



Sunrise

Wednesday, 06 April 2016

Rates: Risk-off sentiment brings 10-yr German yield near all-time lows

Risk sentiment is better this morning, albeit fragile, as oil prices are higher, but volatile. The calendar is empty, leaving technical factors and sentiment in the driver's seat. While a test of the yield lows is still possible, we think the upside in Bunds is exhausted, as the configuration starts to look like just before last year's crash.

Currencies: USD/JPY tested the 110 psychological barrier

Yesterday, the yen attracted a strong safe haven bid. USD/JPY tested the 110 level. EUR/USD showed no clear trend and hovered near the recent highs. Today, the dollar might be slightly better bid if the global risk-off trade slows. EUR/GBP is near the key 0.8066 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 for a second straight session on Tuesday**, ignoring a better than expected non-manufacturing ISM. The late session rebound in oil prices also failed to boost equities. **This morning, Asian shares trade narrowly mixed.**
- **Iceland's Prime Minister resigned yesterday in a first major casualty of the alleged leak of documents from the Panamanian law firm.** Later in the evening a government spokesman said PM Gunnlaugsson had asked the minister of fisheries and agriculture to take over as Prime Minister.
- **Activity in China's services sector strengthened last month** with the Caixin/Markit services PMI rising from 51.2 to 52.2 as new business continued to expand modestly. The details were however mixed with employment falling for the first time in 2.5 years.
- **Crude oil prices rebounded late in the US session, reversing earlier losses**, to end the session slightly higher. Also this morning, oil prices extend their rebound with the Brent rising above \$38.5/barrel and the WTI trading currently around \$36.80/barrel. There was no clear driver for the change in sentiment.
- **Ted Cruz scored a resounding victory over Donald Trump in Wisconsin yesterday**, bringing him back in the Republican presidential race. On the Democratic side, Sanders defeated former secretary of state Clinton, although she still remains a strong favourite to win the nomination.
- Today, the **eco calendar is empty** both in the US and euro zone. **The Fed will release the minutes of its latest FOMC meeting.**

Rates

Core bonds enjoy risk-off sentiment

New high for the Bund

Peripheral bonds underperform

	US yield	-1d
2	0,7277	-0,0042
5	1,1852	-0,0113
10	1,734	-0,0191
30	2,5563	-0,0334

	DE yield	-1d
2	-0,4780	-0,0040
5	-0,3570	-0,0230
10	0,1000	-0,0240
30	0,7325	-0,0280

Fed hawk Mester speaks

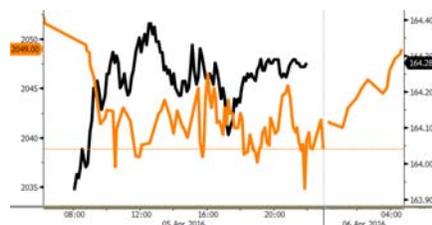
FOMC Minutes will be released

German 10-yr yield reaches lowest level YTD

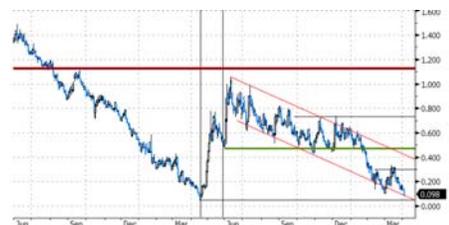
Global core bonds eked out more gains in a risk averse session with a new contract high for the German Bund. In a daily perspective, the German yield curve bull flattened with yields 1.1 bp (2-yr) to 4.4 bps (30-yr) lower. The US yield curve shifted in similar fashion with yields 1.6 bps (2-yr) to 5.2 bps (30-yr) lower. **On intra-EMU bond markets**, 10-yr yield spreads versus Germany widened by 4 bps in Ireland, 6/7 bps in Spain/Italy and 20/25 bps in Portugal/Greece. Of late, peripheral bonds were often immune to risk-off sentiment. First cracks in this year's bond rally? Portuguese underperformance might have been due to the upcoming syndicated taps (rumoured?).

