Sunrise

Wednesday, 20 April 2016

Rates: Risk aversion positive for bonds, but keep ECB in mind

Risk sentiment soured overnight with China underperforming as more and more cracks appear in the corporate bond bubble. Oil prices are lower as well. The combination of lower stocks and lower oil is positive for core bonds though many investors will remain side-lined ahead of tomorrow's ECB meeting.

Currencies: Dollar struggles despite positive risk sentiment

Yesterday, USD/JPY succeeded only modest gains despite the global risk-on rally. The US currency lost ground against most other majors. Poor US housing data weighed, too. Today, the risk rally might slow. However, this probably won't help the dollar. In the UK, sterling traders look out for the UK labour market 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 showed limited gains yesterday**, but the S&P managed to close above the 2100 level, for the first time this year. **This morning, most Asian shares trade slightly lower. Chinese stocks underperform**, losing up to 5% as the PBOC suggested the appetite for more stimulus is waning and corporate bond troubles appear.
- **Donald Trump and Hillary Clinton both won a resounding victory in the New York primaries,** ending losing streaks for both candidates and strengthening their commanding leads.
- **Aside from continuing to support steady economic growth, future monetary policy will focus on guarding against macroeconomic risks**, especially avoiding rapid growth in companies' leverage, and will also consider the impact of increased loans on the cost of living and real estate prices, the **Chief Economist of the PBOC said late yesterday.**
- After a two-day rally, **Brent crude oil prices dropped lower this morning** as the Kuwait strike, which hampered production this week, came to an end. The Brent oil price trades currently around $42.80/barrel, while it closed above $44/barrel yesterday evening.
- **ASML holding, a key supplier to major chipmakers, reported first quarter earnings ahead of expectations** and said it expected a strong second quarter. **Intel** announced yesterday evening an increase in profits by 3%, slightly above expectations, but projections disappointed.
- Today, **the eco calendar contains the UK jobless claims and US existing home sales.** ECB President Draghi is scheduled to give opening remarks at an event.

Rates

Core bonds lose very modest ground in uneventful trading

German yield curves bear steepen

	US yield	-1d
2	0,7451	-0,0125
5	1,2303	-0,0082
10	1,7624	-0,0139
30	2,5738	-0,0084

	DE yield	-1d
2	-0,5070	-0,0090
5	-0,3700	-0,0090
10	0,1500	-0,0110
30	0,8470	0,0065

Bund tests first support at 163.16, but no break yet

Global core bonds lost marginally ground in a dull trading session "dominated" by a positive risk sentiment and higher oil prices. Price action was limited by the thin eco calendar and the upcoming ECB and Fed meetings. German ZEW investor sentiment was mixed with a weaker than expected current condition component, but a stronger expectations index. Markets ignored it. **US housing data** (housing starts & building permits) disappointed and US Treasuries gained temporarily ground before the gyrations of equities/oil took again command. The **ECB's quarterly Bank Lending Survey** showed that banks reported a net easing of credit standards for loans to firms in Q1, though standards on mortgage loans to households tightened. The BLS showed increasing demand for both. There was no lasting impact on the Bund though. **In a daily perspective, the German yield curve steepened slightly with yield changes between -0.7 bps (2-yr) and +2.4 bps (30-yr). US yields were up between 1.6 (2-yr) and 2.3 bps (5-yr). Technically, US yields try to regain first resistances at 0.75% (2-yr), 1.25% (5-yr) while the 10-yr is well within the 1.66%-to 2% range.**

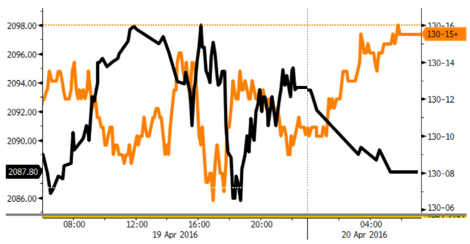
On intra-EMU bond markets, Greece (+12 bps), Italy (+3 bps) and Spain (+2 bps) marginally underperformed. The Italian price action was due to supply (new 20-yr BTP). Spanish bonds suffered somewhat from comments by FM de Guindos who acknowledged that this year's budget deficit would be well above target.

