



Sunrise

Monday, 18 April 2016

Rates: Absence of oil agreement supports bonds in the opening

Oil dropped lower overnight as the Doha meeting didn't lead to an oil production freeze. This triggered some risk aversion which supported US Treasuries overnight and caused a higher Bund opening. We aren't completely convinced that the impact on oil will be big and lasting. Therefore, we are cautious on core bonds and favour a sell-on-upticks.

Currencies: USD/JPY nears correction low

On Friday, the dollar lost slightly ground as oil declined, sentiment on risk deteriorated and US eco data disappointed. However, the damage for the dollar was limited. Today, the eco calendar is thin. USD/JPY nears the correction low as Asian equities are sold. EUR/USD is still captured in technically driven sideways trading.

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	→

- After a volatile session, **US Equities ended marginally lower** led by a sell-off in energy shares. This morning, **most Asian shares trade lower**. Japanese stocks lose 3% as the yen is nearing again its recent highs and also Chinese shares are underperforming.
- **OPEC and few other non-OPEC members failed to reach an agreement to freeze output yesterday** as Saudi Arabia insisted Iran should be part of any agreement. The Brent oil price dropped 5% this morning, but tries to reverse part of its losses, trading currently around \$41.40/barrel.
- **Brazil's congress voted yesterday to impeach President Dilma Rousseff, which might bring an abrupt end to 13 years of Ms. Rousseff's socialist Workers' party (PT) rule** and allow vice-President Temer to form a new government. The baton now passes to senate, which might open the formal impeachment process.
- **Chinese home prices rose in March at the fastest pace in almost two years** led by spectacular rises in big cities as Shenzhen (61.6% Y/Y), Shanghai (25% Y/Y) and Beijing (16% Y/Y). Local authorities however tightened home purchase requirements in the two top performing cities, which might slow price increases in the coming months.
- **Rating agency Moody's raised Argentina's credit rating by one notch to B3 from Caa1**, saying the reforms put in place by President Macri have been encouraging, although the country still faces a litany of challenges. The outlook is stable. The country envisage to tap the bond market this week
- Today, the **eco calendar is extremely thin** both in the US and euro zone with only the **US NAHB housing market indicator**. Fed's Dudley and Kashari and Rosengren are scheduled to speak before the FOMC black-out period kicks in.

Rates

Core bonds higher on weak oil and weak US data

Core bonds higher, as oil hit by profit taking ahead of Doha meeting and consumer sentiment eases

Good performance US short end curve

Yield curves bull flatten

Greece outperforms

On Friday, global core bonds benefited from lower oil prices and weaker than expected Michigan consumer confidence data. Stronger US NY business sentiment and weaker production were ignored earlier in trading. Equities showed intraday weakness, but closed with minor losses. Oil prices closed lower but also well off the lows. Core bonds ignored the rebound of oil and equities towards the end of US trading. Michigan consumer sentiment weakened modestly. It was the fourth consecutive decline. The level is still ok, but felt chilly in combination with the weak production data. It suggests that more bad news from the consumer may be brewing. Michigan pointed to receding real income expectations and unease about the upcoming election. On top of it, the 5-to-10-yr inflation expectations dropped back to the historical low of 2.5%, reached twice last year. **It was no coincident that the decline of the 2-yr US yield occurred on the publication. In a daily perspective**, the US yield curve bull flattened slightly with yields 3.3 bps (2-yr) to 4.1bps (30-yr) lower. The German yield curve shifted in a more pronounced bull flattening way with yields 0.6 bps (2-yr) to 4.6 bps (30-yr) lower. On **intra-EMU bond markets**, peripheral 10-yr yield spread changes versus Germany were mixed and ranged between -4 bps (Portugal) and +3 bps (Spain). Greece outperformed (-33 bps). An ECB spokesman confirmed that the ECB considers including EFSF bonds held by Greek banks in its QE-programme.

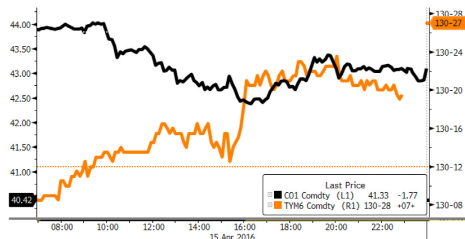
	US yield	-1d
2	0,7212	-0,0487
5	1,188	-0,0603
10	1,7273	-0,0612
30	2,5374	-0,0562

	DE yield	-1d
2	-0,5090	-0,0090
5	-0,3910	-0,0350
10	0,1180	-0,0510
30	0,8025	-0,0465

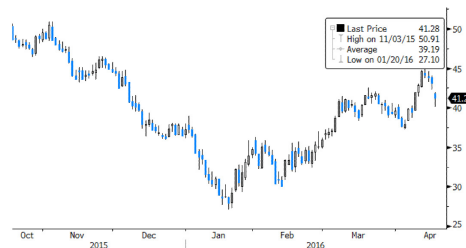
Thin eco calendar

Upside risks NAHB housing survey

The **eco calendar is very thin today** with only the US NAHB housing market index. Since the end of last year, the **US NAHB housing market index** has weakened somewhat from a level of 65 to 58 currently. For April however, the consensus is looking for a limited improvement to 59. Improving weather conditions and lower mortgage rates recently should be supportive for housing market sentiment as well as the continued improvement in labour market conditions. **We believe therefore that an upward surprise is not excluded. The outcome of the oil negotiations (see below), the ECB meeting, the EMU PMI business surveys and US earnings are the key ingredients for this week's trading.**



US T-Note future (orange) and Brent future (black): US Treasuries gained ground initially on declining oil, later on helped by a weak Michigan consumer sentiment survey.



