



Sunrise

Wednesday, 04 May 2016

Due to National Holidays, there will be no KBC Sunrise on Thursday the 5th and Friday the 6th of May 2016. Next KBC Sunrise will be published on Monday the 9th of May 2016.

Rates: Core bond stage strong rally as risk-off sentiment returns

Strong gains yesterday ended a streak of disappointing sessions. Today, the eco data may give direction. As we see upside risks, core bonds' resilience may be tested. They may lose some ground, but technically irrelevant. We keep our recently changed view that the picture has become again neutral for core bonds.

Currencies: Dollar decline exhausted, at least for now?

Yesterday, the dollar reversed sharp earlier losses as the recent repositioning out of the dollar slowed. Comments from Fed's Lockhart supported the USD rebound. Today, the focus turns to the data. Will a decent ADP report and US non-manufacturing ISM help to put a floor for the dollar ahead of the payrolls.

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 an uptick on Monday, **US Equities dropped sharply lower yesterday** as risk-off sentiment weighed. The S&P ended 0.87% lower led by energy shares. This morning, **most Asian shares trade lower too** in the absence of Japanese investors.
- **Fed's Lockhart signalled overnight he would support an interest rate hike in June** as long as he sees continued progress on the economy, inflation and jobs, **but added that Brexit had some potential to loom large** as they approach the June meeting.
- **Donald Trump has become the presumptive Republican presidential nominee after a decisive victory in Indiana after which Ted Cruz suspended his White House campaign.** In the Democratic race, Bernie Sanders beat Hillary Clinton, but his margin wasn't large enough to disrupt her path towards nomination.
- **China's Communist Party is trying to quell growing concerns about the country's economic prospects by issuing verbal warnings to commentators whose public remarks on the economy are out of step with the government's upbeat statements,** according to government officials.
- **Brent crude oil prices extend their losing streak this morning, falling for a fourth consecutive session after data showed yesterday that US inventories hit a new record high.** The Brent dropped more than 7% in the last few days to hover currently around \$45/barrel.
- Today, the **eco calendar** contains the final reading of the euro zone services PMI for April, the euro zone retail sales, **US ADP employment report**, US trade balance and **non-manufacturing ISM.**

Rates

	US yield	-1d
2	0,754	-0,0395
5	1,2518	-0,0697
10	1,7963	-0,0760
30	2,6554	-0,0691

US Treasuries and Bunds rally in above average volumes

US curve shifts lower with belly outperforming while German curve bull flattened

Spreads Italy, Spain & Portugal widen

	DE yield	-1d
2	-0,4880	-0,0150
5	-0,3240	-0,0380
10	0,2150	-0,0580
30	0,9140	-0,0864

Upside risks to US ADP employment and Nonmanufacturing ISM

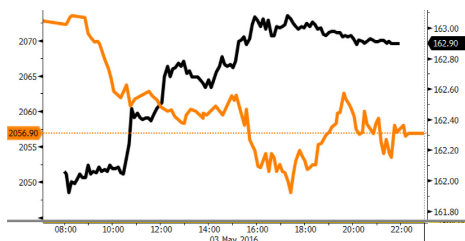
Mixed risks for EMU service PMI (stronger) and retail sales (weaker)

Core bonds profit from equity/oil weakness

Global core bonds had strong day, which wasn't the case in the past sessions. They rallied higher, as equities and the oil price dropped, even as the intra-day correlation of the moves between markets wasn't always perfect. The eco calendar was empty. However, the EU Commission Spring forecasts showed downward revisions of growth and inflation in the euro area, which was slightly supportive for core bonds, as were weak UK and Chinese manufacturing PMI's. Volumes traded were well above average. US yields were 3.6 bps (2-yr) to 7.6 bps lower, the belly outperforming. The German yield curve bull flattened with yields down by 1.7 bp (2-yr) to 7.3 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany were slightly higher with underperformance of Italy/Spain/Portugal (+5 bps) and Greece (+10 bps). The spread widening occurred partly ahead of the publication of the EC Spring forecasts, which emphasized budgetary/debt problems for the periphery.

Eco calendar heats up

According to the flash estimate, the euro zone services PMI picked up marginally in April, rising from 53.1 to 53.2. The final reading is expected to confirm this outcome, but we believe that a slightly stronger outcome is possible following better than expected manufacturing PMI and EC confidence indicators. Retail sales are expected to have dropped slightly (0.1% M/M) in March, for the first time in five months. It suggests that the early timing of Easter failed to boost sales. We see risks for a downward surprise following strong data in the previous months. In the US, hiring is expected to remain on track with the ADP employment report expected to show a 195 000 increase in April, marginally down from the 200 000 in March. We believe that the risks are for an upward surprise following a month of very strong claims data. The US non-manufacturing ISM is expected to increase for a second straight month, rising from 54.5 to 54.8, following a 1-point increase in March. Improving weather conditions might support activity in several sectors and we believe therefore that the risks are for a more substantial increase. Finally, the trade balance is expected to show a significant narrowing in the deficit from \$47.1 billion to \$41.3 billion, mainly due to a sharp drop in imports.



