



Sunrise

Wednesday, 13 April 2016

Rates: Downward correction core bonds set to continue?

Today's eco calendar focusses on US retail sales and PPI data. Risks are on the upside of expectations. In combination with improving risk sentiment and higher oil prices, this could prolong the downward correction on core bond markets.

Currencies: Dollar rebounds slightly as global sentiment improves

Yesterday, the dollar succeeded only a modest gain against the euro and the yen even as global risk sentiment improved due to a higher oil price. Today, the focus is on the US retail sales. A good figure should support the dollar further. Sterling extends its rebound as GBP shorts scale back positions after higher than expected UK inflation data.

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 rebounded yesterday** supported by a rallying oil price. The S&P ended almost 1% higher. **This morning, Asian shares rally** as Chinese trade data came out surprisingly strong and the yen weakens further against the US dollar.
- The **IMF cut its outlook for global growth further to 3.2% this year** from 3.4% previously, but warned that the global economy was vulnerable to shocks like sharp currency devaluations and worsening geopolitical conflicts. The fund also warned a **British exit from the EU could do "severe regional and global damage by disrupting established trading relationships"**.
- China reported stronger than expected trade data for March** with exports surging 18.7% Y/Y in renminbi terms following declines in January and February, while imports dropped only slightly. The data are still volatile after the Lunar New Year holidays, but the strong recovery suggests that demand is picking up.
- Crude oil prices extended their rally, gaining almost 5%**; with the Brent closing at \$44.69/barrel, its highest level since early December as the US government said its production dropped in March and will likely continue to fall. The WTI closed above \$42/barrel.
- Rating agency Fitch affirmed the US AAA credit rating and its stable outlook**, supported by the continued resilience of the US economy and status of the dollar and Treasuries, **but warned that the country's debt and deficit outlook have deteriorated**.
- Today, the **eco calendar heats up** with the **US retail sales, PPI inflation data and euro zone industrial production**. The **Bank of Canada decides on rates** and the **Fed releases its Beige Book**. JP Morgan announces Q1 earnings.

Rates

	US yield	-1d
2	0,7544	0,0437
5	1,2304	0,0567
10	1,7919	0,0490
30	2,6089	0,0344

Risk on sentiment stops bond rally

Bear steepening German yield curve

US short end of the curve hit hard suggesting some reversal in (too low) FF rate expectations

Italy can't profit despite banking plan

	DE yield	-1d
2	-0,5130	0,0000
5	-0,3630	0,0200
10	0,1720	0,0500
30	0,8916	0,0842

More Fed speak confirms that the FOMC will stand put in April

Upside risks retails sales and PPI

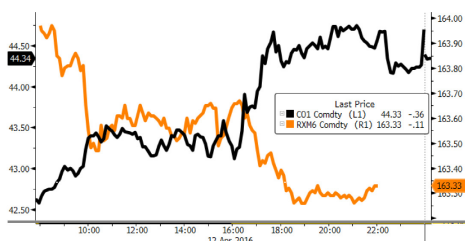
Higher oil prices finish bond rally

Yesterday, global core bonds were hard hit on the back of higher oil prices, stronger equities and thus a general risk on sentiment. Heavy EMU bond supply was an additional factor that especially affected the very long end of the curve. The bond selling mainly took place in two waves: one in mid-European morning and one in mid-US morning. The second one was clearly associated by an equity and oil rally, while the trigger of the first was mainly an oil spike and supply. Rumours of an oil deal between Russia and Saudi Arabia triggered oil gains. The US 3-yr Note auction went well, but couldn't change bond sentiment for the better. For some days, it looked already that the bond rally ran out of steam, but it needed yesterday's risk-off sentiment to convince traders and investors to sell core bonds. In a daily perspective, the German yield curve bear steepened with yields 4 bps (2-yr) to 5.3 bps (5-yr) higher. The hit on the front end suggests that markets start discounting already more Fed tightening. The market recently was quite extremely priced at the front end with only 2 hikes discounted till end 2018. Changes on the US yield curve ranged between +1.6 bps (2-yr) and +2.9 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed 2/3 bps in Spain/Portugal. Italian bonds couldn't profit from the bad bank agreement.

