



Sunrise

Tuesday, 05 April 2016

Rates: Downside bonds limited even in case of stronger data?

Today's eco calendar heats up with the US Non-manufacturing ISM. We see risks on the upside of expectations. Last week's dovish Yellen speech, the lacklustre reaction on strong payrolls & manufacturing ISM and the deterioration of the technical picture of oil, suggest that the downside in core bonds remains very limited even in case of stronger data.

Currencies: Yen strength puts BOJ on red alert

The decline in oil prices (broken support) weighs on Asian equities and favours the safe-haven yen. USD/JPY trades currently at 110.73, inside the key 111/110 support area. That's a highly unfavourable situation for the desperately deflation-fighting BOJ. Tension mounts to act. EUR/USD hovers listless around the highs, nearby key resistance.

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 slightly lower yesterday as sentiment weakened during the session** hit by a further sell-off in the oil price. This morning, **most Asian shares trade lower led by Japanese ones** (-2.5%), which suffer from a strong yen. Chinese stocks outperform after being closed yesterday.
- **Brent crude oil prices extended their sell-off yesterday**, falling another 3% to reach the lowest level in one month and clearing a first important support level. Hopes on a Doha deal are fading as Saudi Arabia said it will only freeze output if Iran and other major producers do so.
- **Governments across the world started investigations on possible tax evasion by the rich and powerful after a leak of documents from a Panamanian law firm specialised in setting up offshore companies.** The "Panama Papers" revealed financial arrangements of politicians and public figures including friends of Putin and relatives of the prime ministers of Britain, Iceland and Pakistan.
- **The Reserve Bank of Australia decided this morning to keep its main interest rate unchanged at a record low level of 2%**, in line with expectations. Governor Stevens warned however that an appreciating exchange rate could complicate the adjustment in their economy. The Aussie dollar strengthened slightly this morning.
- **Bank of Japan Governor Kuroda stressed his readiness to ease its monetary policy further saying that market moves would be key factors the central bank would examine in deciding when and how it might expand stimulus.** Kuroda however remained relatively optimistic on the economy.
- Today, the **eco calendar** contains the euro zone (final) and UK services PMI, the euro zone retail sales, US trade balance, non-manufacturing ISM and JOLTS jobs report.

Rates

	US yield	-1d
2	0,7319	-0,0002
5	1,1965	-0,0098
10	1,7531	-0,0035
30	2,5897	0,0038

Uneventful session core bonds

Brent crude below \$38.32/barrel support

Greek bonds underperform

	DE yield	-1d
2	-0,4740	0,0030
5	-0,3340	0,0040
10	0,1240	-0,0040
30	0,7605	-0,0161

Upside risks for final EMU services PMI and US non-manufacturing ISM

Weaker-than-expected retail sales?

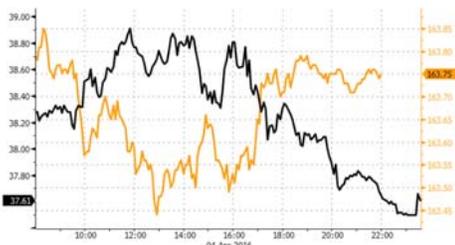
Uneventful session, but Brent below 1st support

Global core bonds ended nearly unchanged yesterday. A second tier eco calendar couldn't spark directional moves, neither could speeches by ECB Praet ("ECB will continue to forcefully secure the inflation objective"), Boston Fed Rosengren ("markets are too pessimistic"; expects two rate hikes this year) and Minneapolis Fed Kashkari (no relevant comments on monetary policy). Swings in oil prices drove most intraday gyrations. Towards the end of US dealings, Brent crude fell below 1st important support at \$38.32/barrel. At the end of the session, changes on the German and US yield curves were minimal. They ranged between -1.3 bps and +1.4 bps. On intra-EMU bond markets, 10-yr yield spread changes versus Germany varied between -1 bp and +3 bps with Greece underperforming (+29 bps). Greek bonds suffered from a leaked conversation between IMF officials in which they consider forcing Germany to either grant Greece debt relief quickly or allow the IMF to exit the bailout. Greek officials say that the IMF pushes the country towards default.

