



Sunrise

Monday, 14 March 2016

Rates: Countdown to the FOMC meeting starts

Today's trading will likely be driven by market sentiment and technical considerations amid an empty eco calendar. Markets will also start counting down to Wednesday's FOMC decision. We expect no rate hike and downgrade of the Fed dot plot, but markets are even more dovish positioned.

Currencies: Euro in consolidation modus after ECB-rebound

On Friday, the euro was looking for a new short-term equilibrium after the Thursday's sharp rebound. The euro rally ran into resistance, but the correction remains limited. This week, the focus for currency trading turns to the Fed policy decision. We expect the downside of the dollar to be well protected going into the FOMC meeting.

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 rallied on Friday** led by financials and energy shares, still supported by Thursday's ECB action. **This morning, positive sentiment is spreading to Asia.** Chinese stocks outperform gaining up to 4%.
- **German Chancellor Merkel suffered a significant setback in region elections during the weekend** as voters backed right-wing populist forces. The anti-immigration Alternative für Deutschland looked set to beat forecasts in all regions.
- **Chinese activity data disappointed** during the weekend with growth in both retail sales and industrial production slowing more than expected in February, keeping pressure on policymakers to do more to avert a sharper slowdown. Investments were however sharply stronger than expected.
- **Fitch Ratings cut on Friday the top notch credit rating of Finland to AA+** with a stable outlook, citing its weak economic performance and persistent problems in reviving the economy. S&P, which currently rates Finland at AA+, is due to review the country on Friday; Moody's still rates Finland at Aaa.
- **China's central bank governor** said during the weekend the country can hit this year's growth target and **there would be no need to have stimulus from monetary policy if the economy performs as expected.** Zhou also added that the country has no need to weaken its currency.
- Today, the eco calendar is **razor-thin with only euro zone industrial production** data.

Rates

German yields modestly lower, US yields higher ahead of FOMC

Peripherals profit with delay from ECB decisions on Thursday

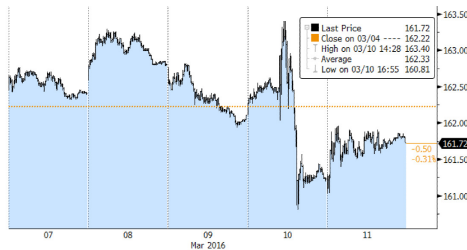
CDS corporates drops additional 45 bps (crossover) to 17 bps (investment), erasing all losses since start of the year

	US yield	-1d
2	0,9557	0,0204
5	1,4824	0,0216
10	1,9716	0,0284
30	2,7461	0,0466

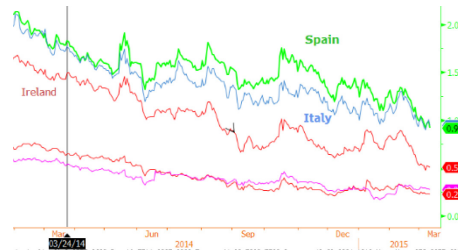
Bund recovers marginally from post-ECB losses

Global core bonds traded mixed in a rather dull session with the Bund slightly recovering from Thursday's steep losses and the US Note future continuing its downtrend, reaching the first target of the double top formation (128-06). Very strong equity markets didn't affect US Treasuries too much, while it might have hindered German bonds recovering more lost ground. In a daily perspective, the US yield curve steepened with yields up 2.9 bps (2-yr) to 5.9 bps (30-yr) higher. The German yield curve bull flattened with yields 1.2 bps (2-yr) to 4.8 bps (30-yr) lower. On **intra-EMU bond markets**, 10-yr yield spreads versus Germany profited from ECB measures after Thursday's adverse reaction and narrowed by 7-to 18 bps with Italian at and Spanish near multi-year lows at 91 and 94 bps. Also corporate credit spreads collapsed erasing two month of losses.

Today, the **eco calendar is thin** with only euro zone **industrial production data**. A significant rebound is expected by 1.7% M/M in January, following two consecutive monthly declines. As the bar is already quite high, we have no reasons to distance ourselves from the consensus. Nevertheless, a strong outcome would be encouraging after the recent weaker confidence indicators.