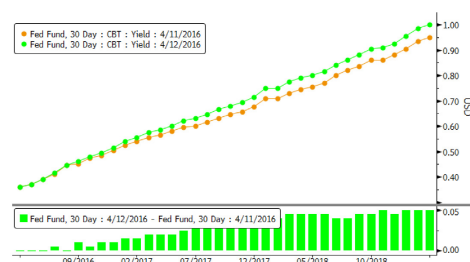
Philly Fed Harker and Dallas Fed Robert Kaplan's remarks Tuesday echoed Chair Janet Yellen's call for a slow approach to policy tightening that reinforces expectations that the FOMC won't act at the April 26-27 meeting. Richmond's Lacker argued in favour of tightening, while San Francisco's John Williams said that two or three increases this year was a reasonable call.

Busy eco calendar: US Retail sales key

Last month, US retail sales disappointed with March sales declining and a substantial downward revision to the January data. March headline retail sales are expected to show a limited improvement (0.1% M/M), but the control group is forecast to show a more substantial 0.4% M/M gain, as vehicle sales disappointed, gasoline station sales might have rebounded and strong food sales due to the early timing of Easter. For both the headline and control group, we see upside risks. Both US headline and core PPI are forecast to have increased further in March. Headline PPI is expected to have increased by 0.3% M/M and 0.3% Y/Y from 0% Y/Y in February as prices of goods might start to pick up while the early timing of Easter might give prices in the services sector an extra boost. PPI ex food and energy is forecast to show a more limited increase to 1.3% Y/Y from 1.2% Y/Y. Also for the PPI data, we see upside risks



Bund (orange) and Brent future (black): Bond selling as oil prices jump in two separate waves



US FF strip curve: Higher oil revives rate hike expectation somewhat as these expectations became extremely dovish

R2	164,6	-1d
R1	163,74	
BUND	163,3	-0,7400
S1	160,81	
S2	160,11	

Italian and US auctions

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. Grey market trading suggests that the new 3-yr BTP will be priced to yield 5.7 bps (in ASW spread terms) above the previous 3-yr BTP (0.3% Oct2018). That corresponds with a 7 bps pick-up in yield terms. The other BTP's on offer trade rather rich on the Italian curve. Volatility was also rather high the past week because of the troubled Italian banking sector and the government's push for a bailout fund. With everything fresh in mind, it might hamper demand today despite an Italian redemption this week. **The US Treasury started its mid-month refinancing operation with a solid \$24B 3-yr Note auction.** The auction stopped through the 1:00 PM bid side, but the bid cover remained light (2.72). Bidding details showed strength in the indirect bid, but plunging dealer demand. **Today, the US Treasury continues with a \$20B 10-yr Note auction.**

Downward correction set to continue

Overnight, Asian equity markets have a strong run with China and Japan outperforming (+2.5%). Oil prices got another boost during yesterday's US session and hover around the highs this morning (Brent crude >\$44/barrel). The US Note future trades with a downward bias, suggesting a weaker opening for the Bund as well.

Today's eco calendar focusses on US retail sales and PPI data. Risks for both are on the upside of expectations, which is a negative for US Treasuries. **Improving risk sentiment and higher oil prices are negative for core bonds as well. We expect the downward correction to continue.** Peripheral markets and the situation of the Italian banking sector remain a wildcard.

Technically, the US Note future broke first resistance (129-26) as Yellen was more dovish than at the March policy meeting. A stronger batch of eco data couldn't turn the tide. Next resistance at 131-14 managed to hold and suggests return action lower. **We would short US Treasuries. The German 10-yr yield headed for a test of the all-time low (0.05%). We became wary at those absurd levels and started selling Bunds below 0.10% as we "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.**



German Bund: time to add short positions



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Test 131-12 rejected. More downside

Currencies

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,13525	-0,0061
S1	1,1327	
S2	1,1144	

Dollar profited only marginally from a better global sentiment

Sentiment on risk improves on good Chinese trade data.

The USD momentum improves slightly

US retail sales taking center stage

Decent US eco data and a risk-on sentiment might support the dollar

Dollar cautiously higher as sentiment on risk improves

On Tuesday, rising oil prices drove global markets. The oil rally initially weighed temporary on the dollar, but probably wasn't the only factor. EUR/USD tested the recent highs, but the test was rejected. USD/JPY held north of 108 as equity sentiment improved throughout the day. USD/JPY closed the session at 108.54 (from 107.94). EUR/US finished the day at 1.1386 (from 1.1408).