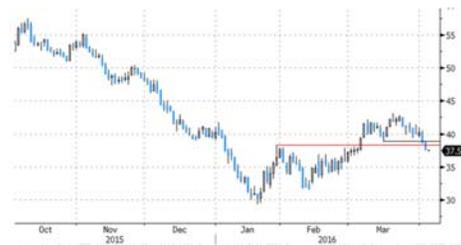
Heavy calendar with mainly US non-manufacturing ISM

Today, the eco calendar contains the final reading of the euro zone services PMI for March and the US non-manufacturing ISM, euro zone retail sales, the US trade balance and JOLTS jobs openings. Austria will tap the market

According to the first estimate, the euro zone services PMI rebounded from 53.3 to 54.0 in March, beating the market consensus which was looking for a stabilization. The final reading is expected to confirm this outcome. As the manufacturing PMI was revised higher, we also see risks for an upward revision in the services PMI as the Brussels attacks had apparently no impact. Also in the euro area, retail sales are expected to have stabilized in February following three consecutive monthly gains. Available national data showed a mixed picture with retail sales declining in Germany, but increasing significantly in France, Spain and Portugal. After three monthly gains however, we see risks for a limited decline. In the US, the non-manufacturing ISM is expected to pick up from 53.4 to 54.2 following four consecutive monthly declines. We believe that also for the non-manufacturing ISM the risks are for a more substantial gain following very strong regional surveys and a significant improvement in the manufacturing ISM. Also in the US, the trade deficit is expected to have widened further in February, while JOLTS job openings are forecast to have dropped slightly in February. These data will however receive less attention.



German Bund (orange) and Brent oil price (black): nice intraday correlation apart from final drop oil price



Brent crude points double top on charts; breaks below \$38.32/barrel support

R2	165	-1d
R1	164	
BUND	163,73	0,2200
S1	160,81	
S2	160,11	

Plain vanilla RAGB auction?

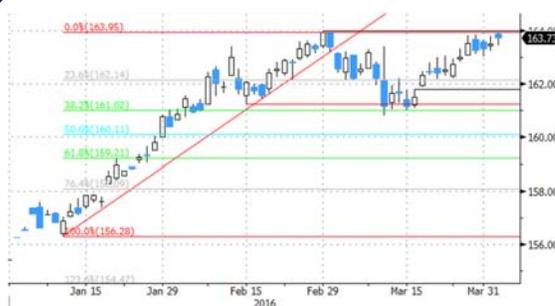
The Austrian Treasury kicks off this week's scheduled EMU bond supply by tapping the on the run 10-yr RAGB (0.75% Oct2026) and 30-yr RAGB (1.5% Feb2047) for a combined €1.1B. The bonds on offer didn't cheapen in ASW spread terms going into the auction and they trade normal on the Austrian curve. We expect plain vanilla demand. This week's auctions will be supported by a €18B Bobl-redemption.

Bund ready to test contract high?

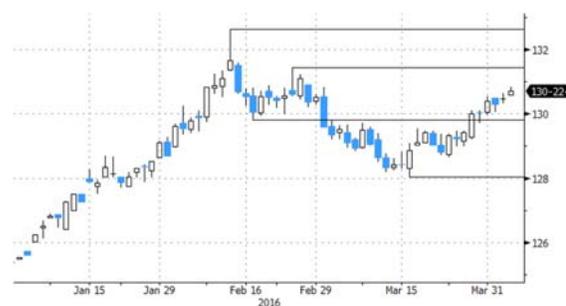
Overnight, most Asian equity markets trade significantly lower with China outperforming (>+1%) and Japan underperforming (-2.5%). The latter suffer from more yen strength (see currencies). Brent crude stabilizes around \$37.5/barrel, but yesterday's technical break suggests more downside. The US Note future trades with an upward bias which means that the Bund could go for a test of the 164 contract high in the opening. Chicago Fed Evans said that two rates hikes in 2016 seem appropriate, but that shouldn't impact trading.

Today's eco calendar heats up with the US Non-manufacturing ISM as main release. We see risks on the upside of expectations. Last week's dovish Yellen speech, the lacklustre reaction on strong payrolls & manufacturing ISM and yesterday's deterioration of the technical picture of oil prices, suggest **the downside will remain very limited even in case of stronger US eco data**. Oil prices will likely again be determining for intraday price swings.

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) couldn't turn the tide. Next resistance is 131-14. Attention for shorter maturities as key yields (support levels) are tested or within reach of a test. **We don't expect the Bund to break sustainably above the 164 contract high** but wait to install a sell-on-upticks approach in the 160.81/164 range.



German Bund: Heading for test of upper bound 160.81-164 trading range on weaker oil?



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Strong US eco data can't turn the tide, which suggests strong sentiment.

Currencies

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,1384	-0,0004
S1	1,1144	
S2	1,1058	

Underlying dollar weakness hasn't gone

Yesterday, the dollar traded volatile making several turns during the day. Eventually, the greenback never went far away from opening levels. Trading flows were thin, as usual on Monday, while eco data were scarce and of second-tier importance. Comments of ECB's Praet, dovish as usual, couldn't attract the attention of markets. We won't draw many conclusions from these volatile intraday moves, but it suggests that dollar sentiment remains shaky and key dollar support levels aren't safeguarded. EUR/USD closed at 1.1392, up from 1.1388 Friday's close. USD/JPY ended at 111.34, down from the 111.80 previous close.