Bund future (black) & S&P future (orange) (intraday) Strong rally Bund on equity/oil weakness



Brent: uptrend still intact, but rally needed a breather \$42.62/barrel (uptrendline) and \$36.35 (previous neckline) supports should now hold

R2	164,6	-1d
R1	163,16	
BUND	162,82	0,9400
S1	161,46	
S2	160,81	

France and Germany tap the market. The French debt agency taps the off the run 30-yr OAT (6% Oct2025), the on the run 10-yr OAT (0.5% May2026) and the on the run 15-yr OAT (1.5% May2031) for a combined €7-8B. As usual, we don't expect any problems. The German Finanzagentur auctions the on the run Bobl (€4B 0% Apr2021). German auctions often went more difficult recently, but without influencing the secondary market. Tomorrow, Spain will also tap the market. **This week's auctions will be supported by €28B redemptions and coupon payments, which is a positive.**

Downward correction core bonds over?

Overnight, news was scarce and market moves don't give clues for the European and US session. Asian equities are slightly to modestly weaker, but not weaker than the close of WS implies. The dollar is a bit stronger following the two day sell-off, while commodities are more or less stable. The T-Note future is marginally higher, but also here the closure of Japanese markets and some Asian follow through buying means we shouldn't take it as a pointer for European trading. We expect the Bund to open unchanged to slightly higher.

Today's eco calendar interesting, especially US-side. The EMU data might be mixed and thus neutral for the core bonds, but we see upside risks for the US ADP employment report and the non-manufacturing ISM, which is a bond negative. Investors though will start looking forward to Friday's payrolls and stay sidelined. **Following yesterday's strong bond rally and equity weakness, there might be some profit taking in core bonds today if the US data come out strong. Markets may remember Fed's Williams overnight comments that he would support a June hike if eco data and inflation would go the right side, but a lot can occur before June meeting he added.** We doubt the risk-on has further to go. Riskier assets are richly priced and oil/commodities should be toppish. Major central banks are sidelined and so are no support for riskier assets. Markets have priced in only one Fed rate hike for March 2017. Unless recession risks would rise, there is little scope for a more gradual rate path. Of course, in recent weeks, especially the Bund traded weak, also in circumstances that would have justified a more bullish run, but that changed yesterday. For the Bund, we think that 160.81 is a strong support (0.33% in 10-year German yield). **The downward correction of the Bund may have run its course.** We changed our view on the core bonds from bearish to neutral (160.81 to 164.60).



German Bund: yesterday's strong run means the downside is now better protected (163.16 key support) Our view is now neutral (160.81 to 164.60).



US Note future: Sideways trading likely in 131-21 to 128-01 range

US-Ge

Currencies

R2	1,1714	-1d
R1	1,1616	
EUR/USD	1,1483	-0,0051
S1	1,1398	
S2	1,1217	

Dollar succeeds intraday comeback after heavy losses early in the session.

USD/JPY rebounds north of 107

Sentiment on risk in Asia remains fragile

Today, busy eco calendar

Will a decent ADP report and a non-manufacturing ISM help to slow the USD decline?

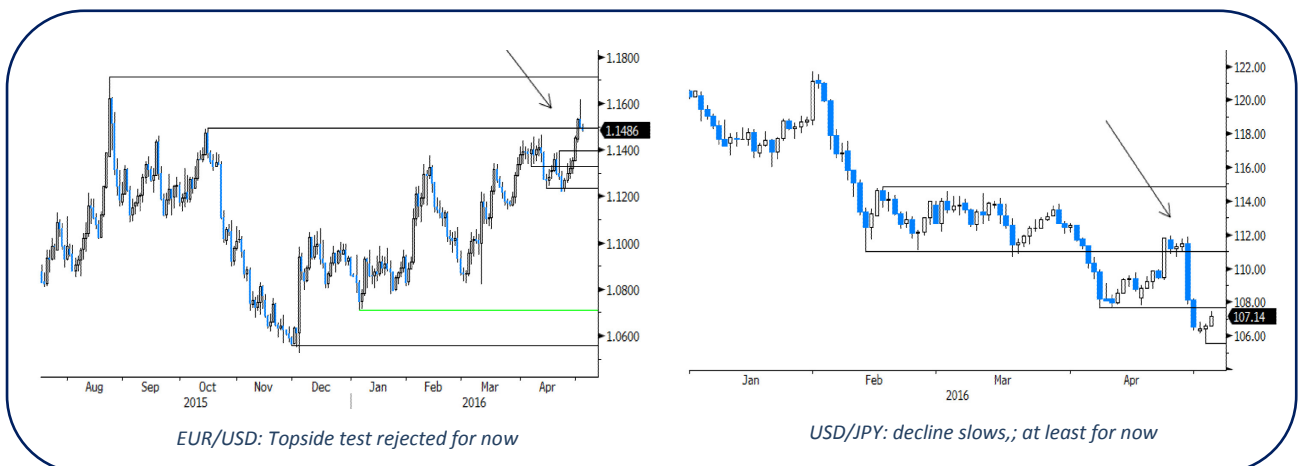
Dollar decline exhausted, for now?

