



Sunrise

Wednesday, 27 April 2016

Rates: Changes to Fed statement? Negative for US Treasuries?

Today's trading could slow to a trickle in the run-up to the Fed statement. We think the Fed might tweak its language slightly in order to keep the door for a June/Summer rate hike open. Such scenario would be additionally negative for US Treasuries.

Currencies: Dollar slightly softer ahead of the FOMC decision

Yesterday, the dollar lost slightly ground, especially against the euro as US data disappointed and as investors were cautious on the dollar ahead of the FOMC decision. If the Fed sounds a bit more positive on the global/market environment, the dollar might profit slightly. Sterling traders keep an eye at the first estimate of Q1 GDP 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 ended mixed yesterday.** The Dow and S&P rose slightly supported by energy and materials shares, while the Nasdaq closed slightly lower due to losses in the technology sector. **This morning, Asian shares trade mixed.** Japanese stocks continue to underperform.
- **Donald Trump secured big wins in all of the five Republican primary races yesterday,** while **Hillary Clinton** sealed her status as the presumptive Democratic nominee by **beating her competitor Sanders in four states,** while losing in Rhode Island.
- **Profits of China's industrial firms jumped in March the most in nearly two years** due to rising sales, higher prices, cost cutting and gains from investments, the National Bureau of Statistics said. While the data are encouraging, it needs to be seen whether the increase in profits is sustainable, the NBS said.
- **The WTI oil price rose more than 3% yesterday to close at its highest level for the year (\$44.04/barrel)** supported by a weaker US dollar and a surprise drop in US inventories. The Brent is currently trading above \$46/barrel.
- **Apple posted its first quarterly decline in revenues in 13 years,** missing analyst expectations and the company also projects its revenue to fall in the current quarter. **Rating agency S&P lowered ExxonMobil's AAA-rating,** saying the oil price rout adds strain to the companies balance sheet.
- Today, **the focus will be on the FOMC meeting,** but also the first estimate of **UK Q1 GDP** will be interesting. In the euro area, M3 money supply and credit growth data will be released.

Rates

German 10-yr yield closes in on 0.33% resistance

	US yield	-1d
2	0,849	0,0080
5	1,3815	0,0213
10	1,9129	0,0161
30	2,7419	0,0238

	DE yield	-1d
2	-0,4850	0,0130
5	-0,2890	0,0240
10	0,2950	0,0320
30	1,0326	0,0298

The story of yesterday's trading session was similar to the day before. Global core bonds lost ground despite intraday weakness on equity markets, a more or less stable oil price and disappointing eco data (US durable goods orders). German Bunds underperformed US Treasuries again during the process, confirming recent Bund weakness. In first instance, we target more losses towards 160.81, the March low. In yield terms, the technical picture only changes in case of a break above 0.33%. That's the neckline of a double bottom (see graph) with targets at 0.56% and 0.58%. The US 5-year Note auction was ordinary. The US eco data were neutral to downbeat. Durable orders and consumer confidence disappointed, while the Richmond Fed survey and the Markit service confidence were close to expectations. However, it couldn't help US Treasuries in a lasting way. The outperformance of US Treasuries was also due to tomorrow's FOMC statement which kept many investors sidelined and weak durable goods orders which caused a temporary uptick.

Bund cannot find its composure and slides further down

US 30-yr yield test key 2.75% resistance (double bottom)

In a daily perspective,, the German yield curve closed 0.8 bps (2-yr) to 3.6 bps (10-yr) higher. Changes on the US yield curve varied between 1.5 bps (10-yr) and +3.1 bps (2-yr; benchmark change). On intra-EMU bond markets, 10-yr peripheral yield spread changes versus Germany were 3 to 4 bps (Italy/Spain) with Portugal outperforming (-12 bps). After closure, the King announced that new elections will be held on June 26.

EMU lending to improve further?

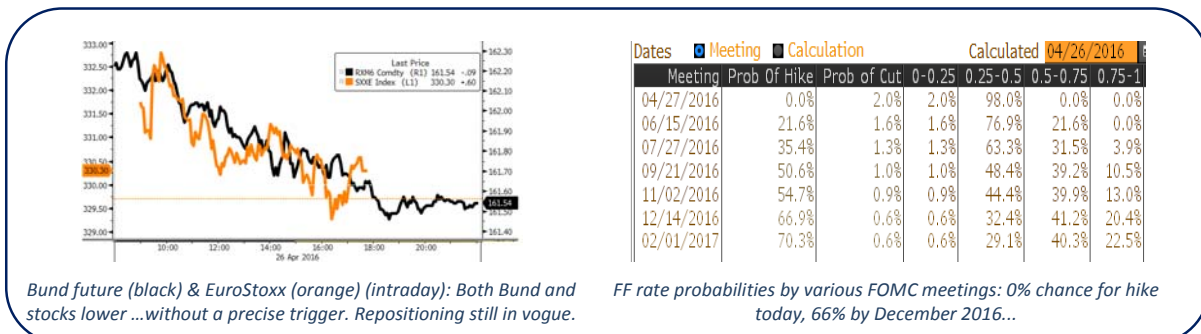
UK Q1 GDP might give us flavor of how developed countries fared at start of year

Will balanced risk assessment re-appear in FOMC statement?