Oil price drops after oil-producing countries didn't agree on a limitation of production. Brent is off the worst levels overnight, but the reaction in Europe and US still has to be watched for.

R2	165	-1d
R1	164,6	
BUND	164,09	0,7000
S1	160,81	
S2	160,11	

Plain vanilla Belgian auction to start EMU bond supply?

The Kingdom of Belgium starts this week's scheduled EMU bond supply by tapping two off the run OLO's (OLO 61 4.25% Sep2021 & OLO 44 5% Mar2035), the on the run 10-yr OLO 77 (1% Jun2026) and the on the run 15-yr OLO 75 (1% Jun2031). They aim to raise a combined €2.8-3.5B. The bonds on offer traded relatively stable in ASW spread terms going into the auction and trade normal on the Belgian yield curve. We expect a plain vanilla auction. **On Wednesday, the German Finanzagentur holds a 10-yr Bund auction (€4B 0.5% Feb2026). On Thursday, the French debt agency launches a new 5-yr OAT (0% May2021) and taps the off the run OAT (3% Apr2022) for a combined €5.5-6.5B.** Additionally, they intend to raise €1-1.5B via inflation-linked bonds. **The Spanish treasury sells three longer-dated Obligacions: 5.9% Jul2026, 5.75% Jul2032 and 4.7% Jul2041.** The amount on offer still needs to be announced. This week's auctions will be supported by a €7.2B Irish redemption.

Sell the oil-induced uptick

Overnight, most Asian equities trade lower with Japan underperforming. The collapsed Doha talks, the Japanese earthquakes and a stronger yen drive the move. Brent crude initially dropped from \$43/barrel to \$40/barrel, but managed to undo half of the losses. The US Note future trades higher and we expect a stronger opening for the Bund as well. Chicago Fed Evans and St. Louis Fed Bullard ruled out an April hike because of concerning Q1 GDP data, but both expect more tightening later this year.

Today's eco calendar is empty apart from speeches by Fed Dudley and Kashkari. The failed meeting by some of the world's biggest oil producers to freeze output grabs most attention. It triggered a buy-the-rumour, sell-the-fact reaction on oil markets this morning, but we're not convinced that it would initiate a new sustained down-leg in oil prices. A large part of the recent rally is also driven by lower supply from eg shale producers. **We would use the stronger opening of the Bund and the US Note future as a sell-on-uptick opportunity.**

Technically, the US Note future remains below 131-14 resistance (upper band sideways range). **We would short US Treasuries and aim for return action lower as US markets are too dovish positioned. We also hold on to our sell-on-upticks approach in the Bund. We "fear" that a sudden correction like this time around last year could be around the corner. The same ingredients are available: a unilaterally positioned market (long) with absurd low yield levels, 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	1,12845	0,0026
S1	1,1144	
S2	1,1058	

Dollar correcting slightly lower as sentiment turns risk-off

Sentiment in Asia turns risk off on oil

Oil producers fail to reach an agreement on limiting production

USD/JPY nears the correction low

ECO calendar is thin today

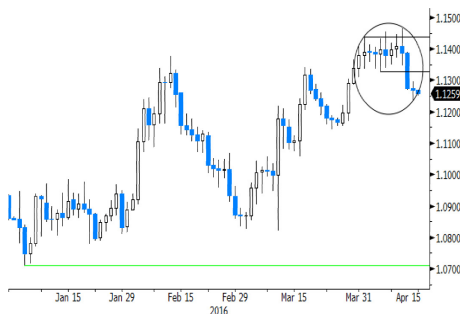
Dollar slightly in the defensive

Dollar corrects lower as oil declines

Friday, the dollar fell prey to modest profit taking as equities and especially oil returned part of the gains build up earlier in the week. However, the moves were only of intraday significance. The US eco data were mixed, but the production output and the Michigan consumer confidence disappointed. EUR/USD rebounded temporary north of 1.13, but closed the session at 1.1284, only slightly higher above Thursday 's close of 1.1268. USD/JPY finished the session at 108.76 (from 109.40).

During the weekend, a group of major oil producers failed to reach a deal on limiting oil supply. Brent oil tumbled temporary to \$40 p/b his morning. Asian equities are sold as is the case for other commodities and commodity related currencies. Japanese equities underperform as USD/JPY returned below 108. The pair is coming within reach of the recent lows. At the G20, Japan didn't get support to take action against the raise of the yen at current levels. AUD/USD dropped to the 0.76 area, but already rebounded to the 0.7675 currently. EUR/USD opened north of 1.13, but trades again near Friday's closing levels.

