



Sunrise

Thursday, 24 March 2016

Rates: Safe haven flows ahead of the long Easter weekend?

Today's main item on the eco calendar is the US durable goods orders. Risks are on the upside of expectations, but we think that intraday downward potential is limited given the approaching long Easter weekend. Core bonds could find more support if the downward correction in oil prices and stock markets continues.

Currencies: dollar continues to outperform

Yesterday, the dollar stayed well bid as commodities including oil and gold declined. Sterling remains in the defensive with EUR/GBP testing the key 0.7929 resistance. Today, USD and sterling trading might continue the established pattern. The dollar remains in pole position.

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 for a second straight session** yesterday in a session devoid of important eco data or other news items. The S&P dropped 0.64% led by energy shares. This morning, **most Asian shares trade lower too**, led by Chinese and Hong Kong stocks.
- **Bank of Japan policymakers were engaged in a heated debate on the pros and cons of their decision to adopt negative interest rates** with one member saying it was preferable to roll it back, but others said it would cause market confusion and risk eroding trust in the BOJ, a summary of policy options at the March 14-15 meeting showed.
- **China's Premier Li Keqiang said his country has enough policy tools to keep the economy stable** despite deep rooted structural problems and downward pressures. He added that there will be short-term difficulties in the job market as companies will go bankrupt, but the government will help people find new employment opportunities.
- **Crude oil prices dropped significantly** with the Brent losing more than 3% after data showed US stockpiles rose to a record high level and production held strong. The WTI is currently trading around \$39.50/barrel and the Brent at \$40.30/barrel.
- Safe haven flows after the Brussels attacks failed to support gold further yesterday. **Gold prices dropped 2%** to settle at its lowest level in almost four weeks as the stronger US dollar weighed.
- Today, the **eco calendar** contains the UK retail sales, US jobless claims and durable goods orders. Fed's Bullard is scheduled to speak. **US bond markets close early ahead of Good Friday.**

Rates

Dull trading turns into bond buying as risk off returns

German curve bear steepened

US Treasuries outperform while curve bull flattened

	US yield	-1d
2	0,8607	-0,0199
5	1,3603	-0,0442
10	1,8807	-0,0544
30	2,6582	-0,0587

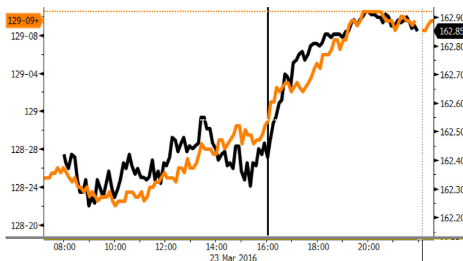
	DE yield	-1d
2	-0,4810	-0,0090
5	-0,3080	-0,0170
10	0,1930	-0,0210
30	0,9026	-0,0246

Risk for higher US claims and stronger core durable goods orders

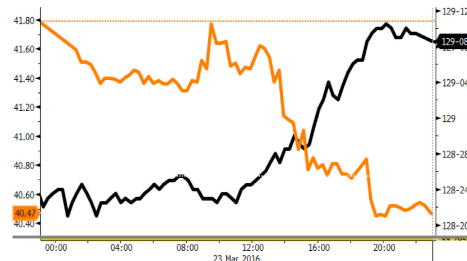
Yesterday, global core bonds hovered listless in a tight range throughout the Asian and European sessions. The oil price lingered sideways too before dropping sharply lower in late afternoon, dragging equities down as well. This pushed US Treasuries and Bunds higher, partly after the European close (see graph). **Short covering and positioning ahead of the long Easter weekend might have exacerbated the rally.** The timing reflects the sharp outperformance of the US Treasuries versus German bonds on our scoreboard, which suggests some catching up in the European opening today. Critical comments of **ECB Weidmann and Fed Bullard** (see yesterday's Sunset report) were interesting, but both governors are outsiders in their respective central banks and thus largely ignored by markets. Similarly, **eco data were limited to US New Home sales which were near expectations when taking into account revisions. In a daily perspective**, changes on the German yield curve ranged between -0.7 bps (2-yr) and +1.7 bps (5-yr) higher. The US yield curve bull flattened with yields 3.5 bps (2-yr) to 6.4 bps (30-yr) lower. **On intra-EMU bond markets**, 10-yr yield spreads versus Germany widened up to 7 bps (Italy; ahead of supply?) and 12 bps (Spain; benchmark change).