FOMC meeting main focus: Tweaking statement

In March, growth in EMU M3 is expected to have stabilized at 5.0% Y/Y, for a 2nd straight month, but more attention will go out to the lending data. Lending to households accelerated last month led by lending for house purchases, but lending to non-financials remained quite slow. We expect this trend to continue in March, but in the coming quarters it will be interesting to see whether the latest ECB's measures will boost lending further. Markets will only look to the UK Q1 GDP, the first developed country to report Q1 GDP results.

No policy change is expected when the FOMC closes its meeting later today. However the statement may be changed a bit as the financial situation improved and the global economy shows fragile signs of improvement. As the Fed projected in March two rate increases this year and the market doesn't even discount one, the FOMC may try to push market a bit closer to its own "expectation". That may be done by re-inserting the "balanced risk" assessment in the statement (see KBC FLASH).



R2	164,6	-1d
R1	163,16	
BUND	161,63	-0,5500
S1	160,81	
S2	160,11	

Ordinary US 5-yr Note auction

The German Finanzagentur starts this week's scheduled EMU bond supply with tapping the on the run 30-yr Bund (€1B 2.5% Aug2046). The Bund didn't cheapen in ASW-spread terms in the run-up to the auction, but trades normal at the very long end of the German yield curve. Total bids at the previous 5 30-yr Bund auctions averaged €1.27B and we don't expect much improvement today.

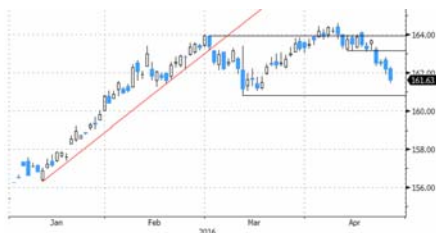
The US Treasury continued its end-of-month refinancing operation with an ordinary \$34B 5-yr Note auction. The auction stopped with a small tail, which is not unusual for a 5-yr and the bid cover was slightly below average (2.41). Bidding details showed very strong indirect bids, reflecting foreign investor demand. The Treasury ends its refinancing operation tomorrow with a \$28B 7-yr Note auction and a \$15B 2-yr FRN auction.

Fed-statement slightly negative for US Treasuries?

Overnight, most Asian equity markets trade mixed to slightly lower with Japan underperforming (-0.5%). Apple results disappointed and weigh on sentiment. Brent crude trades north of \$46/barrel, but the US Note future (higher) plays the equity rather than the oil card. Therefore we expect a somewhat higher opening for the Bund.

The focus of today's trading is the FOMC statement. In the run-up to the release, risk aversion could be somewhat positive for core bonds, but we expect that most investors will remain side-lined. The Fed could slightly tweak its statement (see flash) which is minor negative for US Treasuries. Sentiment towards Bunds deteriorates further. This week, they lost ground despite correcting equities (lower) and disappointing eco data. We think that momentum will remain negative. The announcement of the Spanish elections is no big surprise and therefore the impact on Spanish bonds shouldn't be large.

Technically, the US Note future trades below 129-26 support. We would short US Treasuries and aim for return action lower (next support at 128-01+) as US markets are too dovish positioned. We also hold on to our sell-on-upticks approach in the Bund. The drop below 163.16 suggests return action to the March low (160.81). In yield terms, the German 10-yr yield could easily advance further towards 0.33%. 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: move below 163.16 suggests return action to March low (160.81). Sell-on-upticks.



US Note future: Test 131-14 rejected. More downside after drop below 129-26?

Currencies

R2	1,1495	-1d
R1	1,1398	
EUR/USD	1,12995	0,0035
S1	1,1217	
S2	1,1144	

USD losing marginal ground ahead of the Fed

On Tuesday, the dollar extended Monday's correction as investors turned cautious on the dollar ahead of today's Fed decision. During the day, dollar selling intensified temporary as US durable orders and consumer confidence were weak, confirming the expectation for very limited US growth in Q1. EUR/USD jumped north of 1.13, but closed the session at 1.1297 (from 1.1268 on Monday). The loss in USD/JPY remained modest. The pair closed the session even slightly higher at 111.31 (from 111.20) as investors were reluctant to become yen long ahead of the BOJ policy decision tomorrow.

USD shows mixed picture ahead of Fed

USD/JPY stabilizes. USD/EUR decline slightly.