The eco calendar is very thin today with only the US NAHB housing market index. Since the end of last year, the US NAHB housing market index has weakened from 65 to 58 currently. The consensus is looking for a limited improvement to 59. Improving weather conditions and lower mortgage rates recently should be supportive for housing sentiment as well as the continued improvement in labour market conditions. We believe therefore that an upward surprise possible. However, the impact on the dollar will be limited. The outcome of the Doha oil negotiations will dominate the start of trading. Later this week, we look out for the ECB meeting (Thursday) the EMU PMI business surveys (Friday) and US earnings.



EUR/USD: no clear trend for now



USD/JPY: correction low again within reach

Last week, the dollar rebounded slightly, but the moves in EUR/USD and USD/JPY didn't break any really important technical levels, suggesting that sentiment on the dollar remains fragile. This is especially the case for USD/JPY. We are not convinced that the decline of oil after the Doha meeting will have a lasting impact on global markets. Even so, in a day to day perspective, we look out whether USD/JPY tests/breaks the 107.63 area.

A break below would further damage the picture if this cross rate and, to a lesser extent, of the dollar in general. Even so, the price action in EUR/USD is less USD negative. For EUR/USD we start the week with a neutral bias, waiting for more US data.

The dollar lost ground after the March ECB and FOMC meetings. **EUR/USD set a new 2016 high at 1.1465, but the key 1.1495 resistance remained intact. Last week's price action suggests that the topside of EUR/USD is better protected. 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 risk aversion pushed USD/JPY below the 110.99/114.87 range. The pair reached a new correction low below 108. USD/JPY succeeded a technical rebound last week. However, a flaring up of risk-off and little support for the G20 to avoid yen strength is at play. Japanese authorities apparently lack tools to prevent further yen strength if sentiment remains risk off. We don't row against the yen positive tide for now.

Sterling slightly in the defensive

On Friday, only the less important construction output data were published in the UK. Construction output declined again in February. However, the report was largely ignored for sterling trading. Sterling was driven by technical considerations and global market factors. Given the overall context (correction in equities and a rather sharp decline of oil) sterling performed quite well. Cable rebounded as the dollar declined across the board, especially during the US trading session. Cable closed the session at 1.4202 (from 1.4155 on Thursday). Even EUR/GBP initially traded with a slightly negative bias. The pair closed the session at 0.7944 (from 0.7961 on Thursday).

This morning, UK Rightmove house prices remained fairly strong at 1.3% M/M and 7.3% Y/Y. However the report doesn't help sterling. The global risk-off context and the decline of oil weighed. EUR/GBP trades currently in the 0.7975 area. Today, sterling trading will again at the mercy of global market trends. The context is sterling negative, but we have the impression that sterling has become a bit less sensitive to global negative news than was the case of late.

The technical picture of EUR/GBP improved further as the pair broke above the resistance at 0.7929/31 and 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.

R2	0,8153	-1d
R1	0,8117	
EUR/GBP	0,7968	0,0014
S1	0,7925	
S2	0,7774	



EUR/GBP: more than a temporary correction?



GBP/USD: holding a sideways range

Calendar

Monday, 18 April		Consensus	Previous
US			
16:00	NAHB Housing Market Index (Apr)	59	58
Canada			
14:30	Int'l Securities Transactions (Feb)	--	13.51b
China			
03:30	Property Prices (Mar)		
UK			
01:01	Rightmove House Prices MoM YoY (Apr)	A 1.3%/7.3%	1.3% / 7.6%
Events			
PepsiCo (12:30), Morgan Stanley (13:00), IBM (aft mkt) Announce Q1 Earnings			
14:30	Fed's Dudley Gives Opening Remarks at Economics Conference		
18:30	Fed's Kashkari Speaks in Minneapolis		
Belgium	OLO Auction (4.25% OLO61 2021, 1% OLO71 2026, 1% OLO75 2031, 5% OLO44 2035) (12:00)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,73	-0,06	US	0,72	-0,04	DOW	17897 17897,46
DE	0,12	-0,05	DE	-0,52	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,52	-0,05	BE	-0,46	-0,02	NIKKEI	16276 16275,95
UK	1,42	-0,03	UK	0,40	-0,05	DAX	10051,57 10051,57
JP	-0,11	-0,01	JP	-0,26	-0,01	DJ euro-50	3054 3054,34

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,341 -0,001
3y	-0,138	0,925	0,858	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,000	1,133	0,999	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,513	1,567	1,412	Euribor-6	-0,14	0,00	Libor-6 USD	0,74 0,74

Currencies			-1d	Currencies			-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1284	0,0024		EUR/JPY	121,83	-1,49			173,6355	1235,5	41,43
USD/JPY	107,965	-1,57		EUR/GBP	0,7965	0,0008		-1d	-1,14	4,70	-2,48
GBP/USD	1,4162	0,0017		EUR/CHF	1,0908	0,0019					
AUD/USD	0,7657	-0,0050		EUR/SEK	9,1893	0,02					
USD/CAD	1,2962	0,0148		EUR/NOK	9,3754	0,10					

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