Bund future (5 days): Only partial recovery from post ECB hit



10-yr yield spread versus Germany: Risk on and latest ECB decisions drive Italian and Spanish spreads to multi-year lows

	DE yield	-1d
2	-0,4590	-0,0130
5	-0,2710	-0,0320
10	0,2720	-0,0390
30	1,0410	-0,0482

Fed to stay put

Door for June hike open?

US Treasuries lower? Bear steepening yield curve?

Later on this week, **central banks will be a key ingredient for trading**. Besides the Federal Reserve, also the Bank of Japan, the Swiss National Bank, the Bank of England and the Norges Bank meet.

No change in Fed policy is expected as the Fed governors will wait for more activity and inflation data confirming the recovery is well established and market turmoil has abated for longer. The meeting is nevertheless interesting due to the publication of the Fed's new economic and rates projections and the press conference of chair Yellen. **We expect Yellen to keep the door open for a rate hike in Summer**, dependent on the incoming data. In January, the Fed left the "balanced risks" quote out of its statement. Will it reappear to support the view that a rate cycle may soon be resumed? Second main point will be the **dot plot** which in December pointed to 4 rate hikes in 2016. We expect the median dot to show now three hikes (each remaining meeting with new forecasts and press conference). Two hikes would be a surprise and suggest a still softer Fed. **After the recent better eco data, the market now attaches a nearly even chance for a rate hike in June and the FF future fully discounts a first rate hike in November 2016.** According to market pricing, the FF would be about 1% by end 2017 and 1.235% by end 2018. **As before, this remains well below Fed's median dot rate projection.**

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We expect two rate hikes in 2016 (June and December). Markets for a long term didn't react much on the Fed's rate projections. However, given the still much slower path which markets discount compared to the Fed, **the risk is asymmetrical and markets' rate expectations may shift somewhat higher after the meeting.**

Germany, France and Spain tap market

This week's EMU bond supply is thin with only German, Spanish and French auctions. On Wednesday, the German Finanzagentur taps the on the run 10-yr Bund (€4B 0.5% Feb2026). On Thursday, the French debt agency sells two off the run OAT's (3.5% Apr2020 & 2.25% Oct2022) and the on the run 5-yr OAT (0.25% Nov2020) for a combined amount of €6-7B. Additionally, they'll try to raise €1.5-2B with a new inflation-linked OAT. The Spanish treasury sells the on the run 3-yr Bono (0.25% Jan2019) and 10-yr Obligacion (1.95% Apr2026) and the off the run Obligacion (5.75% Jul2032). This week's auctions won't be supported by redemptions.

R2	164	-1d
R1	163,4	
BUND	161,72	0,5300
S1	160,81	
S2	160,14	

More downside ahead

Overnight, Asian equity markets trade positive on the back of WS Friday's session with China and Japan outperforming. The oil price and US Note future are stable. The Bund might nevertheless benefit from a safe haven bid in the opening on the back of German regional election results. German Chancellor Merkel suffered a dramatic setback with right-wing populist parties gaining ground.

Today's eco calendar is empty apart from (outdated) EMU industrial production data. Trading will likely be driven by technical considerations and risk sentiment ahead of Wednesday's FOMC Meeting (see above). We don't expect any relevant moves.

Going forward, we think that there is a firm bottom below rate markets in yield terms. The ECB doesn't intend to lower rates further which gives the Fed more leeway to become more hawkish. **The German 10-yr yield tested 0.3% resistance (neckline double bottom). A break higher becomes very likely and would be a signal to sell the Bund.** Three other important markets already broke more or less similar key technical levels. The Brent oil price (\$37.55/barrel), S&P 500 (1950) and US 10-yr yield (1.85%) all moved above resistance levels, painting double bottoms on the charts. **This suggests that risk sentiment changed compared to the beginning of the year (more positive) and gives more downside for core bonds).**