The German Bund opened strong on the back of risk aversion and Monday eve's decline of oil prices. **Brent crude** dropped below \$38.32/barrel support, painting a double top on the charts. European equities started very weak and deepened losses in the morning session before flat-lining further out. **IMF chief Lagarde** pointed out that the global outlook weakened further over the last six months and amplified downbeat risk sentiment. The **euro zone services PMI** was significantly downwardly revised, German orders disappointed while **EMU retail sales** modestly beat expectations. So, the risk-off sentiment had various underlying factors. The up-leg of the Bund eventually halted shortly after noon at 164.41, a new contract high, and closed ultimately at 164.27, a 54 ticks gain. Later on, **the March US services ISM** (54.5) was strong and a bit stronger than expected, which didn't have much impact, neither had a **bigger trade deficit**. US Treasuries eked out gains in the European morning session and held rather stable during the US session.

After this morning's German production data, **the eco calendar is empty**, both in the US and euro zone. After the European close, **Fed's Mester** is scheduled to speak and the FOMC minutes will be released. Loretta Mester has a more hawkish profile. She sees three hikes this year (in the dot plot), cautioned against delaying Fed rate increases for too long, but kept silent on the timing of the rate increases. Has she become a bit more dovish? Earlier, Fed Evans, Rosengren and Williams still sounded a bit hawkish, saying markets underestimate the chance of more rate hikes this year. Markets put the odds of a rate hike only at more than even (51.5%) for the December FOMC meeting. The next rate hike is only fully discounted by August 2017. In such context, it isn't difficult for Fed governors to sound more hawkish than markets. **The FOMC Minutes** might be interesting as they provide a more detailed view on the debate that took place at the March FOMC meeting. However, following the publication of the eco and rate projections, the Yellen press conference and a raft of Fed speakers, markets most likely won't react.



German Bund (black) and S&P future (orange): Risk off in morning session, followed by sideways trading. Overnight, equities rebound....



German 10-yr yield approaches 2015 low (which was followed by a crash to 1%)

Syndicated Portuguese taps and Schatz auction

R2	165	-1d
R1	164,43	
BUND	164,19	0,4600
S1	160,81	
S2	160,11	

The German Finanzagentur taps the on the run 2-yr Schatz (€4B 0% Mar2018).

The bond didn't cheapen going into this auction and trades normal on the German curve. Total bids averaged €6.19B at the previous 4 Schatz auction despite very low, negative, yields. We expect a plain vanilla auction today. **The Portuguese debt agency announced syndicated taps of the 7-yr PGB (2.2% Oct2022) and the 30-yr PGB (4.1% Feb2045)** in the near term future. Both bonds cheapened significantly in ASW-spread terms following the unexpected announcement, but they trade normal on the Portuguese curve.

German 10-yr yield: 0.05% on the radar

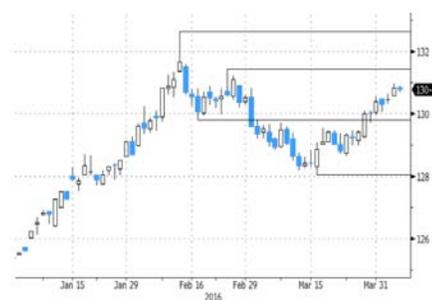
Overnight, most Asian equity markets trade slightly higher with Japan underperforming. Risk sentiment is somewhat better than in Europe and the US yesterday, but remains fragile. The Chinese Caixin services PMI improved further (from 51.2 to 52.2) while oil prices rebounded on comments by the Kuwait Opec-governor who renewed hopes on an oil production freeze. The US Note future has a small downward bias suggesting a somewhat weaker opening for the Bund as well.

Today's eco calendar is empty apart from a speech by Cleveland Fed Mester (hawk) and **FOMC Minutes**. They could provide more inside on the Fed's cautious stance, but **we don't expect them to surprise markets in a dovish way** as Fed-chairwoman Yellen already did so in a speech last week. So we expect the Minutes to be neutral for trading. **Oil price swings and risk sentiment** will be the key drivers on core bond markets. Both the Bund and the US Note future are in pretty good shape since mid-March.

