



Sunrise

Thursday, 03 March 2016

Rates: Core bonds lose some ground as risk sentiment remains constructive

Yesterday, US Treasury losses were contained, but the longer end of the German curve was hard hit. Are markets sensing that yields are too low? (negative term premium?) The changing sentiment suggests more downside for bonds. Today's key report is the US non-manufacturing ISM with risks on the upside of expectations.

Currencies: Dollar rebound slows ahead of the payrolls

Yesterday, the dollar tried to extend gains against the euro and the yen after a good US ADP report. However, the move ran into resistance, leaving no USD gains in a daily perspective. Today, the focus is on the US non-manufacturing ISM. Sterling shows tentative signs of a bottoming out process even as UK eco data disappointed of late.

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 extended Tuesday's gains**, with the S&P rising another 0.41% following a strong US ADP report. **This morning, sentiment in Asia remains strong**, despite disappointing survey data.
- After an uptick at the start of the year, **growth in China's services sector slowed again in February**, the Caixin services PMI, which focuses on smaller, private firms, fell from 52.4 to 51.2.
- **Half of the Fed's districts reported modest to moderate growth since the start of the year**, the **Fed's Beige Book** showed, with some area reporting slowing activity in recent months, as market turmoil hit consumer spending.
- **Momentum in Japan's services sector slowed in February** as new business weakened, the services PMI showed this morning, falling from 52.4 to 51.2 and reaching its lowest level in seven months.
- **The Spanish parliament rejected yesterday Socialist party leader Pedro Sanchez's candidacy to form a centre-left government** in the first of two votes. If he loses a second confidence vote on Friday, the King can entrust the task of forming a government to another candidate.
- Today, the **eco calendar** contains the final reading of the euro zone services PMI, the UK services PMI, euro zone retail sales, the US non-manufacturing ISM and jobless claims. In **China, the meeting of the National People's Congress starts today**, where will be decide on policy going forward.

Rates

No major losses after strong, but as expected, ADP

Core bonds extend losses, especially at German very long end

Peripherals stabilize, but Portugal and Greece outperform

ADP strong, but as expected

	US yield	-1d
2	0,8611	0,0160
5	1,3557	0,0246
10	1,8494	0,0105
30	2,6876	-0,0180

	DE yield	-1d
2	-0,5460	0,0080
5	-0,3570	0,0220
10	0,2120	0,0580
30	1,0149	0,0776

Upside risks EMU services PMI & retail sales

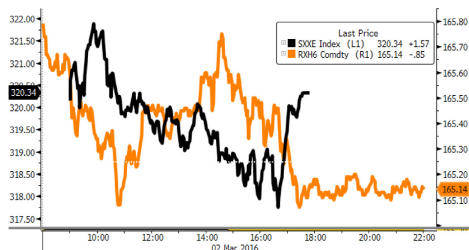
Upward risks US Non-manufacturing ISM & claims

Global core bonds extended losses yesterday with German Bunds underperforming in a catch-up move with US Treasuries.

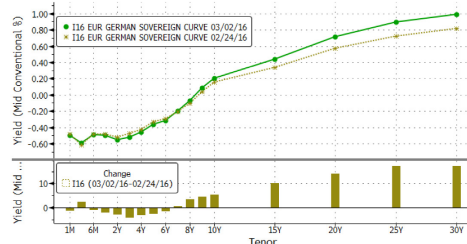
In a daily perspective, the German yield curve bear steepened with yields 0.2 bps (2-yr) to 8.8 bps (30-yr) higher. Changes on the US yield curve varied between -1.3bp (30-yr) and +1.6 bps (10-yr). No EMU eco data on the agenda yesterday, but the US ADP employment report was slightly stronger than expected. It brought some intraday volatility and pushed Treasuries and Bunds lower. **ECB Coeure** repeated that the **central bank will take into account the negative impact of lowering deposit rates on the profitability of the financial sector** when they meet next week. Heavyweight **SF Fed governor Williams** said in the FT that he was bullish on the economic and inflation outlook. His views are opposite to NY Fed Dudley earlier this week and highlight the divided Fed board. None of these impacted the markets though. **On intra-EMU bond markets**, 10-yr yield spreads versus Germany ended nearly unchanged with Portugal (-4 bps) and Greece (-32 bps) outperforming and Spain and Italy underperforming (+2 bps). **Spanish bonds didn't suffer from expectations that Socialist leader Sanchez's candidacy to form a new government would fail (which it did)**. On Friday, a second vote is scheduled. New elections are imminent (May/June).