Market calendar remains thin ahead of long weekend

For the week ending the 17th of March, the consensus is looking for a further, albeit very limited increase of initial jobless claims to 268 000, following an increase from 258 000 to 265 000 in the previous week. The data will also include revisions, which adds to uncertainty. **We believe that the risks are for an upward surprise.** Also in the **US, durable goods orders** are forecast to have dropped by 3.0% M/M following a 4.7% M/M increase in January. Excluding transportation, durables are forecast to have dropped by a more limited 0.3% M/M following a 1.7% M/M increase in January. The headline figure will again be driven by Boeing orders and we have no reasons to distance ourselves from the consensus. **Regarding durables ex-transportation, we see risks for an upward surprise** after the improvement in survey data recently and overall signs that activity in the manufacturing sector is picking up.



Bund future (black) & T-Note future (orange) (intraday): Dull trading, until oil started to drop.



Oil (orange) & T-Note future (black) (intraday): Strong inverse correlation

R2	164	-1d
R1	163,4	
BUND	162,85	0,5100
S1	160,81	
S2	160,11	

Safe haven flows ahead of the Easter weekend?

Overnight, most Asian equity indices trade up to 1% lower. The downward correction of gold and oil prices slowed, but both remain vulnerable. The US Note future trades sideways around yesterday's highs suggesting a neutral opening for the Bund compared to late US after trading levels.

Today's eco calendar contains US jobless claims and durable goods orders. Risks for the latter or on the upside of expectations, which is a negative for US Treasuries. However, ahead of the long Easter weekend, core bonds could find a bid especially if oil and equity markets correct further down. Fed Bullard speaks, but he already shed his views on policy at many occasions earlier this week. **Technically**, the Bund remains in the middle of the 160.81/164 range. For the US Note future, it seems that first resistance (129-26), previous neckline double top) will be able to hold. Stronger eco data and hawkish Fed talk might **bring the contract back towards the lower bound of the trading range at 128-01+**.

Going forward, we think that there is a firm bottom below rate markets in yield terms as the ECB doesn't intend to lower rates further. **As of last Wednesday, the Fed also put a (temporary) ceiling on rate markets. Therefore, we put our downward bias for core bonds on hold and favour more sideways trading ahead.**



German Bund: sideways trading between 160.81 and 164



US Note future: 129-26 resistance holds after FOMC.

Currencies

V Dollar outperforms

Dollar holds positive momentum as oil and gold decline

Asian equities trade moderately lower

Dollar remains in good shape

R2	1,1495	-1d
R1	1,1376	
EUR/USD	1,1175	-0,0025
S1	1,1058	
S2	1,081	

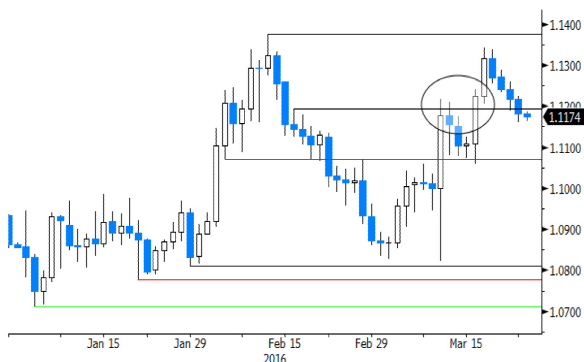
The US jobless claims and the durable goods orders might affect USD trading

Will commodity decline continue to support the dollar?

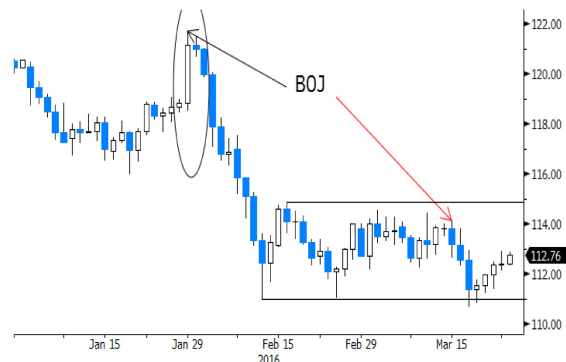
On Wednesday the dollar remained well bid. Amongst other factors, the US currency was supported by a correction in commodities (especially gold and oil). At the end of the session, US bond yields declined despite some hawkish Fed comments of late, but it didn't hurt the dollar much. EUR/USD closed the session at 1.1181 (from 1.1217 on Tuesday). USD/JPY finished the session almost unchanged at 112.38.