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's) couldn't turn the tide. Next resistance is 131-14. **The German 10-yr yield is back in the single digits. A test of the all-time low (0.05%) is likely this week. We are wary at current absurd levels and "fear" a sudden correction like this time around last year. The same ingredients are available: a unilaterally positioned market (long), low liquidity, more Fed tightening ahead (we expect June hike) and improving growth perspectives. Therefore, we would start selling Bunds.**



German Bund: New contract high as German 10-yr yield closes in on all-time low.



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

Currencies

Yen is king when risk-off dominates

EUR/USD downside tested but without tangible results

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,1367	-0,0017
S1	1,1144	
S2	1,1058	

Global sell-off eases this morning, but sentiment remains fragile

USD/JPY stabilizes near the recent lows

Calendar remains thin today

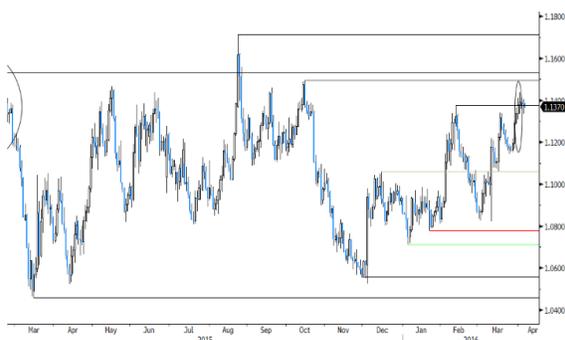
Currency traders to at oil and equities for guidance

USD/JPY holds near 110 barrier

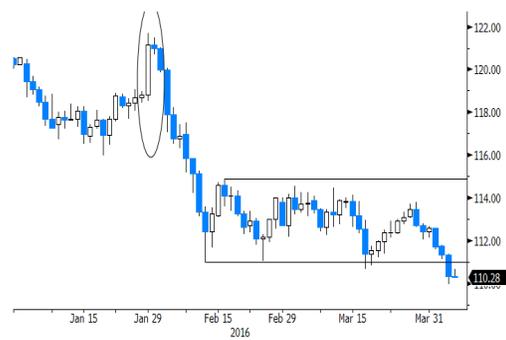
Yesterday, equities and oil slumped, bringing risk-off sentiment again to the forefront. European eco data were weak, while IMF chief Lagarde was downbeat about the outlook for global growth. The yen was the main beneficiary, while also the Swiss franc and gold advanced. USD/JPY extended Monday's losses and tumbled from 111.35 to an intraday low of 109.95 even as there were rumours about BOJ policy easing in April. At the close, USD/JPY was quoted 110.34, down from 111.34 at the previous close. EUR/USD spiked lower on a weak open of European equities and a secondly time after a better-than expected the US ISM. However, twice the euro erased the losses. The pair ended the session nearly unchanged at 1.1384 (1.1392 previously).

Overnight, sentiment on risk improved slightly. Asian indices traded little changed to marginally higher. Sentiment is supported by a rebound of oil. Brent oil trades around \$38.60 p/b. The Aussie dollar rebounds slightly from yesterday's commodity driven decline (currently around AUD/USD 0.7555). The yen stabilizes as the equity sell-off slows. However, at 110.35 USD/JPY is still holding near yesterday's correction low. The dollar trades marginally stronger against the euro at EUR/USD 1.1370. However, the pair shows no clear trend and holds in the tight consolidation pattern than is in place since mid-last week.

After this morning's German production data, **the eco calendar is empty**, both in the US and euro zone. After the European close, **Fed's Mester** is scheduled to speak. She has a more hawkish profile and likely indicated that she sees three hikes this year (in the dot plot). We will see whether she has become a bit more dovish since. The **FOMC Minutes** might be interesting, as they give a view on the debate that took place at the March FOMC meeting. However, following the publication of the eco and rate projections, the Yellen press conference and a raft of Fed speakers, the markets most likely won't react too much to its release. **In day-to-day perspective, currency markets will keep an eye at oil. A stabilisation in oil (and subsequently in equities) might also slow the decline of the dollar, in the first place against the yen.** However, the jury is still out.