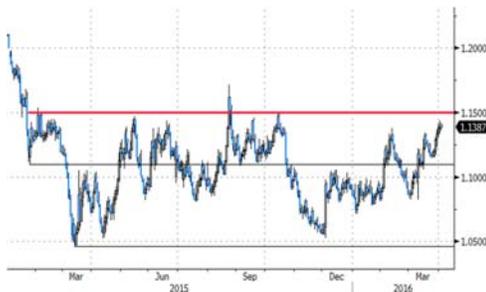
Overnight, Asian equities are under downward pressure with the exception of China which was closed yesterday, as oil prices broke below key support levels (to \$37.53 currently). It is pushing the safe-haven yen to stronger levels across the board. USD/JPY dropped to 110.80, a whisker away of the sell-off low at 110.67 and the upper side of a key support area that extend to 110/109.90. Japan's services sentiment fell to 50. Speculation rises the BOJ will downgrade its inflation outlook. Meanwhile BOJ Kuroda said he keeps monitoring FX markets and might ease policy further. Officials from BOJ, MOF and FSA are said to meet on markets, but it isn't clear what the authorities can do to stop the yen from strengthening. Of course, FX interventions are a possibility, but a risk-off environment isn't the right one for interventions. Heightened alert over the yen!! The Reserve Bank of Australia kept rates unchanged, but added that an appreciating Aussie could complicate the adjustment under way. The Aussie strengthened lightly. The trade-weighted dollar is little changed at its 5 month low. US Treasuries are higher overnight and commodities in general stabilize following yesterday's steep losses. EUR/USD made a shy attempt to take out the 1.14 handle, but is now little changed around 1.1385.

USD/JPY fell slightly lower, penetrating overnight key 111/110 support area

Japanese authorities on red alert on yen strength

USD/JPY set new low

Risk-off sentiment as oil drops below key support level



EUR/USD: LT range top soon under test?



USD/JPY Red alert for BOJ as pair penetrates 111/110 key support area.

Upside risks US services PMI & maybe slight upward revision EMU services PMI

US trade deficit to have widened

Today, the eco calendar is well filled with the US non-manufacturing ISM the key release. It is expected to pick up from 53.4 to 54.2 following four consecutive monthly declines. The up-move of EUR/USD, which started early February and got a final push by Yellen's comments last week, took out a first key resistance. In past days however it stalled ahead of another key resistance (1.1495). However, the dollar showed no signs of rebound on Friday despite constructive eco data, suggesting that Yellen's comments were not completely

absorbed. In this context a test of the next resistance remains possible. If a risk-off context would be confirmed, it should be dollar negative. A strong non-manufacturing ISM should trigger a return action of the dollar. If that doesn't happen, a test of the resistance is inevitable.

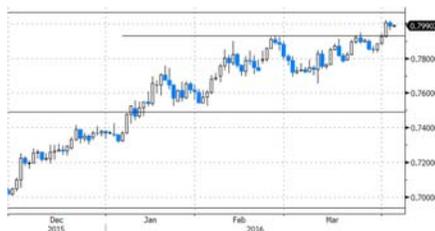
After the March dovish ECB and FOMC meetings, the dollar was sold and subsequently also the **1.1376** resistance was **broken after soft comments from Yellen. The EUR/USD rally extended to an intra-day high of 1.1438 on Friday. The 1.1495 resistance is the key line in the sand medium term.** The soft Fed approach and now risk-off sentiment pushed USD/JPY below the 110.99/114.87 range (confirmation needed). **Unless risk sentiment turns outright negative we believe the range bottom may stay intact. However, a test is no longer excluded and a drop below 110 may trigger a wave of USD selling (see higher).**

R2	0,8097	-1d
R1	0,8066	
EUR/GBP	0,7989	-0,0017
S1	0,783	
S2	0,7774	

EUR/GBP: Sterling regains some ground

Yesterday, sterling was initially again in the defensive, despite the huge losses on Friday. However, EUR/GBP approached the 0.8020 level several times, but there was no conviction to break it. Two polls put the Brexit "leave" proponents with a 4% lead on the "remain" side. **The fact sterling could hold onto Friday's lows, suggested the sterling selling is a bit exhausted for now.** So, sterling started to climb higher versus the euro with EUR/GBP dropping steadily from 0.8017 to about 0.7960, where a counter reaction occurred. Later on, sterling lost about half of its intraday gains to close at 0.7985 from 0.8008 on Friday eve. A similar pattern of Cable that moved from 1.4220 to an intra-day high of 1.4322, before sliding to a 1.4263 close, up 37 pips. Trading conditions were very thin and fundamental triggers unavailable.