This morning, Asian equities show moderate losses, joining the US correction yesterday evening. Chinese PM Li indicated that China has enough tools to stabilize the economy, even as it faces structural problems. He reiterated that the Chinese currency doesn't need to depreciate in the longer term. Even so, the PBOC set the yuan fixing weaker at 6.51502 against the dollar. USD/JPY rebounded this morning as BOJ's Kuroda defended the negative rates policy. The pair trades currently around 112.80. The dollar remains well bid across the board as commodities stay in the defensive. EUR/USD changes hands in the 1.1175 area. The trade-weighted dollar holds also near the recent highs. Commodity currencies continue to cede ground.

Ahead of the long weekend, the **eco calendar** contains the **US jobless claims and US durable goods orders**. Fed's Bullard is scheduled to speak. The consensus is looking for a further, limited increase of initial jobless claims to 268 000. **We see risks for an upward surprise**. The **US durable goods orders** are forecast to have dropped by 3.0% M/M following a 4.7% M/M increase in January. Excluding transportation, durables are forecast to have dropped by a more limited 0.3% M/M. **Regarding durables ex-transportation, we see risks for an upward surprise** after the improvement in survey data recently. **The US data might be neutral to slightly supportive for the dollar**. Earlier this week, commodities, especially oil and gold, were an important guide for the dollar. Commodities show no signs of a rebound this morning. So, this factor might again be slightly supportive for the dollar. Of course, trading might become thin and more erratic ahead of the long Easter weekend.



EUR/USD: dollar extends cautious rebound



USD/JPY: USD rebounds off the recent lows

Before the FOMC decision, we advocated sideways EUR/USD trading in the 1.1200/1.0810 range. This range top was broken after last Wednesday's soft FOMC outcome. It will take some time for the dollar to digest the U-turn in the Fed's interest rate assessment. **Still, we don't expect a big sustained jump higher in EUR/USD. 1.1376 is a first resistance. 1.1495 is the key line in the sand medium term.** The soft Fed approach pushed USD/JPY temporary below the 110.99/114.87 sideways range, but the move was countered by warnings from the BOJ. These warnings will probably continue in case of a drop below 111. Yesterday's rebound is promising and leaves the downside of USD/JPY better protected, unless risk sentiment turns outright negative again. The jury is still out, but the correction low of 110.67 looks more solid now.

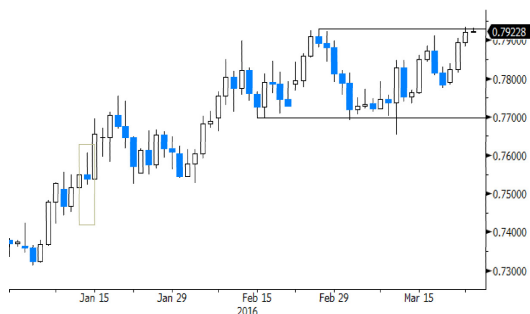
EUR/GBP is testing the key 0.7929 resistance

R2	0,8066	-1d
R1	0,793	
EUR/GBP	0,7927	0,0037
S1	0,7652	
S2	0,7526	

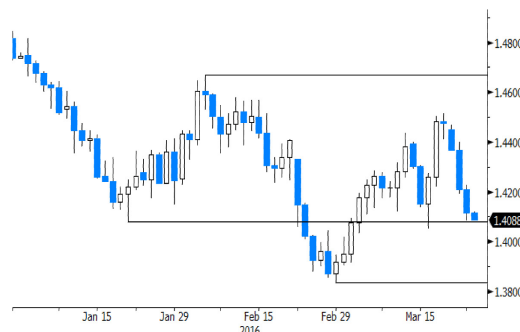
There was very little to tell on sterling trading yesterday. Cable declined slightly in line with the overall price move of the dollar. EUR/USD and cable moved in very close lockstep, especially during the European morning trade keeping EUR/GBP in a tight sideways range, close to, mostly slightly below the 0.79 barrier. **Sterling again underperformed during the US session as sentiment on risk deteriorated.** EUR/GBP finally tested the 0.7929 resistance. The pair closed the session at 0.7921 (from 0.7895). Cable finished the session at 1.4117 (from 1.4208).