On Tuesday, the repositioning out of the dollar initially continued. USD/JPY dropped to the mid 105 area. EUR/USD jumped north of 1.16. The move was technical in nature as investors reacted to the break of key technical levels. There was little economic news. Finally, the dollar sell-off exhausted and the dollar fully retraced the earlier losses. Fed's Lockhart keeping the door open for a June rate hike maybe helped the intraday reversal. EUR/USD closed the session at 1.1496 (from 1.1534). USD/JPY rebounded to close the day at 106.50 (from 106.41).

Overnight, risk sentiment in Asia remains negative, with regional indices recording slight to modest losses. Japanese markets are still closed for the Golden week holidays. However, USD/JPY rebounds further in line with the overall performance of the dollar. Oil traded off the recent highs with Brent back at \$45 p/b. However, the link between oil and the dollar was not tight of late. EUR/USD lost a few more ticks overnight and trades at .1485. After yesterday's technical move, the US and EMU data might decide on the next USD move.

Ahead of Ascension Day, **the eco calendar heats up. The euro zone services PMI** picked up marginally in April to 53.2. We see risks for a slightly stronger outcome after a better than expected manufacturing PMI. **EMU retail sales** are no mover for euro trading. **In the US, hiring** is expected to remain on track with the **ADP employment report** expected to show a 195 000 increase in April. We see risks **for an upward surprise** following a month of very strong claims data. The **US non-manufacturing ISM** is expected to increase for a second straight month, rising from 54.5 to 54.8. Also here we see **upside risks**. Finally, **the trade balance** is expected to show a significant narrowing in the deficit from \$47.1 billion to \$41.3 billion, mainly due to a sharp drop in imports.

In a daily perspective, we look out whether the decline of the dollar has run its course. **The jury is still out, but yesterday's intraday reversal of the dollar, looks a bit like a ST exhaustion move**. The dollar might enter calmer waters if the ADP report and the non-manufacturing ISM meet market expectations or print better than expected, which is our expectation. Of course a new disappointment might restart the USD sell-off. We assume a consolidation or even slight further USD gains, with the payrolls to decide on the next big move.



Technically, EUR/USD finally broke above the 1.1495 MT range top mirroring broad-based USD weakness. This break was an important technical warning for further dollar losses and opened the way for a retest of the key 1.1712 (2015 high). We maintain the view that the US economy is strong enough to allow the Fed to implement the two pre-announced rate hikes later this year. This is not discounted in the interest rate markets and the currency market. However, for now there is no trigger for the market to really change course. Friday's payrolls are the next milestone. The soft Fed approach, pockets of risk aversion and the Treasury report on currencies pushed USD/JPY to a new correction low at 106.14 on Friday and this level was again broken this morning. The inaction of the BOJ keeps the downside in USD/JPY fragile. **Verbal interventions from Japan to stop the rise of the yen are likely, but we doubt they will change the trend.** USD/JPY remains some kind of a falling knife.