German Bund (June contract): Bund sell-off despite additional ECB easing



US Note future (June contract): break below double top suggests more downside

Currencies

Euro losing a few ticks after post-ECB rebound

R2	1,1376	-1d
R1	1,1218	
EUR/USD	1,1161	0,0003
S1	1,1068	
S2	1,0826	

Asian equities maintain positive momentum

EUR/USD holding strong

German election result has limited impact on euro

The eco calendar is near empty

Markets look forward to central bank meetings

EUR/USD slightly off post-ECB top

On Friday, in technical trading, the euro reversed only a small part of Thursday's gains, as markets were looking for a new equilibrium. At the same time, the dollar was well bid across the board EUR/USD closed the session at 1.1156 (from 1.1177 on Thursday). USD/JPY finished the session at 113.86 (from 113.19).

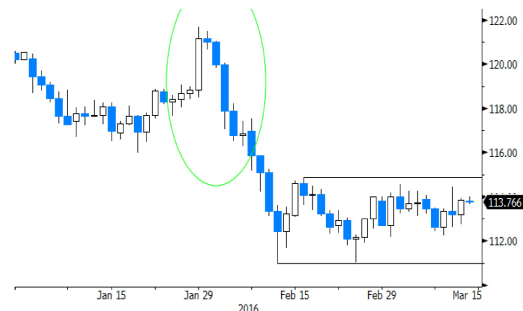
This morning, Asian equity markets extend the positive equity momentum.

Chinese production and retail sales showed a further loss of momentum. In public appearances, Chinese officials including the PBOC governor kept a balanced tone on further policy stimulation. Japanese Machinery orders jumped unexpectedly higher. The data leave the way open for the BOJ and the PBOC to maintain a growth-supportive policy. After a breather last week, commodities like copper resume their comeback. Oil stabilizes, but Brent holds north of \$40 p/b. AUD/USD cleared the 0.75 barrier on Friday. The rally slows this morning, but at AUD/USD 0.7555, the Aussie dollar still trades near multi-month highs. USD/JPY hardly profits from the risk-on sentiment. The pair trades in the 113.80 area. In Europe, there are plenty of headlines on the defeat of Merkel's party in regional elections. For now, there is no big impact. EUR/USD trades in the 1.1160 area.

Today, the calendar is extremely thin with only euro zone **industrial production data**. A significant rebound is expected by 1.7% M/M in January, following two consecutive monthly declines. As the bar is already quite high, we have no reasons to distance ourselves from the consensus. Even so, the (positive) impact on the euro should be limited. Markets will look forward to the BOJ policy decision (tomorrow) and to the Fed decision on Wednesday. For both central banks no formal policy change is expected. For a preview of the Fed meeting (see the fixed income section). We expect traders to keep a wait-and-see attitude on the USD ahead of the Fed meeting. Given the soft market positioning, the risk for the Fed is to be less dovish than the market, keeping the downside of the USD well supported.



EUR/USD: euro in consolidation modus after post-ECB rebound.



USD/JPY: still showing no clear directional trend

Of late, we advocated sideways EUR/USD trading within the 1.1193/1.0810 range. The top of this range was extensively tested after last week's ECB meeting and is still within reach. Some further repositioning in favour of the euro is still possible short-term. 1.1376 is the next important resistance. For now, we assume that this level will hold, unless the news flow from the US would turn really negative. We look out for an EUR/USD topping out process.

USD/JPY perfectly holds within the 110.99/114.87 sideways consolidation pattern. The pair still shows no clear trend, but it looks like the downside is well protected. This is partially due to market fears for BOJ action in case of a sharp rise of the yen. At the same time, the dollar might perform rather well in the run-up to this week's Fed meeting.