Dollar shows no clear trend.

Asian equities record marginal losses

Overnight, US equity futures, especially the Nasdaq, are hammered by disappointing results from Apple and Twitter. However, the negative fall-out on Asian markets is modest. USD/JPY (around 111) is holding up fairly well ahead of the BOJ policy decision, which probably limits the loss on Japanese/Asian markets. The Australian Q1 CPI was reported much lower than expected. Headline CPI declined 0.2 Q.Q to be up 1.3% Y/Y (1.7% was expected). The report raised speculation on an additional RBA rate cut and sent the Aussie dollar lower (0.7665 area). EUR/USD (around 1.13) remains immune for market moves

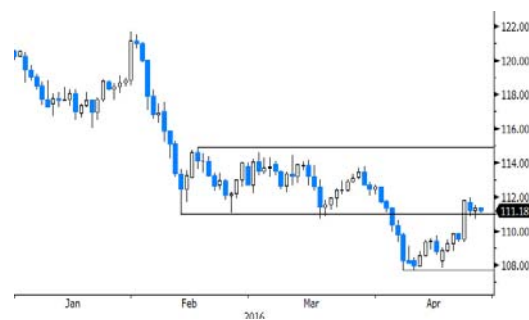
Today, the focus is on the Fed policy statement

It might be slightly USD supportive

Today, **the focus will be on the FOMC meeting**. For an in depth analysis see our [KBC flash report](#). In the euro area, only M3 money supply and credit growth data will be released, while also the UK Q1 GDP data will be interesting. In March, **growth in euro zone M3** is expected to have stabilized, but lending will get most attention. Lending to households accelerated last month led by lending for house purchases, but lending to non-financials remained quite slow. **We expect this trend to continue in March, but in the coming quarters it will be interesting to see whether the latest ECB's measures will boost lending further. Even in case of positive data the impact on the euro will be limited.** Despite mediocre US eco data of late, the Fed might sound a bit more balanced as risks from the global economy and financial market volatility declined. **If so, the outcome might be slightly supportive for the dollar.** However, we don't expect a profound change in the Fed's assessment. Ahead of the Fed meeting, risk sentiment might be slightly negative, but oil holds near the recent highs. **So more technical trading in USD/JPY and in EUR/USD might be in store.**



EUR/USD: test of first support (1.1234) rejected as USD rebound slows ahead of the Fed policy decision



USD/JPY rebound slows ahead of the Fed/BOJ decision

Technically, **EUR/USD set a new 2016 high at 1.1465 helped by a dovish Fed. Key 1.1495 resistance remained intact. Last week's price action suggests that the topside of EUR/USD is still reasonably well. However, Friday's move that pushed the pair below 1.1234 is rejected, at least for now. We see no trigger for a clear directional move in EUR/USD short-term, unless the FOMC (Wednesday) becomes more hawkish and/or US eco data show a genuine economic improvement.** The soft Fed approach and risk aversion pushed **USD/JPY** to a new correction low at 107.63 (April 11). Rumours that the BOJ will ease policy further on Thursday weakened the yen substantially, driving USD/JPY back to 111.91 and breaking first (minor) resistance at 110.67/99. For USD/JPY, **the technical picture only becomes bullish if the pair breaks sustainably above 113.80 (March 29 high).**

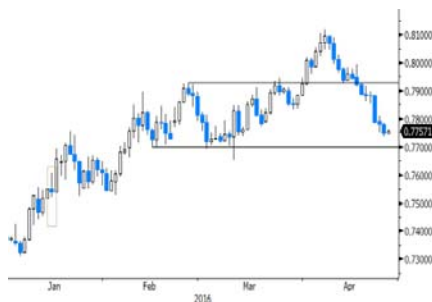
R2	0,8117	-1d
R1	0,7993	
EUR/GBP	0,7755	-0,0016
S1	0,7653	
S2	0,7526	

Sterling extends gradual rebound

On Tuesday, sterling extended its rebound. Investors adapted positions further as the anti-Brexit campaign is gaining traction. Cable and EUR/USD both moved higher on dollar weakness. Cable broke above the 1.4520 resistance, accelerating the sterling buying momentum. In this move, cable again outperformed EUR/USD. EUR/GBP closed the session at 0.7749 (from 0.7780). Cable finished the day at 1.4582 (from 1.4482).