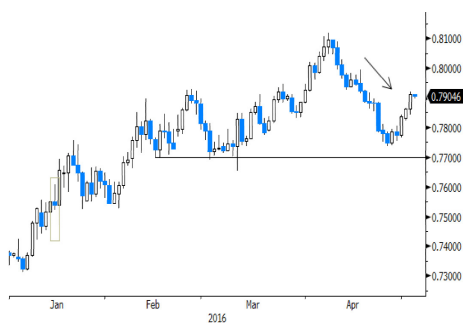
R2	0,8117	-1d
R1	0,7993	
EUR/GBP	0,7902	0,0041
S1	0,7735	
S2	0,7652	

Sterling hammered after poor manufacturing PMI

On Tuesday, sterling was initially driven by the sharp swings in the dollar. In this move cable was also squeezed sharply higher. The pair set a multi-month top around 1.4770. EUR/GBP initially traded relatively stable in the mid 0.78 area. However, **the UK manufacturing PMI unexpectedly dropped in contraction territory (49.2)** while a marginal improvement to 51.2 was expected. The report triggered a protracted intraday sterling downtrend, both against the dollar and the euro. EUR/GBP filled offers above 0.79 and closed the session at 0.7909 (from 0.7861). The decline of cable was even more impressive as the dollar rebounded later on. The pair closed the session at 1.4535 (from 1.4673).

Today, UK April construction PMI is expected to decline slightly from 54.2 to 54.0. This report is not so important from a market point of view. However, recently, there were already signs of a loss of momentum in the sector. Additional negative news could trigger further sterling losses. Of course, the focus will be on the services PMI expected tomorrow. **That said, we see risk for sterling to remain weak or even decline further short-term.**

The technical picture of EUR/GBP improved as the pair broke above the mid 0.79 area. A counter move occurred over the previous weeks and threatened to deteriorate the picture. However the sterling rebound has apparently run its course. Sterling sentiment will remain fragile as long as the referendum outcome isn't clear. More sterling gains might be difficult from current levels.



EUR/GBP: sterling decline to resume?



GBP/USD: break above 1.14668 rejected both on sterling weakness and USD decline

Calendar

Wednesday, 4 May		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-4.1%
14:15	ADP Employment Change (Apr)	195k	200k
14:30	Trade Balance (Mar)	-\$41.3b	-\$47.1b
14:30	Nonfarm Productivity (1Q P)	-1.3%	-2.2%
14:30	Unit Labor Costs (1Q P)	3.3%	3.3%
15:45	Markit Services PMI (Apr F)	52.1	52.1
16:00	ISM Non-Manf. Composite (Apr)	54.8	54.5
16:00	Factory Orders (Mar)	0.6%	-1.7%
UK			
01:01	BRC Shop Price Index YoY (Apr)	A -1.7%	-1.7%
10:30	Markit/CIPS Construction PMI (Apr)	54.0	54.2
EMU			
10:00	Markit Services PMI (Apr F)	53.2	53.2
10:00	Markit Composite PMI (Apr F)	53.0	53.0
11:00	Retail Sales MoM YoY (Mar)	-0.1%/2.6%	0.2%/2.4%
Germany			
09:55	Markit Services PMI (Apr F)	54.6	54.6
France			
08:45	Trade Balance (Mar)	-4200m	-5177m
08:45	Current Account Balance (Mar)	--	-3.9b
09:50	Markit Services PMI (Apr F)	50.8	50.8
Italy			
09:45	Markit/ADACI Services PMI (Apr)	51.9	51.2
Spain			
09:00	Unemployment MoM Net ('000s) (Apr)	-81.7	-58.2
09:15	Markit Services PMI (Apr)	55.0	55.3
Sweden			
08:30	Swedbank/Silf PMI Services (Apr)	56.0	54.9
Events			
Japanese Markets are Closed			
01:00	Fed's Lockhart Speaks to World Affairs Council Jacksonville		
09:30	Minutes from Riksbank Monetary Policy Meeting		
12:15	ECB's Weidmann Speaks at ADB Meeting in Frankfurt		
Norway	Bond Auction (NOK3B 1.5% 2026)		
Germany	Bobl Auction (€4B Apr2021)		
France	Bond Auction		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,80	-0,08	US	0,75	-0,04	DOW	17751 17750,91
DE	0,21	-0,06	DE	-0,49	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,62	-0,04	BE	-0,45	-0,02	NIKKEI	16147 16147,38
UK	1,53	-0,08	UK	0,47	-0,03	DAX	9926,77 9926,77
JP	-0,11	0,00	JP	-0,25	0,00	DJ euro-50	2974 2974,20

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,331 0,007
3y	-0,105	1,002	0,913	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,040	1,214	1,073	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,605	1,662	1,491	Euribor-6	-0,14	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,14835	-0,0051	EUR/JPY	123,01	0,83		179,8438	1281,77	45,06
USD/JPY	107,13	1,19	EUR/GBP	0,7898	0,0038	-1d	-4,77	-7,98	-1,13
GBP/USD	1,4532	-0,0136	EUR/CHF	1,0987	-0,0020				
AUD/USD	0,7501	-0,0066	EUR/SEK	9,2494	0,06				
USD/CAD	1,2722	0,0200	EUR/NOK	9,3274	0,08				

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