Today, the UK February UK retail sales, the BBA loans of Home Purchases and the CBI distributive trades will be published. Retail sales are expected to decline-1.0% M/M after a very strong January figure. We don't have strong arguments to take a different view from consensus. Of late, UK eco data had often no big impact on trading. Data will have to yield a big positive surprise to improve sentiment on sterling. We don't expect that to happen. **So, we don't row against the sterling negative tide.**

Last week, sterling selling eased slightly, as Brexit-fears moved (temporary) to the background. For cable, the hypothesis of a bottoming out process remains in place. For EUR/GBP the picture was damaged by the post-ECB euro rebound. A first test of the 0.7929 resistance was rejected, but the test continues. A sustained break above this level would damage the picture of sterling further and open the way to the 0.8000/0.8066 area.



EUR/GBP: testing the 0.7929 resistance



GBP/USD: sterling declines, dollar rebounds

Calendar

Thursday, 24 March		Consensus	Previous
US			
13:30	Initial Jobless Claims (Mar 19)	268K	265k
13:30	Continuing Claims (Mar 12)	2235K	2235k
13:30	Durable Goods Orders (Feb P)	-3.0%	4.7%
13:30	Durables Ex Transportation (Feb P)	-0.3%	1.7%
14:45	Markit Services PMI (Mar P)	51.4	49.7
14:45	Bloomberg Consumer Comfort (Mar 20)	--	44.3
16:00	Kansas City Fed Manf. Activity (Mar)	--	-12
UK			
10:30	Retail Sales Ex Auto Fuel MoM YoY (Feb)	-1.0% / 3.5%	2.3% / 5.0%
10:30	Retail Sales Inc Auto Fuel MoM YoY (Feb)	-0.7% / 3.9%	2.3% / 5.2%
10:30	BBA Loans for House Purchase (Feb)	47900	47509
12:00	CBI Distributive Trades Report - Reported Sales (Mar)	10	10
Germany			
08:00	GfK Consumer Confidence (Apr)	9.5	9.5
08:00	Import Price Index MoM YoY (Feb)	-0.2%/-5.1%	-1.5%/-3.8%
France			
08:45	Business Confidence (Mar)	101	100
08:45	Manufacturing Confidence (Mar)	103	103
08:45	Production Outlook Indicator (Mar)	--	-4
08:45	Own-Company Production Outlook (Mar)	--	17
18:00	Total Jobseekers (Feb)	3555.3K	3552.6k
18:00	Jobseekers Net Change (Feb)	2.7	-27.9
Italy			
10:00	Industrial Sales MoM YoY (Jan)	--	-1.6%/-3.0%
10:00	Industrial Orders MoM YoY (Jan)	--	-2.8% / 1.5%
11:00	Retail Sales MoM YoY (Jan)	--	-0.1% / 0.6%
Events			
10:00	ECB Publishes Economic Bulletin		
13:15	Fed's Bullard Speaks in New York		
US	Early Close on US Bond Markets		
Italy	BTPei Auction (11:10) (€2.5-3B Mar2018)		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,88	-0,05	US	0,86	-0,02	DOW	17503 17502,59
DE	0,19	-0,02	DE	-0,48	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,46	-0,02	BE	-0,42	-0,01	NIKKEI	16892 16892,33
UK	1,45	-0,01	UK	0,44	-0,04	DAX	10022,93 10022,93
JP	-0,09	0,02	JP	-0,24	0,00	DJ euro-50	3042 3042,42

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,105	1,081	0,881	Euribor-1	-0,33	0,00	Eonia EUR	-0,346	-0,002
5y	0,038	1,291	1,031	Euribor-3	-0,24	0,00	Libor-1 USD	0,51	0,51
10y	0,565	1,705	1,440	Euribor-6	-0,13	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,11775 -0,0025	EUR/JPY	126 0,20		173,2396	1218,61	40,32
USD/JPY	112,75 0,40	EUR/GBP	0,7927 0,0037	-1d	-3,88	-16,65	-1,09
GBP/USD	1,4094 -0,0098	EUR/CHF	1,0904 -0,0013				
AUD/USD	0,7498 -0,0128	EUR/SEK	9,2407 0,02				
USD/CAD	1,3238 0,0170	EUR/NOK	9,4913 0,07				

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