



Sunrise

Monday, 04 April 2016

Rates: Bund set to test contract high on dovish Praet and weaker oil?

Today's eco calendar is uninspiring apart from a speech by ECB Praet. Dovish comments, referring to more easing if needed, could trigger a test of the contract high of the Bund (164) especially if oil prices remain under downward pressure. Brent crude currently tests 1st important support at \$38.32/barrel.

Currencies: Dollar can't profit from stronger eco data

Initial dollar gains on strong eco data eventually met with dollar selling against euro and yen on Friday. The change in dollar sentiment still triggers repositioning away from the dollar. ECB Praet is the only potential driver today, as technicals and sentiment will likely dominate. In this context, it's unlikely that the dollar breaks below key dollar support.

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 stocks** eventually reversed opening losses and ended more than 0.5% higher on the back of stronger payrolls, manufacturing ISM and Michigan sentiment. **Overnight**, Asian stock markets trade a bit lacklustre with limited gains.
- **Oil prices remain under downward pressure** following Friday's comments from Saudi Arabia which dampened hopes on a production freeze. Brent crude currently **tests 1st important support at \$38.32/barrel**.
- **S&P affirmed Spain's BBB+ rating (outlook stable)**. The rating agency said that it reflects the country's strong economic performance compared with that of EMU peers, offset by the sovereign's high external and public debt burdens and its weak fiscal track record.
- **Christine Lagarde**, head of the International Monetary Fund, has hit back at Greece over claims that the IMF is seeking to push the country towards default, describing the idea as "nonsense".
- **Weak Australian inflation data** (0.0% M/M, 1.7% Y/Y) leave room for another rate cut by the RBA at tomorrow's meeting (though not expected). **Australian retail sales disappointed as well**, putting AUD/USD under pressure.
- **Today's eco calendar contains only second tier data** with EMU PPI, EMU unemployment rate, US factory orders and ISM New York. **ECB Praet's speech deserves most attention**.

Rates

German curve bull flattens on sharply lower oil

US Treasuries volatile but in the end little changed, safeguarding constructive technical picture

	US yield	-1d
2	0,7321	-0,0126
5	1,2063	-0,0291
10	1,7566	-0,0401
30	2,5859	-0,0499
	DE yield	-1d
2	-0,4770	0,0070
5	-0,3380	-0,0060
10	0,1280	-0,0220
30	0,7766	-0,0598

Eco data unlikely to dominate markets

ECB Praet potential source of

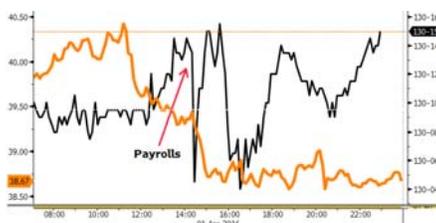
Lower oil prices and stronger US data dominate trading

On Friday, global core bonds parted ways in a very volatile session. US Treasuries ended narrowly mixed due to the combination of lower oil and stronger US data. German bonds extended gains, especially due to sharply lower oil prices and were little affected by the US part of the story. US Treasuries moved only cautiously higher before the US payrolls report. On the payrolls, there was a knee-jerk reaction lower, but it didn't last long. Later in US dealings, the ISM and Michigan sentiment turned out stronger than expected. Equities rebounded, oil continued to linger around the daily lows and US Treasuries were again slapped back to the post-payrolls lows, while Bunds stayed well above these levels. However, once more buyers turned up. Despite stronger equities, Treasuries erased the losses and the Bund retested the intraday highs. In a daily perspective, US yields ended up to 1 bp higher till the 10-year tenor, while the 30-yr yield fell by 1.2 bps. The German yield curve flattened with yields 0.6 bps higher at the 2-yr, but up to 4.7 bps lower further out. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ranged between -1 bp and +2 bps.

Thin calendar today, but ECB Praet speaks

The eco calendar contains mostly second tier releases today and also later this week. In EMU, there might be some attention for PPI inflation and the unemployment rate, both for February. Producer prices are expected to become more negative (-4% Y/Y versus -2.9% Y/Y previously) while the EMU unemployment is expected to stabilize at 10.3%. The latter recently surprised regularly on the downside, but just like the PPI, markets don't react much on this kind of data. Similarly in the US, the NY ISM and the factory orders probably won't have much market impact. ECB Praet, who is close to Mario Draghi, often gives important hints about future policy. Two items will be important. Inflation expectation have gone down again since the last ECB meeting (contrary to the US) and the euro strengthened across the board, but especially versus dollar and sterling. This works against the ECB's attempt to push inflation up. So, will Praet try to talk the euro down? Key resistance versus the USD looms and a break would be unwelcome.

