



Sunrise

Friday, 08 April 2016

Rates: Risk sentiment will drive trading

Earlier this week, global core bonds became more sensitive to moves on equity markets instead of oil prices. Given, today's empty eco calendar, risk sentiment will be key for trading. We also monitor developments on peripheral bond markets which sold off for a second time this week yesterday.

Currencies: EUR/USD rally blocked by ECB easing talk

Yesterday, the dollar remained under pressure in the wake of Wednesday's soft Fed minutes. However, soft ECB speak capped the rise of the euro against the dollar. Finally, the USD/JPY decline also slowed. Today, technical considerations and global risk sentiment will set the tone for USD trading. The USD weakening might take a breather.

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 dropped 1% yesterday** as sentiment turned risk-off in an uneventful session. Financials led the sell-off. This morning, most Asian shares trade lower too. **Japanese stocks outperform (+1%)** as the US dollar strengthens slightly, pushing USD/JPY higher.
- Fed Chairwoman **Yellen sounded a little more optimistic in her speech yesterday** saying the US labour market is close to their goal of maximum employment as tremendous progress has been made. Yellen also said **2% inflation is their goal, not a ceiling**.
- **UK Prime Minister Cameron admitted he made money from an offshore fund**, days after data leaks were disclosed on the use of offshore financial centres, but he insisted it was not a tax-avoidance vehicle.
- **Japan's consumer confidence rebounded more than expected in March**, rising from 40.1 to 41.7. Japanese Finance Minister **Aso** stepped up verbal interventions this morning, saying that **rapid currency moves were undesirable and authorities will take steps if needed**.
- **The political stalemate in Ireland is set to continue after main opposition party Fianna Fail rejected an offer of coalition with its rival Fine Gael**. Both parties might try to form a minority government with the support of independent MPs.
- Today, **the eco calendar** contains the UK industrial production figures and UK trade balance. Fed's Dudley and ECB's Nowotny are scheduled to speak.

Rates

	US yield	-1d
2	0,7116	-0,0199
5	1,1608	-0,0357
10	1,7115	-0,0417
30	2,5351	-0,0455

US/German yield curve bull flattened

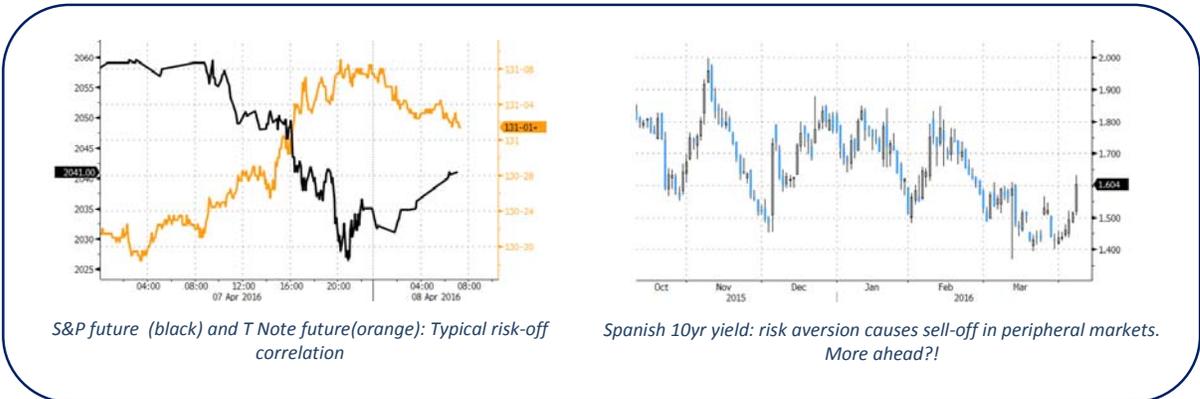
Significant peripheral yield spread widening

	DE yield	-1d
2	-0,4960	-0,0120
5	-0,3820	-0,0230
10	0,0950	-0,0230
30	0,7265	-0,0351