Today, the UK services PMI will be published. An increase of the headline index to 53.5 from 52.7 is expected. In EMU, German orders for February were unexpectedly weak, while later on the EMU services PMI may be revised higher. We think that the UK services PMI is key. Recently, stronger UK data seldom could give sterling positive momentum as it was overshadowed by other issues as Brexit, a huge growing current account deficit and the absence of rate hike hopes. **In this context, we believe that the UK services PMI should be iron-strong to keep sterling away from key sterling support levels. The recent sterling decline has been fast, which heightens on the other hand the chances for a pause in the sterling sell-off. The technical picture of EUR/GBP improved further as the pair broke above the 0.7929/31 resistance.** EUR/GBP marched higher since December (0.70) without significant corrections. It closes in on the 0.8050/60 resistance area (H2 2014 highs) and erased the steep early 2015 losses. We never try to catch a falling knife and remain cautious on sterling



EUR/GBP: Impressive rebound since December reaches 0.80 level. Next key resistance area 0.8050/60. Don't catch a falling knife.



GBP/USD: drops sharply, but MT still in sideways range (1.38 to 1.45)

Calendar

Tuesday, 5 April		Consensus	Previous
US			
14:30	Trade Balance (Feb)	-\$46.20b	-\$45.68b
16:00	ISM Non-Manf. Composite (Mar)	54.1	53.4
16:00	IBD/TIPP Economic Optimism (Apr)	47.5	46.8
16:00	JOLTS Job Openings (Feb)	--	5541
Japan			
02:00	Labor Cash Earnings YoY (Feb)	A 0.9%	0.0%
04:00	Nikkei PMI Services (Mar)	A 50.0	51.2
Australia			
06:30	RBA Cash Rate Target	A 2.00%	2.00%
UK			
10:30	Markit/CIPS Services PMI (Mar)	53.5	52.7
10:30	Markit/CIPS Composite PMI (Mar)	53.4	52.8
EMU			
10:00	Markit Services PMI (Mar F)	54.0	54.0
10:00	Markit Composite PMI (Mar F)	53.7	53.7
11:00	Retail Sales MoM / YoY (Feb)	0.0%/1.9%	0.4%/2.0%
Germany			
08:00	Factory Orders MoM / WDA YoY (Feb)	A-1.2%/0.5%	0.5%/0.4%
09:55	Markit Services PMI (Mar F)	55.5	55.5
France			
09:50	Markit Services PMI (Mar F)	51.2	51.2
Spain			
09:15	Markit Services PMI (Mar)	54.5	54.1
Italy			
09:45	Markit/ADACI Services PMI (Mar)	53.9	53.8
Sweden			
08:30	Swedbank/Silf PMI Services (Mar)	56.7	55.8
09:30	Industrial Production MoM / NSA YoY (Feb)	0.3%/4.0%	0.6%/4.6%
Events			
01:00	Fed's Kashkari Holds Town Hall on Too Big to Fail		
07:00	Fed's Evans Speaks on Economy and Policy in Hong Kong		
11:15	Austrian Bond auctions (€1.1B 0.75% 2026 & 1.5% 2047)		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	1,75	-0,01	US	0,74	0,00	DOW	17737 17737,00
DE	0,12	0,00	DE	-0,48	0,00	NASDAQ	or Exch - NQI #VALUE!
BE	0,37	0,01	BE	-0,44	-0,01	NIKKEI	15733 15732,82
UK	1,42	0,01	UK	0,41	0,03	DAX	9822,08 9822,08
JP	-0,06	0,02	JP	-0,23	0,01	DJ euro-50	2962 2962,28

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,331 0,004
3y	-0,124	0,945	0,852	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,017	1,154	0,999	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,513	1,607	1,413	Euribor-6	-0,13	0,00	Libor-6 USD	0,74 0,74

Currencies		- 1d	Currencies		- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1383	-0,0005	EUR/JPY	126,04	-0,85		165,7912	1226,25	37,63
USD/JPY	110,75	-0,69	EUR/GBP	0,7991	-0,0015	- 1d	-4,73	7,75	-1,07
GBP/USD	1,4243	0,0022	EUR/CHF	1,0918	-0,0003				
AUD/USD	0,7603	-0,0030	EUR/SEK	9,2481	-0,01				
USD/CAD	1,3097	0,0048	EUR/NOK	9,4815	0,02				

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