Data-wise further out this week, the US eco calendar contains only the Nonmanufacturing ISM (tomorrow). Similarly, the EMU calendar is thin with only the German order and production data (Tuesday/Wednesday). So, attention will be on the technical elements, auctions and central bank speakers. Regarding the Fed, most scheduled speakers have already spoken since the FOMC meeting, but have they changed their tone following the surprisingly dovish speech of Yellen?



T-Note future (black) & oil (orange) (intraday): US Treasuries less impacted by decline of oil price as payrolls/ISM and equities played their role too



Bund (black) and oil (orange): Bund ekers out nice gains as declining oil dominates impact US eco data.

Heavy EMU bond supply

R2	165	-1d
R1	164	
BUND	163,51	-0,0100
S1	160,81	
S2	160,11	

Austria, Germany, Spain and France hold scheduled bond auctions this week.

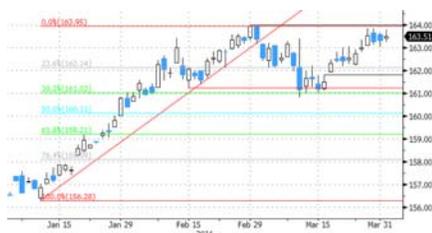
On Tuesday, the Austrian Treasury starts with tapping the on the run 10-yr RAGB (0.75% Oct2026) and 30-yr RAGB (1.5% Feb2047) for a combined €1.1B. On Wednesday, the German Finanzagentur sells the on the run 2-yr Schatz (€4B 0% Mar2018). On Thursday, the French debt agency auctions the off the run 10-yr OAT (0.5% May2025) on the run 10-yr OAT (0.5% May2026) & 15-yr OAT (1.5% May2031) for a combined €7-8B. The Spanish Treasury puts the on the run 5-yr Bono (0.75% Jul2021), 10-yr Obligacion (1.95% Apr2026) and 30-yr Obligacion (2.9% Oct2046) on offer. The amount still needs to be announced. This week's auctions will be supported by a €18B Bobl-redemption.

Bund ready to test contract high?

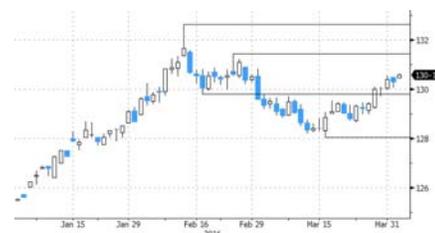
Overnight, most Asian equity markets eke out minor gains to slight losses, underperforming WS performance on Friday. Japan underperforms on the back of a stronger yen. The US note future trades marginally higher on the back of weaker oil, suggesting a decent opening for the Bund.

Today's eco calendar contains only second tier EMU eco data. **ECB Praet's speech** deserves watching as he could make another opening to additional easing (see above). **In combination with lower oil prices (Brent crude tests 1st support at \$38.32/barrel) this could trigger a test of the 164 contract high in the Bund.** We don't expect a break higher, but wait to install a sell-on-upticks approach in the 160.81/164 range.

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 yield (support levels) are tested or within reach of a test.



German Bund: Heading for test of upper bound 160.81-164 trading range on soft ECB Praet and 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

Dollar remains in the defensive in the wake of soft Yellen comments despite stronger eco data

USD/JPY approaches the range bottom and EUR/USD closes in on key resistance

Asian equities narrowly mixed

Yen still shows some minor additional strength

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,1388	0,0011
S1	1,1144	
S2	1,1058	