More cracks in peripheral bond rally amid dovish ECB

Global core bonds eked out gains yesterday. During European dealings, they hardly profited from the latest oil price swing (lower) and soft ECB comments. Praet, Constancio, the Minutes, etc. talked about negative second round inflation effects and the ECB's willingness to fight them if needed. In the US trading session, US Treasuries outperformed as US stocks lost ground. A rebound higher in oil prices couldn't change the tide. Comments by ECB Draghi and Fed Yellen were uneventful. **At the end of the session**, the US and German yield curves bull flattened. Changes on the US yield curve varied between -4.4 bps (2-yr) and -6.9 bps (5-yr). The German yield curve dropped 2 bps (2-yr) to 4.5 bps (30-yr) lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany widened significantly in Portugal (+26 bps), Italy (+13 bps), Spain (+12 bps) and Ireland (+8 bps). Earlier this week, we've noticed spread widening for the first time in a while on the back of risk aversion. The correction continued yesterday without real trigger though markets had to digest quite some supply this week. **We keep a close eye on the situation. More cracks in this year's bond rally ahead? This time around last year, peripheral yields hit bottom levels around three weeks ahead of the Bund crash.**

Overnight, Kansas City Fed George (hawk) warned that the Fed's failure to move more quickly to raise interest rates could lead to asset-price bubbles including for real estate. Fed chairwoman Yellen disagreed, stating "we're not in a bubbly economy." The comments didn't impact trading. **Today, the eco calendar contains only some second-tier economic data** both in the US and euro zone. Fed's Dudley and ECB's Nowotny are scheduled to speak.



S&P future (black) and T Note future(orange): Typical risk-off correlation

Spanish 10yr yield: risk aversion causes sell-off in peripheral markets. More ahead?!

Risk sentiment key for trading

R2	165	-1d
R1	164	
BUND	164,37	0,4700
S1	160,81	
S2	160,11	

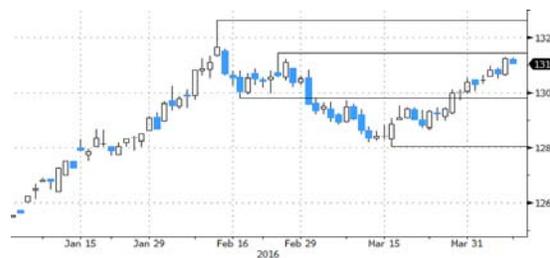
Overnight, most Asian equity markets trade around 0.5% lower with Japan outperforming (+1%) as the yen corrects lower. Asian losses are limited compared to WS's performance yesterday. Volatility in Brent crude prices remains high with Brent back above \$40/barrel this morning. The US Note future trades slightly off the high and below the 131-12 resistance.

Today's eco calendar is empty apart from speeches by NY Fed governor Dudley (aligns with Yellen) and ECB Nowotny (unlikely to influence markets following yesterday's dovish ECB plea). **Therefore we mainly look at general risk sentiment to guide trading.** This week, equities took the role from oil prices as needle in the compass for the Bund/US Note future. Developments on peripheral markets are interesting as well. At this stage, a sell-off in the periphery still triggers safe haven flows.

Technically, the US Note future broke first resistance (129-26, previous neckline double top) as Yellen was more dovish than at the March policy meeting. A strong batch of eco data (payrolls, ISM's) couldn't turn the tide. Next resistance is at 131-14. **The German 10-yr yield is heading for a test of the all-time low (0.05%). We are wary at current absurd levels and "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. Therefore, we would start selling Bunds.**



German Bund: time to add short positions



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Testing 131-12.

Currencies

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,1368	-0,0051
S1	1,1144	
S2	1,1058	

Dollar declined slows as ECB flags possibility of more easing if necessary

Asian risk sentiment remains fragile

USD/JPY rebounds off correction low

Brent oil tries to regain \$40/barrel mark

Calendar remains thin today

Global equity sentiment, oil and CB speak will set the tone for USD trading

ECB comments block euro rebound

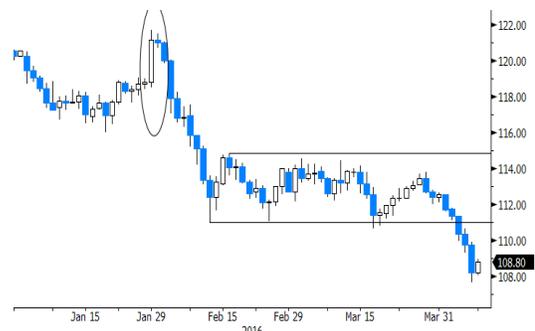
Yesterday, the dollar stayed under pressure against the yen in the wake of Wednesday's soft Fed-minutes. The yen remains the biggest "victim" of the overall USD setback. USD/JPY dropped temporary below the 108, but closed the session off the intraday low at 108.21, still substantially lower from Wednesday's 109.79 close. The picture of EUR/USD was different. ECB members countered euro strength by flagging the possibility of further easing if necessary. EUR/USD set a new correction top in the mid 1.14 area but closed the day at 1.1378 (from 1.1399 on Wednesday).