Today focus on US services ISM and initial claims

According to the preliminary estimate, the **euro zone services PMI** dropped from 53.6 to 53.0 in February, falling for a second month. The final reading is forecast to confirm this outcome, but we see risks for a **limited upward revision**. Also in the **euro area, retail sales** are expected to have increased for a second straight month in January, although at a slightly slower pace. The consensus is looking for a 0.1% M/M increase, but also for the retail sales we are **more optimistic** after stronger data from Germany, France and Portugal. The **US non-manufacturing ISM** will be interesting after a very poor US services PMI. The consensus is however looking for only a limited drop, from 53.5 to 53.1. The indicator has weakened sharply in the previous two months and therefore we believe that the **risks are for an upward surprise**, in line with the manufacturing ISM. Finally, **US jobless claims** are expected to have dropped slightly in the week ending the 27th of February. Coming after the President's Day week, we believe that an upward surprise is not excluded.



Bund future (orange) and EuroStoxx (black) (intraday): Rather weak correlation.



German yield curve (changes 1 week): substantial bear steepening with very long end hard hit. Result of negative term premium

The US **Beige Book**, a preparatory document for the FOMC meeting which describes the economy in the various districts, was a lot more sober about the

state of the economy compared to the January one. The SMRA index (of the book) fell to 0.67 from 0.90 previously and the lowest since March 2014. It might be a one off though, making the next book even more interesting.

R2	167	-1d
R1	166,63	
BUND	165,14	-0,6700
S1	163,79	
S2	163,25	

Spain and France tap market

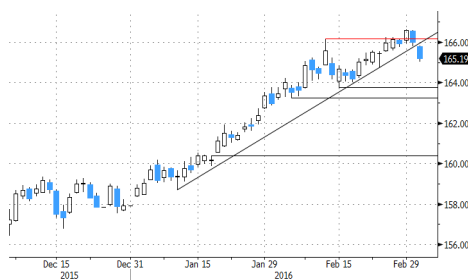
The French Treasury taps the off the run 10-yr OAT (1.75% May2023), the on the run 15-yr OAT (1.5% Mar2031) and launches a new on the run 10-yr OAT (0.5% May2026) for a combined €8-9B. Grey market trading suggests that the new OAT will be priced with a 2.8 bps pick-up in ASW spread terms over the previous 10-yr benchmark (1% Nov2025). That corresponds with a 8 bps pick-up in yield terms. The other two bonds on offer cheapened up to 5 bps in ASW-spread terms in the run up to the auction. The May2023 is a tad cheap on the French curve while the Mar2031 OAT is rather expensive. **The Spanish debt agency launches a new 5-yr Bono (0.75% Jul2021) and taps the on the run 15-yr Obligacion (1.95% Jul2030) for a combined €3.5-4.5B.** On the grey market, the new Bono trades with an impressive 12.5 bps pick in ASW-spread terms over the previous 5-yr benchmark (1.15% Jul2020). That's a 23 bps pick-up in yield terms. The Jul2030 Obligacion is rich on the Spanish curve. The current political deadlock might hamper overall demand. Additionally, Spain also taps a 10-yr inflation-linked Obligacion for €0.25-0.75B.

Today: Changing sentiment suggests more downside

Overnight, nearly all Asian stock markets trade positive despite a declining Caixin Services PMI and a more downbeat economic assessment in the Fed's Beige Book. The US Note future trades with a slight downward bias, but we expect a more or less neutral opening for the Bund.

Today's eco calendar heats up with final EMU PMI's, US weekly claims, final US durable goods orders but especially US Non-manufacturing ISM. Risks are on the upside of expectations which is a negative for core bonds.

Technically, the US Note future (June contract!) painted a double top on the chart. **The break below the 129-26 support level, suggests more downside.** The US 10-yr yield is testing 1.85% resistance. A break higher would confirm the break lower of the US Note future. **On equity markets, the break of the S&P 500 above 1950 is also technically relevant. This improvement in risks sentiment is additionally negative for US Treasuries.** Finally, we also keep a close eye on oil prices which are on the brink of firmly breaking above the neckline of a double bottom. Higher oil prices are also negative for core bonds. The technical picture of the Bund is also deteriorating with a break below the steep uptrendline. In yield terms, a break above 0.30% is necessary though to make the picture neutral from bullish.



German Bund: Break below steep uptrendline first sign of changing technical picture (bullish -> neutral)



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

Currencies

ADP report was marginally strong than expected

USD didn't succeed further broad-based gains

R2	1,1376	-1d
R1	1,1068	
EUR/USD	1,0858	0,0009
S1	1,081	
S2	1,0711	

Cautious risk on trade continues in Asia

Commodities and the Aussie dollar remain well bid

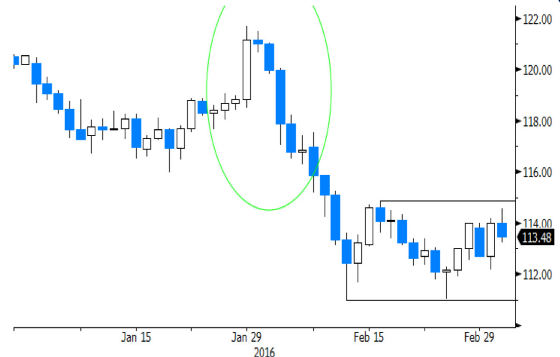
Dollar rebound slows ahead of the payrolls