Downside risks US Existing Home sales

UK labour data only release in morning session

Unattractive, quiet calendar

In EMU, the **Belgian consumer confidence** report is the sole release and it is no market mover. In the US, eco data are limited to the **Existing Home sales**. Existing Home sales are expected to have increased in March by 3.9% to 5.28M following a 7.1% drop to 5.08M in February. We see also a rise in sales, but maybe less than the market expects. Inventories of houses for sale are at very low levels and if they don't increase it might hamper the Spring house selling season. Yesterday, US Treasuries reacted positively on weaker housing starts & permits, while often the release is ignored. In a context of risk-off (today), a weaker outcome may be positive for Treasuries, while a weaker one may be ignored. At the margin, surprises in the **UK labour market** report may affect core bonds, but only flimsy. Finally, **ECB Draghi** gives opening remarks in Generation euro competition, but as the purdah reigns, he will refrain from market moving comments.



T-Note future (orange) and S&P future (black): Core bonds trade with negative bias, while equities trade with positive one, but in sideways ranges. Overnight move suggests the opposite today.

Shanghai equity index: Has new downleg started, as anecdotal evidence suggests difficulties in corporate sector. Marks it's the znd of the overall risk on?

US-G

R2	165	-1d
R1	164,6	
BUND	**163,62**	0,1300
S1	163,09	
S2	160,81	

German Bund auction: again at risk of failure

The German Finanzagentur holds a 10-yr Bund auction (€4B 0.5% Feb2026). Total bids averaged only €3.79B at the previous 5 Bund auctions. Given that German yields remain near record lows, there's a good chance that today's auction is undersubscribed as well. In the run-up to this tap, the bond cheapened marginally in ASW spread terms , while also trading rather cheap at the 10-yr part of the German curve.

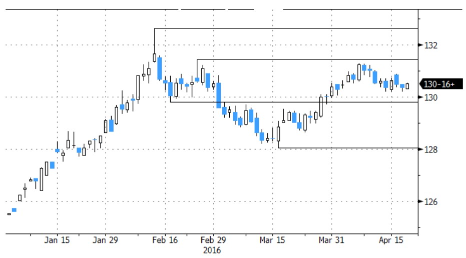
Risk aversion positive for bonds, but keep ECB in mind

Overnight, most Asian stock markets trade marginally lower with China underperforming (>-3%). Of late, there are more and more signs of a rapidly deflating Chinese corporate bond bubble. Oil prices are somewhat lower following the end of the strikes in the sector in Kuwait. The US Note future ekes out some gains and we expect a stronger opening for the Bund as well.

Today's eco calendar is uninspiring. Risk aversion seems to be name of the game, which is a positive for core bond markets today. However, we expect many investors to remain side-lined going into tomorrow's ECB meeting. We expect more verbal warnings from president Draghi, saying that the ECB has more tools to ease policy further if needed. However, we don't think that markets will buy in to that "promise" and fear a negative Bund reaction.

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 the ECB has no (or limited) tools left to ease policy further and a sudden correction like this time around last year could be around the corner.**

German Bund: time to add short positions



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Test 131-14 rejected. More downside?

US-Ge

Currencies

R2	1,1714	-1d
R1	1,1495	
EUR/USD	**1,13595**	0,0036
S1	1,1234	
S2	1,1144	

Dollar remained in the defensive as oil and equities rebounded

Asian equities traded mixed to lower

Commodity rally slows

USD/JPY struggles to stay north of 109

EUR/USD stabilizes in the mid 1.13 area

Eco calendar thin today

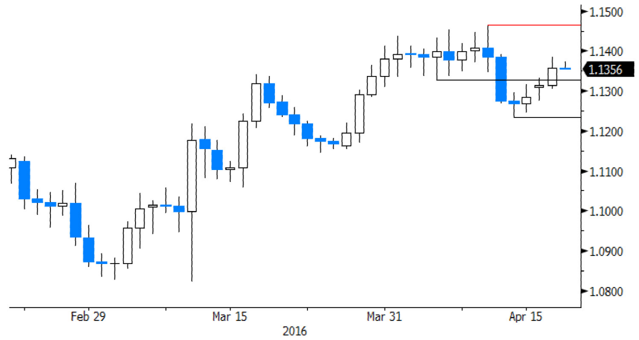
EUR/USD traders look forward to ECB policy decision.