Overnight, most Asian equities trade with losses, but the damage could have been worse given the performance of WS yesterday evening. Japanese equities opened in the red, but rebounded as the yen is coming off yesterday's highs. Japanese officials, including Fin Min Aso, labelled the rise of the yen as one-sided and said the government would take action if needed. USD/JPY rebounded, at least temporary, and trades currently in the 108.85 area. Brent Oil also tries to regain the \$40/barrel mark as investors ponder the possibility of coordinated production cuts. Even so, the oil rebound this times hardly supports the likes of the AUD, with AUD/USD struggling to hold north of 0.75. EUR/USD settles in the upper half of the 1.13 big figure after yesterday's ECB speak. The pair trades currently at 1.1360.

Today, there are **only second tier eco data** on the agenda in Europe and in the US. Trading in the major USD cross rates will be at the mercy of global sentiment, the swings in the oil price and central bankers' speak. In the US, Fed Dudley speaks. He is a close ally of Yellen. **Oil rebounded overnight, but the direct impact on dollar was not really clear.** If **risk sentiment** turns a bit more positive, it could inspire a modest USD rebound short-term. Especially USD/JPY is entering in oversold territory and might be ripe for an upward correction if the global context allows it. Regarding EUR/USD, we look out whether there is any follow-through price action after yesterday's soft ECB speak. At least for now, the 1.1495 resistance looks a bit better protected. We also keep an eye at the intra-EMU spreads. Of late they were no real an issue for euro trading. However, if the recent widening persists, it could become a negative for the euro.



EUR/USD holds near the LT range top



USD/JPY: decline to slow as pair moves into oversold territory?

After the dovish 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 reaction top/2016 high at 1.1438. The 1.1495 resistance is the key line in the sand 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 yesterday. It is difficult for USD/JPY to regain ground in a sustainable way as long as risk sentiment remains fragile. **We look out whether official talk on more BOJ easing or some kind of verbal interventions from the BOJ can slow/stop the rebound of the yen.** USD/JPY has moved into oversold territory. So, there is room for a technical rebound/consolidation.

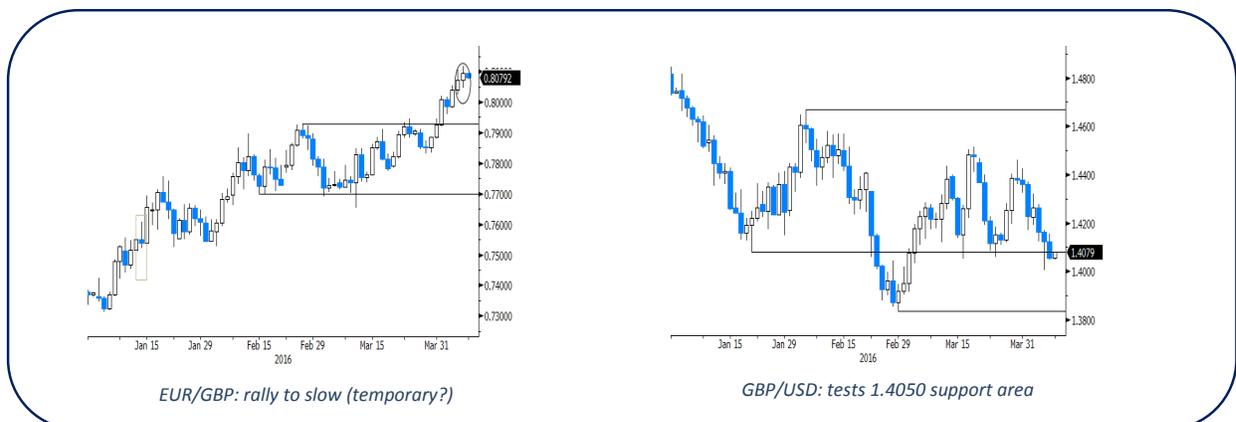
EUR/GBP holds near the recent highs

R2	0,8153	-1d
R1	0,8117	
EUR/GBP	0,8079	0,0012
S1	0,7947	
S2	0,7774	

Yesterday, morning it looked that the sterling sell-off would continue unabatedly. EUR/GBP set a minor new correction top in the 0.8117 area. **However, the ECB comments also capped the topside in this cross rate. The overall euro correction finally pushed EUR/GBP back below the 0.81 big figure. EUR/GBP closed the session at 0.8094 (from 0.8071).** Cable closed the session at 1.4053. So, the pair struggled to hold above the recent lows. Regarding the UK data, Halifax house prices rose at a strong 10.1% Y/Y. At the same time unit labour costs remained low at 1.3% Y/Y. The impact of the data on sterling, if anything, was very limited.

