but today's risk-off is unlikely to give the dollar the needed momentum. **USD/JPY dropped below the 115.98 pre-BOJ low.** Japanese officials warned on potential action, putting a short-term floor under the pair. Even so, it remains vulnerable. **Any rally might soon run into resistance (114.87 recent high, 115.98 January low is a next resistance).**

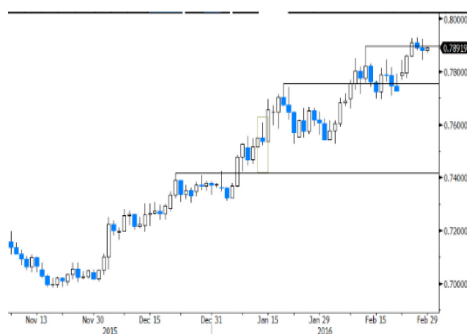
R2	0,8066	-1d
R1	0,7929	
<b>EUR/GBP</b>	<b>0,7891</b>	<b>-0,0016</b>
S1	0,7696	
S2	0,7526	

### Brexit decline of sterling slows

On Friday, sterling initially extended Thursday's consolidation pattern as the Brexit-repositioning eased. EUR/GBP hovered sideways, mostly slightly below the 0.79 level. The pair closed the session at 0.7882 (from 0.7892 on Thursday). Cable initially rebounded north of 1.40, but the pair turned south as the dollar profited from good US eco data later in the session. Cable even touched a minor new multi-year low. The pair closed the session at 1.3871 (from 1.3962 on Thursday).

During the weekend, the risk of a Brexit scenario was mentioned as one of the risks that could be a shock for the global economy. However, for now, the impact on sterling trading is limited.

Later today, the UK money supply and lending data will be published. A further rise in lending is expected. Mortgage approvals are also expected substantially higher. Good lending data should in theory be positive for sterling, but we assume that global factors will again be dominant for GBP. **At the end of last week, the Brexit decline of sterling slowed.** Some consolidation or even a limited technical rebound might be on the cards after the recent decline. However, for now, it is much too early to call a trend reversal. Sterling didn't succeed any meaningful rebound against the euro or the dollar yet. **The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. The pair cleared the 0.7898 resistance earlier this week. 0.8066 is the next important resistance.**



EUR/GBP rally running into resistance?



GBP/USD: declines further, but this time on USD strength

# Calendar

Monday, 29 February		Consensus	Previous
<b>US</b>			
15:00	ISM Milwaukee (Feb)	--	50.36
<b>15:45</b>	<b>Chicago Purchasing Manager (Feb)</b>	<b>52.5</b>	<b>55.6</b>
16:00	Pending Home Sales MoM / NSA YoY (Jan)	0.5%/4.1%	0.1%/3.1%
<b>Japan</b>			
00:50	Industrial Production MoM / YoY (Jan P)	A 3.7%/-3.8%	-1.7%/-1.9%
00:50	Retail Sales MoM YoY (Jan)	A-1.1%/-0.1%	-0.2%/-1.1%
00:50	Dept. Store, Supermarket Sales (Jan)	A -0.2%	0.0%
05:00	Vehicle Production YoY (Jan)	A -5.8%	-2.3%
06:00	Housing Starts YoY (Jan)	A 0.2%	-1.3%
06:00	Construction Orders YoY (Jan)	A -13.8%	14.8%
<b>UK</b>			
10:30	Mortgage Approvals (Jan)	74.1k	70.8k
10:30	Money Supply M4 MoM / YoY (Jan)	--/--	-0.2%/0.2%
10:30	M4 Ex IOFCs 3M Annualised (Jan)	--	4.0%
<b>EMU</b>			
<b>11:00</b>	<b>CPI Estimate YoY (Feb)</b>	<b>0.0%</b>	<b>0.3%</b>
<b>11:00</b>	<b>CPI Core YoY (Feb A)</b>	<b>--</b>	<b>1.0%</b>
<b>Germany</b>			
08:00	Retail Sales MoM / YoY (Jan)	A 0.7%/-0.8%	-0.2%/1.5%
08:00	Import Price Index MoM / YoY (Jan)	A-1.5%/-3.8%	-1.2%/-3.1%
<b>Italy</b>			
11:00	CPI EU Harmonized MoM / YoY (Feb P)	-0.1%/0.1%	-2.2%/0.4%
<b>Belgium</b>			
15:00	GDP SA QoQ / YoY (4Q F)	--/--	0.3%/1.3%
<b>Sweden</b>			
09:30	GDP QoQ / WDA YoY (4Q)	0.7%/3.6%	0.8%/3.9%

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,74	0,02	US	0,79	0,06	DOW	16640 16639,97
DE	0,14	0,01	DE	-0,55	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,48	-0,02	BE	-0,42	-0,01	NIKKEI	16027 16026,76
UK	1,41	0,05	UK	0,36	0,06	DAX	9513,3 9513,30
JP	-0,06	0,00	JP	-0,27	-0,01	DJ euro-50	2929 2929,16

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,243 0,006
3y	-0,150	0,924	0,771	Euribor-1	-0,26	0,00	Libor-1 USD	0,51 0,51
5y	0,004	1,127	0,909	Euribor-3	-0,20	0,00	Libor-3 USD	0,59 0,59
10y	0,529	1,545	1,341	Euribor-6	-0,13	0,00	Libor-6 USD	0,73 0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0951	-0,0099	EUR/JPY	123,65	-0,93		161,6704	1228,46	35,29
USD/JPY	112,93	0,18	EUR/GBP	0,7891	-0,0016	-1d	0,18	-9,54	0,11
GBP/USD	1,3877	-0,0093	EUR/CHF	1,0905	-0,0012				
AUD/USD	0,7132	-0,0095	EUR/SEK	9,3595	-0,01				
USD/CAD	1,3524	-0,0008	EUR/NOK	9,5046	-0,01				

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