Dollar still fights an uphill battle

On Tuesday, the dollar traded with a negative bias, even as risk sentiment was outright positive. Higher oil prices were a negative rather than a positive for the dollar. Poor US housing data weighed, too. EUR/USD drifted higher in the 1.13 big figure and closed the day at 1.1358 (from 1.1313 on Monday). The downside in USD/JPY is better protected, but the gains were modest given the strong equity gains. USD/JPY closed the session at 119.21 (from 108.82).

Overnight, Asian equities show a mixed picture. Japan outperforms despite poor foreign trade data (both imports and exports declined, in line with expectations). USD/JPY struggles to hold north of 109. Chinese equities underperform again, probably as markets fear rising corporate defaults and deteriorating credit quality in selective parts of the economy. The commodity rally slows. Brent oil is off yesterday's high north of $44/barrel. The Aussie (AUD/USD at 0.7775) and the kiwi dollar (NZD/USD 0.7000) trade slightly softer this morning after setting multi-month highs yesterday. EUR/USD trades around 1.1355, little changed from yesterday's close.

The EMU and US eco calendar is limited to US **Existing Home sales**. Existing Home sales are expected to have increased by 3.9% in March following a 7.1% drop in February. We see also a rise in sales, but maybe less than expected . Inventories of houses for sale are at very low levels which might hamper the Spring selling season. Yesterday, the dollar declined further after poor US housing data. So, maybe there is also a risk for a slight negative intraday reaction. Asian markets and equity futures suggest that the risk rally may slow today. Of late, the rise in oil and equities went hand in hand with a weak dollar. However, there is no guarantee that the dollar will rebound if risk sentiment turns negative. USD/JPY might come under pressure. **However, the correlation between EUR/USD on the one hand and oil and equities on the other hand was less straightforward. Our best guess for today is technical trading in EUR/USD ahead of tomorrow's ECB policy meeting.** After last month's EUR/USD rebound, Draghi will probably try to convince markets that further easing is still possible. However, we don't have the impression that (currency) markets play this card by shorting the euro. So, we assume more sideways technical trading near current levels.



EUR/USD: no clear trend for now

USD/JPY: limited gains despite risk-on rally. New downside test to come?

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 needs really good eco news 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, which was almost retested early this week. Japan apparently didn't get much support at the G20 to weaken the yen via interventions. So, Japanese authorities apparently lack tools to prevent further yen strength if sentiment would turn again risk off. We don't row against the yen positive tide for now.

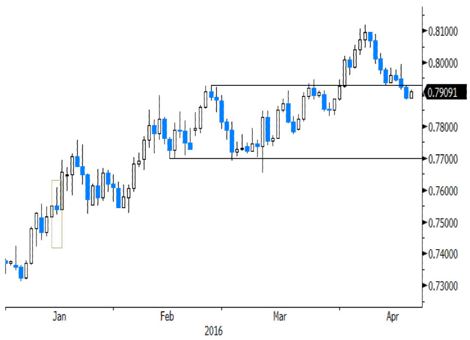
Sterling rebound to slow?

R2	0,8153	-1d
R1	0,8117	
EUR/GBP	**0,7907**	-0,0003
S1	0,783	
S2	0,7774	

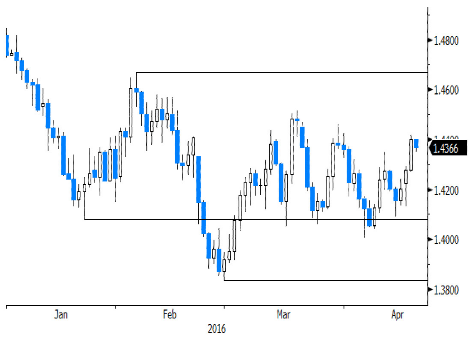
On Tuesday sterling profited from the global risk on context and, to a lesser extent, from higher oil prices. The absence of negative news on Brexit (a new poll still showed a lead for the remain camp) and easing global tensions inspired more profit taking on sterling shorts. In an appearance before a committee of Parliament, BoE's Carney maintained the recent BoE assessment on the risk of Brexit. The BoE has room to support the economy. At the same time, leaving the EU and rising uncertainty could make it more expensive to fund the UK current account deficit. The reaction of sterling to the comments was limited. EUR/GBP closed the session at 0.7885 (from 0.7923). Cable finished the day at 1.4398 (from 1.4278).