Today, the eco calendar in the UK is well filled, with the February production data, the trade balance en the NIESR March GDP estimate. Manufacturing production is expected to decline -0.2% M/M after a strong rebound (0.7% M/M) in January. The trade deficit is expected to remain at the high levels of the previous months. So, the data are expected weak and we doubt that a modest positive surprise will be able to help sterling. Political pressure on PM Cameron also won't help the Pro EU campaign. If global tensions ease, the decline of sterling might also take a breather. However, we don't see room for a sustained sterling rebound.

The technical picture of EUR/GBP improved further as the pair broke above the 0.7929/31 resistance and currently even above the 0.8066 level. The recent sterling decline has been fast, which heightens the chances for a (temporary) pause. Even so, we don't try to catch a falling knife and remain cautious on sterling longs.



Calendar

Friday, 8 April		Consensus	Previous
US			
16:00	Wholesale Inventories MoM (Feb)	-0.2%	0.2%
Canada			
14:30	Unemployment Rate (Mar)	7.3%	7.3%
14:30	Net Change in Employment (Mar)	10.0K	-2.3K
Japan			
01:50	Trade Balance BoP Basis (Feb)	A ¥425.2b	¥411.0b
07:00	Consumer Confidence Index (Mar)	A 41.7	40.1
08:00	Eco Watchers Survey Current/Outlook (Mar)	45.5/48.3	44.6/48.2
UK			
10:30	Industrial Production MoM / YoY (Feb)	0.1%/0.0%	0.3%/0.2%
10:30	Manufacturing Production MoM / YoY (Feb)	-0.2%/-0.7%	0.7%/-0.1%
10:30	Visible Trade Balance GBP/Mn (Feb)	-£10200	-£10289
10:30	Trade Balance Non EU GBP/Mn (Feb)	-£2500	-£2199
10:30	Trade Balance (Feb)	-£3400	-£3459
16:00	NIESR GDP Estimate (Mar)	--	0.3%
Germany			
08:00	Trade Balance (Feb)	18.0b	13.6b
08:00	Exports SA MoM (Feb)	0.5%	-0.6%
08:00	Imports SA MoM (Feb)	-0.3%	1.3%
France			
08:30	Bank of France Bus. Sentiment (Mar)	98	98
08:45	Industrial Production MoM / YoY (Feb)	-0.4%/2.1%	1.3%/2.0%
08:45	Manufacturing Production MoM / YoY (Feb)	-0.3%/2.6%	0.8%/2.8%
Events			
02:15	Fed's George Speaks in York, Nebraska		
14:30	Fed's Dudley Speaks on the Economy		
15:15	ECB's Nowotny Speaks in Vienna		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	1,71	-0,04	US	0,71	-0,02	DOW	17542 17541,96
DE	0,10	-0,02	DE	-0,50	-0,01	NASDAQ	or Exch - NQI #VALUE!
BE	0,49	-0,01	BE	-0,46	-0,01	NIKKEI	15849 15849,32
UK	1,32	-0,06	UK	0,35	-0,02	DAX	9530,62 9530,62
JP	-0,08	-0,02	JP	-0,25	-0,01	DJ euro-50	2872 2871,57

	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
IRS							Eonia EUR	-0,33	0,004
3y	-0,135	0,927	0,787	Euribor-1	-0,34	0,00	Libor-1 USD	0,51	0,51
5y	-0,006	1,124	0,916	Euribor-3	-0,25	0,00	Libor-3 USD	0,59	0,59
10y	0,495	1,568	1,333	Euribor-6	-0,13	0,00	Libor-6 USD	0,74	0,74

Currencies	- 1d	Currencies	- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,13705 -0,0047	EUR/JPY	123,59 -0,68		167,5247	1235,7	40,05
USD/JPY	108,74 -0,14	EUR/GBP	0,8079 0,0010	- 1d	2,30	7,34	-0,10
GBP/USD	1,4072 -0,0071	EUR/CHF	1,0874 -0,0019				
AUD/USD	0,7536 -0,0083	EUR/SEK	9,2832 -0,01				
USD/CAD	1,3101 0,0062	EUR/NOK	9,4603 -0,02				

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