Eco data won't dominate FX trading this week

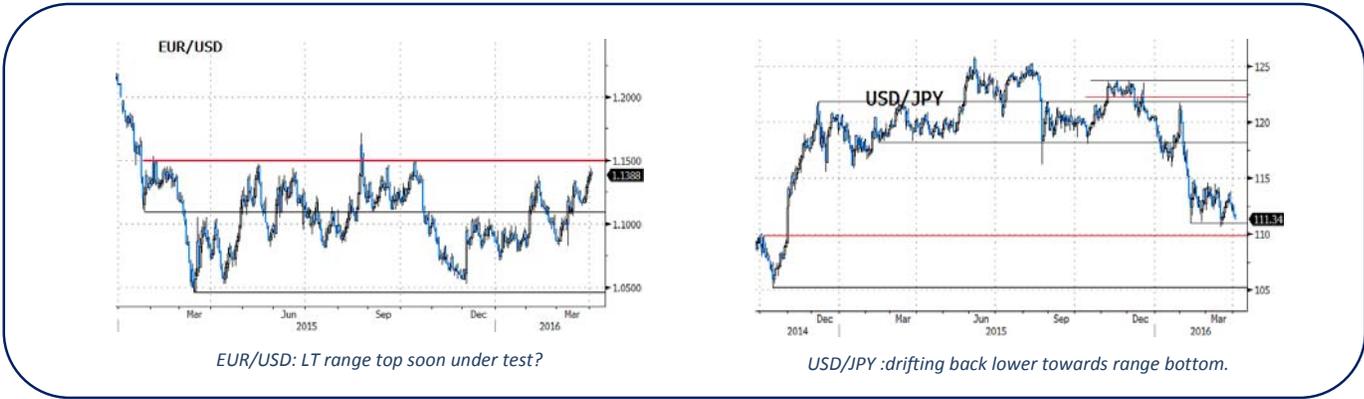
Technicals, sentiment and maybe Praet's speech are more important

Good US eco data don't help the dollar

On Friday, the dollar traded with a negative bias going into the US payrolls release as investors clearly avoided USD long positions after Yellen's soft comments. The payrolls were strong, but close to expectations, while the ISM and Michigan consumer confidence were stronger than expected. Every attempt to rally intraday ran into dollar selling. What cannot go up, must come down. The price action reflects the negative sentiment surrounding the dollar. The inverse correlation between the dollar and oil didn't work either on Friday. EUR/USD closed just below 1.14, little changed versus Thursday, but off the intraday highs around 1.1435 and closing in on major resistance. USD/JPY fell even below the 112 handle and closed near 111.70, once again approaching the sell-off lows around 110.70.

Overnight, an initial attempt to push the dollar further down in the Asian session failed, even as USD/JPY trades currently still at 111.54, 20 ticks off the opening quotation. No major news for the FX. The dollar decline may have been due to comments of the New Zealand PM who said that Yellen confined him she is in no hurry to raise rates. No major eco releases in Asia, but oil remains weak and tests first key support at \$38.32/barrel. Copper is weak too. The Aussie dollar (0.7630) trades slightly lower on modestly weaker local data. EUR/USD trades little changed at 1.1385. The trade weighted dollar is virtually unchanged. Asian equities are narrowly mixed. US Treasuries are nevertheless 6/32 higher, likely due to the ongoing oil weakness.

Today, the eco calendar contains mostly second tier releases and that remains the case later this week. In EMU, there might be some attention for PPI inflation and the unemployment rate (see fixed income section). However, markets usually don't react much and/or in sustainable way to the reports. Similar in the US, the NY ISM and the factory orders probably won't have much impact. Regarding the speech of Praet, he is close to ECB president Draghi and often gives important guidance about future policy. Inflation expectation have gone down again since the last ECB meeting and the euro has strengthened across the board but especially against dollar and sterling. This works against the ECB attempt to push inflation up. So, will Praet try to talk the euro down? Key resistance versus the USD looms and a break would be unwanted.



Over the previous days, the dollar was hit hard after the soft Fed comments.

So, substantial Fed softness is already discounted in US bond markets and in the dollar. That said, EUR/USD broke a first key technical level, suggesting ongoing underlying USD weakness, which was reflected in the inability to gain on strong US eco data Friday. Therefore, we remain cautious on the dollar and want to see signs of resilience before considering USD long positions.