On Wednesday, the US ADP reported marginally stronger than expected net private job growth of 214,000. However, it was not enough to support further broad-based USD gains. The dollar set a minor short-term high against the euro with EUR/USD touching 1.0826. Later in US dealings, the dollar fell even prey to profit-taking. The Fed Beige Book reporting mixed conditions across different districts might have been slightly USD negative. EUR/USD closed the session 1.0868, unchanged from Tuesday. USD/JPY ended the at 113.43, near the intraday slows (from 114.01).

This morning, sentiment on risk remains cautiously positive even as the China Caixin services PMI declined from 52.4 to 51.2. The Japanese PMI slowed too. Investors assume that soft activity data will oblige authority to continue stimulating the economy. Oil and copper also maintain an upward price bias. The Aussie dollar had a strong run yesterday and trades north of AUD/USD 0.73. A key range top (0.7386) is coming on the radar. **The cautious risk-off sentiment is helping USD/JPY to reverse yesterday setback.** The pair trades again in the 114.05 area. The recent EUR/USD downtrend shows a loss of momentum. EUR/USD is little changed in the 1.0865 area.



EUR/USD important support area is coming within reach.



USD/JPY nearing ST range top

US non-manufacturing ISM key factor for USD trading

USD/JPY and EUR/USD are nearing key resistance/support levels

Today, the calendar is well filled. The final **EMU services PMI is expected to confirm the advance reading of 53.0** in February, but we see risks for a **limited upward revision.** **EMU retail sales** are expected to have increased for a second straight month in January (consensus: 0.1% M/M), but we are **more optimistic given good data from member states.** The **US non-manufacturing ISM** will be interesting after a poor US services PMI. The consensus is looking for a limited drop, from 53.5 to 53.1. The indicator has weakened sharply in the previous two months and therefore we see **risks for an upward surprise**, in line with the manufacturing ISM. Finally, **US jobless claims** are expected to have dropped slightly to 272,000. Coming after the President's Day week, we believe that an upward surprise is possible.

Overall constructive data are supportive for core bond yields and for the dollar. The modestly constructive equity sentiment and the bid in commodities points in the same direction.

Thursday, 03 March 2016

Recent price action suggests that USD/JPY is a bit more sensitive to a USD positive context. USD/JPY might go for a test of the 114.85 short-term range top. The decline of EUR/USD shows signs for fatigue as the pair is nearing the 1.0810 support. In both cases we assume that a sustained break, if any, needs the confirmation of strong payrolls tomorrow.

From a technical point of view, the dollar gradually fought back from the EUR/USD 1.1376 reaction top. The decline below 1.1060 was a ST negative for EUR/USD and finally opened the way to the 1.0810/1.0711 support area. A pause in the USD rally might be on the cards when EUR/USD nears this area. **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. The USD/JPY rebound is nearing a first important resistance at **114.87**. **The 115.98 January low is the next resistance**.

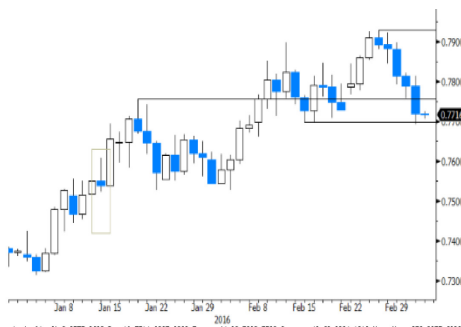
Sterling shows signs of bottoming out

R2	0,8066	-1d
R1	0,7929	
EUR/GBP	0,771	-0,0052
S1	0,7691	
S2	0,7526	

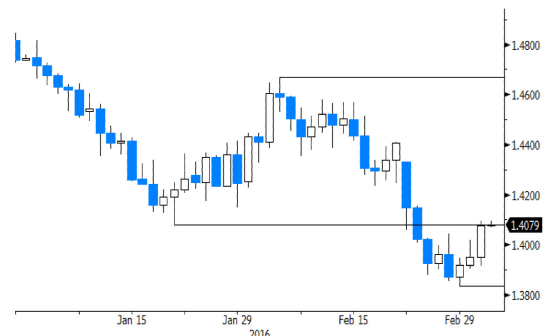
Yesterday morning, sterling was temporary captured by a new selling wave. **The UK construction PMI was also weaker than expected and came on the back of a poor manufacturing PMI**. Cable dropped to the 1.3915 area. EUR/GBP rebounded north of 0.78. **However, sterling sellers still couldn't gain control**. The losses were reversed by noon and sterling even rebounded later in the session. EUR/GBP tested the 0.7596 support area., but a sustained break didn't occur. The pair closed the session at 0.7719 (down from 0.7789); Cable rebounded north of 1.40 and closed the session at 1.4078 (from 1.3952)