Today, the focus is on the UK Q1 GDP report. Growth of 0.4% Q/Q and 2.0% Y/Y is expected. There are some risks for a negative surprise. The CBI distributive trades are expected to rebound from 7 to 13. However, retail sales also disappointed of late. It will be interesting to see whether disappointing eco data will slow the anti-Brexit GBP rebound. The day-to-day sterling momentum remains constructive. Even so, **we still look for signs that the sharp countermove on the GBP Brexit decline has run its course, at least short term. Also keep an eye on cable (in the wake of the Fed decision). A sustained break north of 1.4668 would improve the technical picture for cable.**

The technical picture of EUR/GBP improved further as the pair broke above the mid 0.79 area. A counter move occurred over the previous two weeks and threatens to deteriorate the picture. The drop below 0.7830 was a first warning. A move below 0.7684 (38% retracement/previous lows) would make the technical picture again neutral. **The day-to-day momentum for sterling improved, but sterling sentiment will remain fragile as long as the referendum outcome isn't clear. So, the polls in the next weeks may be decisive.**



EUR/GBP: sterling rebound continues, for now



GBP/USD: nearing key 1.4668 resistance

Calendar

Wednesday, 27 April		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	1.3%
16:00	Pending Home Sales MoM YoY (Mar)	0.5% / 0.8%	3.5% / 5.1%
20:00	FOMC Rate Decision	0.25%-0.50%	0.25%-0.50%
Japan			
06:30	All Industry Activity Index MoM (Feb)	A -1.2%	2.0%
07:00	Small Business Confidence (Apr)	A 47.8	48.8
China			
03:30	Industrial Profits YoY (Mar)	A 11.1%	-4.7%
03:45	Westpac-MNI Consumer Sentiment (Apr)	A 117.8	118.1
New Zealand			
23:00	RBNZ Official Cash Rate	2.25%	2.25%
UK			
10:30	GDP QoQ YoY (1Q A)	0.4% / 2.0%	0.6% / 2.1%
12:00	CBI Distributive Trades Survey - Reported Sales (Apr)	13	7
EMU			
10:00	M3 Money Supply YoY (Mar)	5.0%	5.0%
Germany			
08:00	Import Price Index MoM YoY (Mar)	0.3%/-6.2%	-0.6%/-5.7%
08:00	GfK Consumer Confidence (May)	9.4	9.4
France			
08:45	Consumer Confidence (Apr)	95	94
Italy			
10:00	Consumer Confidence Index (Apr)	115.0	115.0
10:00	Business Confidence (Apr)	102.5	102.2
10:00	Economic Sentiment (Apr)	--	100.1
10:00	Hourly Wages MoM YoY (Mar)	--	0.1% / 0.8%
Spain			
09:00	Retail Sales SA YoY (Mar)	3.4%	3.9%
09:00	Total Mortgage Lending YoY (Feb)	--	15.4%
09:00	House Mortgage Approvals YoY (Feb)	--	10.6%
Sweden			
09:00	Consumer Confidence (Apr)	99.0	99.7
09:00	Manufacturing Confidence s.a. (Apr)	111.7	112.5
09:00	Economic Tendency Survey (Apr)	106.1	106.6
09:30	Trade Balance (Mar)	1.7b	-0.2b
09:30	Household Lending YoY (Mar)	--	7.5%
Events			
	Nordea (07:00), Barclays (08:00), TOTAL (08:00), Banco Santander (bef mkt), Boeing (bef mkt), Facebook (aft mkt) Announce Q1 Earnings		
Sweden	Bond Auction (SEK3.5B 1% Nov2026 & SEK0.5B 3.5% Mar2039)		
Italy	CTZ Auction		
Germany	Bund Auction (€1B 2.5% Aug2046)		

10-year	td	- 1d	2 -year	td	- 1d	STOCKS	- 1d
US	1,91	0,01	US	0,85	0,01	DOW	17990,32
DE	0,30	0,03	DE	-0,49	0,01	NASDAQ or Exch - NQI	#VALUE!
BE	0,68	0,03	BE	-0,42	0,00	NIKKEI	17284,16
UK	1,67	0,06	UK	0,55	0,04	DAX	10259,59
JP	-0,06	0,04	JP	-0,24	0,02	DJ euro-50	3121,29

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,342	-0,001
3y	-0,105	1,081	0,998	Euribor-1	-0,34	0,00	Libor-1 USD	0,51	0,51
5y	0,086	1,317	1,198	Euribor-3	-0,25	0,00	Libor-3 USD	0,59	0,59
10y	0,684	1,754	1,633	Euribor-6	-0,14	0,00	Libor-6 USD	0,75	0,75

Currencies		- 1d	Currencies		- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,12995	0,0035	EUR/JPY	125,52	0,54		178,8692	1244,4	46,25
USD/JPY	111,13	0,13	EUR/GBP	0,7756	-0,0015	- 1d	-0,78	8,40	1,51
GBP/USD	1,4563	0,0074	EUR/CHF	1,1001	0,0016				
AUD/USD	0,7634	-0,0072	EUR/SEK	9,1748	0,01				
USD/CAD	1,2617	-0,0062	EUR/NOK	9,2240	-0,03				

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