Overnight, Asian equities join the WS rally, with China and Japan recording gains of 2 to 3%. Regional sentiment is supported by the rise in oil and by better than expected Chinese trade (export) data (see headlines). The rise in oil and commodities lifted AUD/USD. The pair is testing the recent highs just north of 0.77. The dollar also rebounds, but the gains against the yen and the euro remain modest despite higher short-term US yields. USD/JPY is nearing the 109 big figure. EUR/USD trades currently in the 1.1360 area.

Today, The eco calendar heats up today with the US retail sales and PPI inflation data and euro zone production figures. ECB's Knot, Nowotny and Constancio are scheduled to speak, the Fed will release its Beige Book and the Bank of Canada will decide on rates.

March US retail sales are expected to show a modest improvement after a disappointing January & February release. We see risks for a slightly better than expected outcome. Both US headline and core PPI are forecast to have increased further in March. Headline PPI is expected to have increased by 0.3% Y/Y. Also for the PPI we see upside risks. Better than expected US data published in a context of global positive risk sentiment should be supportive for the dollar. Regarding this sentiment on risk, we also keep a close eye on the US bank results, starting with JPM today. The latter is a wildcard, but in a day-to-day perspective, the context looks USD supportive. Nevertheless, the dollar remains vulnerable to negative surprises (which is not our favourite scenario). Will the dollar drop below recent EUR/USD consolidation pattern? (ST correction low 1.1327) and will USD/JPY be able to move away from the recent lows. Over the recent days/overnight, the dollar performance was a bit disappointing.



EUR/USD struggles to move away from the recent highs



USD/JPY tries a cautious rebound

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 a new 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 retested early this week. A sustainable USD/JPY rebound is difficult as long as risk sentiment remains fragile. **We look whether official talk on more BOJ easing or 'verbal interventions' can stop the yen rebound**. USD/JPY has moved into oversold territory. So, there is room for a technical rebound/consolidation.

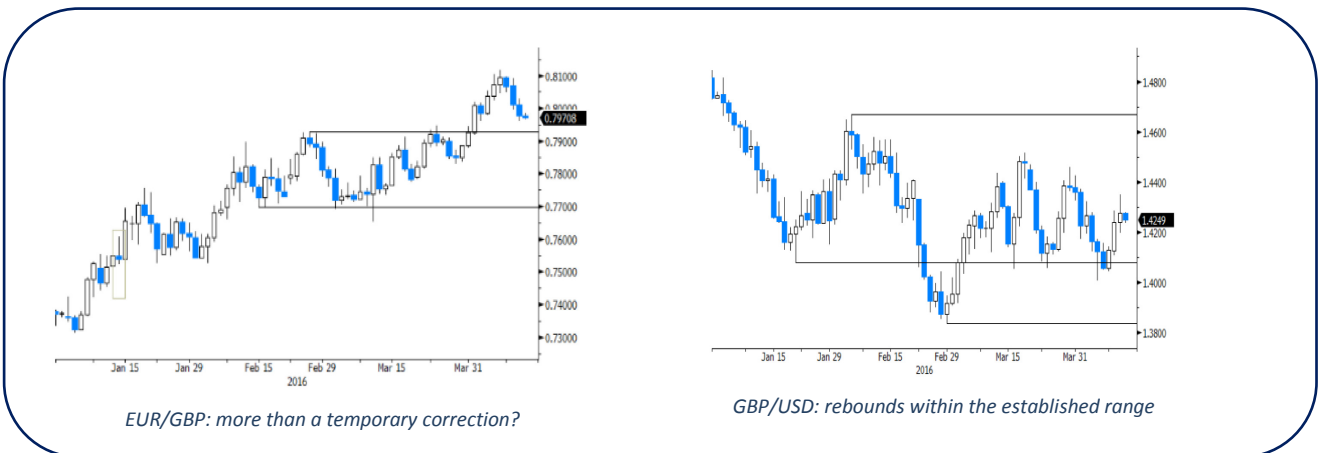
R2	0,8153	-1d
R1	0,8117	
EUR/GBP	0,7967	-0,0042
S1	0,7947	
S2	0,7774	

Sterling extends rebound

On Tuesday, sterling shorts were again wrong-footed for a second consecutive day. This time the UK data were to blame. Both UK March headline (0.5% Y/Y) and core CPI (1.5% Y/Y) surprised on the upside. Especially the rise in core inflation, if sustained, would be important for the BoE. EUR/GBP dropped below the 0.80 mark. The pair closed the session at 0.7976 (from 0.8011). Cable jumped from the 1.4235 area to fill offers just below 1.4350. However, the pair returned part of the early gains on a USD rebound later in the session and closed at 1.4275 (from 1.4239).