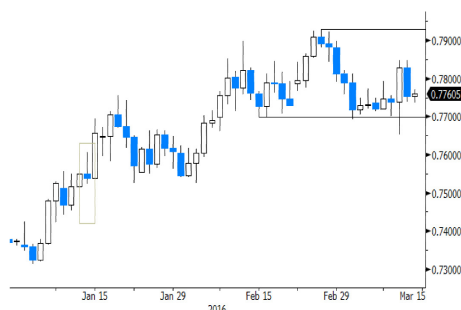
R2	0,8066	-1d
R1	0,7929	
EUR/GBP	0,7763	-0,0054
S1	0,7652	
S2	0,7525	

Cable extends rebound

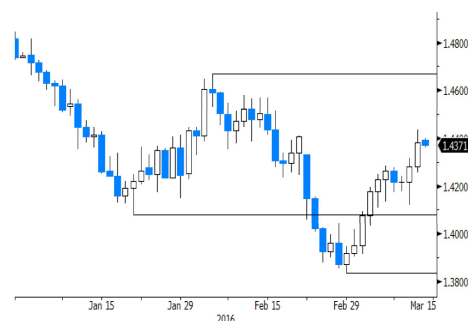
On Friday, the global market repositioning in the wake of Thursday's ECB decision was also the driver for sterling trading. The UK data (trade balance and construction output) were weak, but largely ignored. EUR/GBP to a large extent copied the decline of EUR/USD. EUR/GBP traded in the 0.7830 area at the start of the European session, but the pair filled bids around 0.7750 at noon. However, it was not only a euro correction. Cable was also well bid, even as the dollar was in good shape across the board. The pair traded with an upward intraday bias. It even touched a 'rebound top' in the 1.4435 area and closed the session at 1.4382 (from 1.4281 on Thursday). EUR/GBP closed the session at 0.7753 (from 0.7827).

Today, there are no important eco data on the agenda in the UK. Later this week, the BoE will announce its policy decision on Thursday. No material change from the February assessment is expected.

Of late, sterling bottomed out as the Brexit-fears moved to the background, For cable, the hypothesis of a bottoming out process remains in place. For EUR/GBP the picture is damaged by Thursday's overall post-ECB euro rebound. As is the case for EUR/USD, we look for signs of a topping out process in EUR/GBP. The medium-term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Short-term, EUR/GBP tested a first support at 0.7696 and this area was temporary broken last week. However, the test was rejected. 0.7652 is now the first important level on the downside.



EUR/GBP: test of the downside rejected, for now



GBP/USD: cable extends rebound

Calendar

Monday, 14 March		Consensus	Previous
Canada			
13:30	Teranet/Nationak Bank House Price Index MoM YoY (Feb)	--	--0.1%/5.9%
Japan			
00:50	Machine Orders MoM YoY YoY (Jan)	A15.0%/8.4%	4.2% / -3.6%
EMU			
11:00	Industrial Production SA MoM YoY (Jan)	1.4% / 1.2%	-1.0% / -1.3%
Events			
09:00	Bank of France Presents Annual Accounts		
11:00	SSM Chair Nouy Speaks in Germany		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,97	0,03	US	0,96	0,02	DOW	17213 17213,31
DE	0,27	-0,04	DE	-0,46	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,52	-0,07	BE	-0,38	-0,02	NIKKEI	17234 17233,75
UK	1,58	0,04	UK	0,55	0,03	DAX	9831,13 9831,13
JP	-0,04	-0,03	JP	-0,18	-0,01	DJ euro-50	3074 3073,80

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,102	1,142	0,935	Euribor-1	-0,30	0,00	Eonia EUR	-0,242	0
5y	0,060	1,383	1,126	Euribor-3	-0,23	0,00	Libor-1 USD	0,51	0,51
10y	0,630	1,802	1,547	Euribor-6	-0,14	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1161 -0,0005	EUR/JPY	127 0,24		173,5255	1254	40,33
USD/JPY	113,79 0,26	EUR/GBP	0,7763 -0,0055	-1d	1,64	-14,80	-0,44
GBP/USD	1,4372 0,0097	EUR/CHF	1,098 -0,0026				
AUD/USD	0,7551 0,0053	EUR/SEK	9,3077 -0,04				
USD/CAD	1,3238 -0,0020	EUR/NOK	9,3896 -0,09				

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