Today, the focus turns to the UK labour market data. Of late, the UK market held strong given mixed data from other parts of the economy. Markets will again keep a close eye on the wage data. Wage growth excl. bonuses is expected soft at 2.1% Y/Y. A good wage figure might be slightly supportive for sterling. However eco developments have less direct impact on the BoE action as long as Brexit uncertainty reigns. So the impact on sterling might be modest. The sterling rebound might take a breather as the global risk rally slows.

The technical picture of EUR/GBP improved, as the pair broke above 0.7929/31 and 0.8066. The sterling decline has been fast, raising chances for a (temporary) pause, which is happening since last week. The day-to-day momentum for sterling improved of late. Even so, we assume that sterling sentiment will remain fragile as long as the referendum is a neck-and-neck race.



EUR/GBP: more than a temporary correction?



GBP/USD: rebound to slow?

Calendar

Wednesday, 20 April		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	10.0%
16:00	**Existing Home Sales Total/MoM (Mar)**	**5.27m/3.7%**	**5.08m/-7.1%**
Japan			
01:50	Trade Balance Adjusted (Mar)	A ¥276.5b	¥166.1b
01:50	Exports YoY (Mar)	A -6.8	-4.0
01:50	Imports YoY (Mar)	A -14.9	-14.2
08:00	Machine Tool Orders YoY (Mar F)	A -21.2%	-21.2%
09:00	Convenience Store Sales YoY (Mar)	--	1.6%
UK			
10:30	Claimant Count Rate (Mar)	2.1%	2.1%
10:30	**Jobless Claims Change (Mar)**	**-10.0k**	**-18.0k**
10:30	Average Weekly Earnings 3M/YoY (Feb)	2.3%	2.1%
10:30	Weekly Earnings ex Bonus 3M/YoY (Feb)	2.1%	2.2%
10:30	ILO Unemployment Rate 3Mths (Feb)	5.1%	5.1%
Germany			
08:00	PPI MoM YoY(Mar)	A0.0%/-3.1%	-0.5%/-3.0%
Belgium			
15:00	Consumer Confidence Index (Apr)	--	-7
Events			
	ASML (07:00), SAP (bef mkt) Coca Cola (bef mkt) Announce Q1 Earnings		
12:00	**ECB President Draghi Speaks at ECB Generation Euro competition in Frankfurt**		
15:00	BoE's McCafferty Speaks at Bank of England in London		
Denmark	Bond Auction (1.75% 2025) (10:30)		
Norway	Bond Auction (NOK3B 4.5% 2019) (11:05)		
Germany	**Bund Auction (€4B 0.5% Feb2026) (11:30)**		

10-year	td	-1d	2 -year	td	-1d	STOCKS		-1d
US	1,76	-0,01	US	0,75	-0,01	DOW	18054	18053,60
DE	0,15	-0,01	DE	-0,50	-0,01	NASDAQ	'or Exch - NQI	#VALUE!
BE	0,55	0,00	BE	-0,44	0,02	NIKKEI	16907	16906,54
UK	1,52	0,03	UK	0,46	0,00	DAX	10349,59	10349,59
JP	-0,13	-0,01	JP	-0,27	0,00	DJ euro-50	3113	3112,99

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,34	0,008
3y	-0,133	0,976	0,909	Euribor-1	-0,34	0,00	Libor-1 USD	0,51	0,51
5y	0,008	1,175	1,073	Euribor-3	-0,25	0,00	Libor-3 USD	0,59	0,59
10y	0,537	1,602	1,493	Euribor-6	-0,14	0,00	Libor-6 USD	0,74	0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,13615	0,0038	EUR/JPY	123,66	0,21		177,9231	1247,3	43
USD/JPY	108,85	-0,21	EUR/GBP	0,791	0,0000	-1d	4,29	14,59	0,25
GBP/USD	1,4361	0,0054	EUR/CHF	1,0923	0,0012				
AUD/USD	0,7776	0,0002	EUR/SEK	9,1835	0,00				
USD/CAD	1,2715	-0,0056	EUR/NOK	9,2532	-0,04				

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