After the March dovish ECB and FOMC meetings, the dollar was sold and EUR/USD broke above the 1.1200/1.0810 range. The **1.1376** resistance was **extensively tested and broken after soft comments from Yellen extending the EUR/USD rally to an intra-day high of 1.1438 on Friday. The pair now approaches the 1.1495 resistance, the key line in the sand medium term.** The soft Fed approach pushed USD/JPY temporary below the 110.99/114.87 range. The move was countered by warnings from the BOJ. However, on Friday after strong US data and constructive US equities, USD/JPY was heavily sold and is now about only 1 yen above the range bottom, presumably defended by the BOJ. **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 dollar selling (see graph).**

EUR/GBP spurts to new highs

R2	0,8097	-1d
R1	0,8066	
EUR/GBP	0,8006	0,0074
S1	0,783	
S2	0,7774	

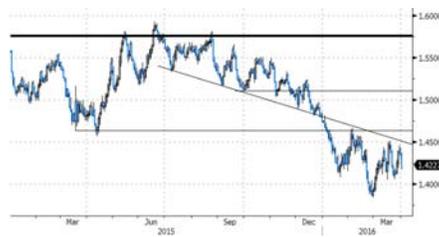
On Friday, sterling was again on the defensive due to lower oil prices, modestly weaker than expected UK manufacturing sentiment and a technical break higher in EUR/GBP. Of late, negative global risk sentiment associated with lower oil often put sterling under pressure and this was again the case. Mid-morning, the UK manufacturing PMI rebounded marginally less than expected. **This deviation was insignificant, but nevertheless put sterling under extra downward pressure. It tells more about the (weak) underlying sterling sentiment than about the data.** EUR/GBP lost ground from the European opening to mid-US trading session. It closed near the 0.80 level (0.7925 previously), while Cable traded also poor, finishing at 1.4227 from 1.4360 previously.

No key data today: Sentiment to drive price action

The technical picture of EUR/GBP improved further as the pair broke above 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 longs. **The Brexit referendum is still about three months away and more sterling rate support is unlikely to be forthcoming soon. Even a better services PMI (on Tuesday) wouldn't be a guarantee for a sustained sterling comeback.** The outlook for Cable is a bit more mixed, as dollar sentiment is also weak. The broad sideways range with boundaries between about 1.38 and 1.46 is still intact. Intermediate support stands at 1.4050/60.



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

Monday, 4 April		Consensus	Previous
US			
15:45	ISM New York (Mar)	--	53.6
16:00	Labor Market Conditions Index Change (Mar)	--	-2.4
16:00	Factory Orders (Feb)	-1.8%	1.6%
Japan			
01:50	Monetary Base YoY (Mar)	A 28.5%	29.0%
UK			
10:30	Markit/CIPS UK Construction PMI (Mar)	54.1	54.2
EMU			
11:00	PPI MoM / YoY (Feb)	-0.5%/-4.0%	-1.0%/-2.9%
11:00	Unemployment Rate (Feb)	10.3%	10.3%
Spain			
09:00	Unemployment MoM Net MoM ('000s) (Mar)	-50.0	2.2
Events			
Chinese Markets are Closed in Observance of Tomb Sweeping Day			
10:30	ECB's Praet Speak at Luiss University in Rome		
15:30	Fed's Rosengren Speaks at Cybersecurity Conference		
15:45	ECB Reports Weekly, Monthly QE Settlements		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	1,76	-0,04	US	0,73	-0,01	DOW	17793 17792,75
DE	0,13	-0,02	DE	-0,48	0,01	NASDAQ	or Exch - NQI #VALUE!
BE	0,36	-0,02	BE	-0,43	0,00	NIKKEI	16107 16106,64
UK	1,41	-0,02	UK	0,38	-0,06	DAX	9794,64 9794,64
JP	-0,08	-0,02	JP	-0,24	0,00	DJ euro-50	2953 2953,28

						USD			
						td	-1d		
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,335	-0,032
3y	-0,115	0,965	0,845	Euribor-1	-0,33	0,00	Libor-1 USD	0,51	0,51
5y	0,023	1,171	0,996	Euribor-3	-0,24	0,00	Libor-3 USD	0,59	0,59
10y	0,524	1,610	1,419	Euribor-6	-0,13	0,00	Libor-6 USD	0,74	0,74

Currencies			- 1d	Currencies			- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,13885	0,0012		EUR/JPY	126,86	-0,79		170,5209	1218,29	38,7	
USD/JPY	111,445	-0,77		EUR/GBP	0,8006	0,0074	- 1d	-0,45	-12,87	-1,14	
GBP/USD	1,4219	-0,0117		EUR/CHF	1,0919	-0,0010					
AUD/USD	0,7635	-0,0020		EUR/SEK	9,2613	0,02					
USD/CAD	1,3049	0,0019		EUR/NOK	9,4572	0,04					

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE ON WWW.KBCCORPORATES.COM/RESEARCH

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