Today, the UK eco calendar only contains the BoE credit conditions and liabilities survey. So, sterling trading will probably be driven by global factors. Positive risk sentiment and a rise in oil prices are usually a slightly positive for sterling. We don't expect a big leap higher however after the rebound earlier this week. The negative momentum clearly eased, at least short term.

The technical picture of EUR/GBP improved further as the pair broke above the resistance at 0.7929/31 and at 0.8066. **The recent sterling decline has been fast, raising the chances for a (temporary) pause, which finally occurred this week**. **Even so, we assume that sterling sentiment will remain fragile as long as the polls indicate a neck-and-neck race for the 23 June referendum**.



Calendar

Wednesday, 13 April		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	2.7%
14:30	Retail Sales Advance MoM (Mar)	0.1%	-0.1%
14:30	Retail Sales Ex Auto and Gas (Mar)	0.3%	0.3%
14:30	Retail Sales Control Group (Mar)	0.4%	0.0%
14:30	PPI Final Demand MoM YoY (Mar)	0.2% / 0.3%	-0.2% / 0.0%
14:30	PPI Ex Food and Energy MoM YoY (Mar)	0.1% / 1.3%	0.0% / 1.2%
16:00	Business Inventories (Feb)	-0.1%	0.1%
Canada			
16:00	Bank of Canada Rate Decision	0.50%	0.50%
Japan			
01:50	Money Stock M2 YoY (Mar)	A 3.2%	3.1%
01:50	Money Stock M3 YoY (Mar)	A 2.6%	2.5%
China			
04:22	Trade Balance (Mar)	A \$29.86b	\$32.59b
04:22	Exports YoY (Mar)	A 11.5%	-25.4%
04:22	Imports YoY (Mar)	A -7.6%	-13.8%
EMU			
11:00	Industrial Production SA MoM YoY (Feb)	-0.7% / 1.3%	2.1% / 2.8%
France			
08:45	CPI EU Harmonized MoM YoY (Mar F)	0.7% / -0.1%	0.7% / -0.1%
Norway			
10:00	House Price Index QoQ (1Q)	--	0.6%
Spain			
09:00	CPI EU Harmonised MoM YoY (Mar F)	2.0% / -1.0%	2.0% / -1.0%
Events			
JP Morgan (12:45), SanDisk Announce Q1 Earnings			
10:00	ECB's Knot in Dutch Parliament to Discuss ECB Monetary Policy		
10:30	Bank of England Credit Conditions & Bank Liabilities Surveys		
16:00	Bank of Canada Releases Monetary Policy Report		
18:35	ECB's Nowotny Gives Keynote Speech at Event in New York		
20:00	U.S. Federal Reserve Releases Beige Book		
23:15	ECB's Constancio Speaks in New York		
Italy	Bond Auction (€3-3.5B 0.1% Apr2019) (11:10)		
Switzerland	Bond Auction (11:15)		
Sweden	Bond Auction (SEK2B 2.5% 2025 & SEK2B 1% 2026) (11:03)		
US	10Yr Notes Auction (\$20B) (19:00)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,79	0,05	US	0,75	0,04	DOW	17721 17721,25
DE	0,17	0,05	DE	-0,51	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,58	0,06	BE	-0,46	0,01	NIKKEI	16381 16381,22
UK	1,44	0,04	UK	0,44	0,04	DAX	9761,47 9761,47
JP	-0,08	0,01	JP	-0,25	0,01	DJ euro-50	2942 2942,09

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,341 -0,008
3y	-0,125	0,978	0,859	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,020	1,191	1,009	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,575	1,635	1,438	Euribor-6	-0,13	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1356	-0,0051	EUR/JPY	123,66	0,09		175,4862	1248,4	44,15
USD/JPY	108,92	0,59	EUR/GBP	0,7969	-0,0040	-1d	3,66	-6,17	1,58
GBP/USD	1,4245	0,0007	EUR/CHF	1,0876	-0,0005				
AUD/USD	0,7668	0,0049	EUR/SEK	9,2005	-0,05				
USD/CAD	1,2791	-0,0119	EUR/NOK	9,3079	-0,05				

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