Today, the eco calendar contains the Halifax house prices and the **UK services PMI**. A moderate decline from 55.6 to 55.1 is expected. We continue to watch whether sterling will resist more negative eco news. A big negative surprise will probably slow yesterday's rebound of sterling. Even so, **we have the impression that the Brexit theme is gradually losing its negative spin on sterling. In case of good UK eco data, the positive reposition of sterling might continue**.

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 last week. 0.8066 is the next important resistance. On the downside, the pair yesterday tested a first support at 0.7596. A sustained break below this level would be first indication that sterling sentiment improves.



EUR/GBP: starting a topping out process



GBP/USD: looking for a bottom?

Calendar

Thursday, 3 March		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Feb)	--	41.6%
14:30	Nonfarm Productivity (4Q F)	-3.0%	-3.0%
14:30	Unit Labor Costs (4Q F)	4.4%	4.5%
14:30	Initial Jobless Claims	270K	272k
14:30	Continuing Claims	2250K	2253k
15:45	Markit Services PMI (Feb F)	50.0	49.8
16:00	ISM Non-Manf. Composite (Feb)	53.0	53.5
16:00	Factory Orders (Jan)	2.1%	-2.9%
Japan			
03:00	Nikkei PMI Services (Feb)	A 51.2	52.4
China			
02:45	Caixin PMI Services (Feb)	A 51.2	52.4
UK			
08:00	Nationwide House Prices MoM YoY (Feb)	0.4%/4.9%	0.3%/4.4%
09:30	Halifax House Prices MoM – 3Mths/Year (Feb)	0.0%/10.4%	1.7%/9.7%
10:30	Markit/CIPS Services PMI (Feb)	55.1	55.6
EMU			
10:00	Markit Services PMI (Feb F)	53.0	53.0
10:00	Markit Composite PMI (Feb F)	52.7	52.7
11:00	Retail Sales MoM / YoY (Jan)	0.1%/1.3%	0.3%/1.4%
Germany			
09:55	Markit Germany Services PMI (Feb F)	55.1	55.1
France			
07:30	Mainland Unemp. Change 000s (4Q)	A -47K	75k
07:30	ILO Unemployment Rate (4Q)	A 10.3%	10.6%
09:50	Markit France Services PMI (Feb F)	--	49.8
09:50	Markit Composite PMI (Feb F)	--	49.8
Italy			
09:45	Markit/ADACI Italy Services PMI (Feb)	52.8	53.6
Spain			
09:15	Markit Services PMI (Feb)	54.0	54.6
Sweden			
08:30	Swedbank/Silf PMI Services (Feb)	--	59.3
Events			
16:45	Fed's Kaplan Speaks at University of Texas		
18:45	BoE's Haldane Speaks in Manchester		
Spain	Bond Auctions (€3.5-4.5B 0.75% Jul2021 New Bono & 1.95% Jul2030 Obligacion) & (€0.25-0.75B 1.8% Nov2024 IL Obligacion) (10:30)		
France	OAT Auction (€8-9B 1.75% May2023, 0.50% May2026, 1.5% May2031)		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,85	0,01	US	0,86	0,02	DOW	16899,32
DE	0,21	0,06	DE	-0,55	0,01	NASDAQ for Exch - NQI	#VALUE!
BE	0,54	0,05	BE	-0,43	0,00	NIKKEI	16960,16
UK	1,47	0,06	UK	0,35	0,00	DAX	9776,62
JP	-0,01	0,02	JP	-0,22	0,02	DJ euro-50	3022,14

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,234
3y	-0,155	1,021	0,823	Euribor-1	-0,27	-0,01	Libor-1 USD	0,51
5y	0,003	1,254	0,933	Euribor-3	-0,21	0,00	Libor-3 USD	0,59
10y	0,595	1,674	1,411	Euribor-6	-0,14	0,00	Libor-6 USD	0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0858	0,0009	EUR/JPY	123,85	-0,15		163,8698	1241,4	36,86
USD/JPY	114,09	-0,23	EUR/GBP	0,771	-0,0052	-1d	0,00	14,60	-0,04
GBP/USD	1,4077	0,0107	EUR/CHF	1,0828	-0,0013				
AUD/USD	0,7311	0,0075	EUR/SEK	9,352	0,00				
USD/CAD	1,3412	-0,0011	EUR/NOK	9,4109	0,03				

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
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
Dublin Research		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)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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