EUR/USD: holding near the LT range top



USD/JPY testing the psychological barrier of 110

After the dovish March ECB and FOMC meetings, the dollar was sold. Subsequently, the EUR/USD **1.1376** resistance was **broken after soft comments**

from Yellen. EUR/USD set an new reaction top/2016 high at 1.1438. The 1.1495 resistance is the key line in the sand medium term, but is left intact for now. We see no trigger for a clear directional move in EUR/USD short-term (the eco calendar is thin this week). Medium term, the dollar probably needs really good news to regain substantial ground. The soft Fed approach and the risk-off sentiment pushed USD/JPY below the 110.99/114.87 range. The pair tested the 110 barrier yesterday. It looks difficult for USD/JPY to regain ground in a sustainable way as long as sentiment on risk remains negative/fragile. We look out whether official talk on more BOJ easing or some kind of verbal interventions from the BOJ can slow/stop the rebound of the yen.

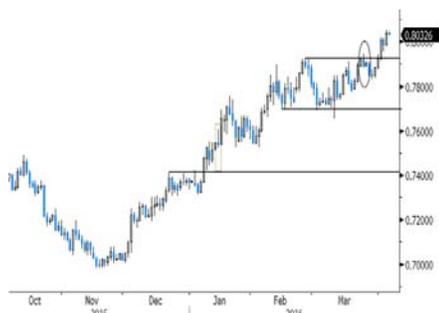
EUR/GBP nearing key 0.8066 resistance

R2	0,8097	-1d
R1	0,8066	
EUR/GBP	0,8028	0,0039
S1	0,783	
S2	0,7774	

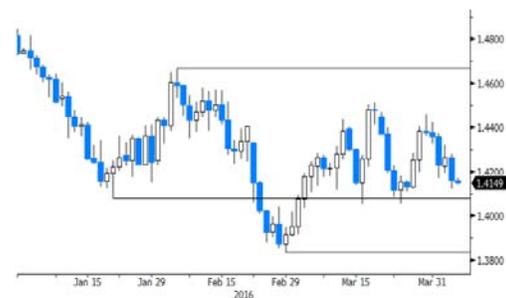
Yesterday, sterling couldn't build on Monday's tepid gains even as the UK services PMI improved more than expected to 53.7 from 52.7. The pair hovered sideways in a tight 0.7980 to 0.80 range till the start of the US session. During the US session, sterling was again heavily sold. A negative sentiment on risk, a low oil price and linger uncertainty on Brexit continued to weigh. EUR/GBP set a new correction top near the 0.8050/60 resistance area and closed the session at 0.8039 (from 0.7985 on Monday evening). Cable also ignored the PMI release and dropped from 1.4264 to 1.4161 in the close.

Overnight, BRC shop prices were reported at -1.7%Y/Y in March from -2.0% Y/Y in February. However, the report didn't affected sterling. Later today, the UK calendar is empty except for the UK new car registrations.

Yesterday, sterling was again hit hard by the global risk-off trade. Sentiment improved slightly in Asia this morning. However, this is not enough to change sterling sentiment for the better in a sustainable way. Brexit will remain an important factor of uncertainty for sterling. That said, the recent sterling decline has been fast, which heightens the chances for a pause. 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 0.8050/66 resistance area (H2 2014 highs) and erased the steep early 2015 losses. We don't try to catch a falling knife and remain cautious on sterling longs.



EUR/GBP regains the 0.80 barrier



GBP/USD: drifting south in the established consolidation pattern

Calendar

Wednesday, 6 April		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-1.0%
Japan			
07:00	Leading Index CI (Feb P)	A 99.8	101.8
China			
03:45	Caixin PMI Services (Mar)	A 52.2	51.2
UK			
01:01	BRC Shop Price Index YoY (Mar)	A -1.7%	-2.0%
10:00	New Car Registrations YoY (Mar)	--	8.4%
Germany			
08:00	Industrial Production SA MoM / WDA YoY (Feb)	A-0.5%/1.3%	3.3%/2.2%
Events			
18:20	Fed's Mester Speaks in Cleveland		
20:00	U.S. Fed Releases Minutes from March 15-16 FOMC Meeting		
Germany	Schatz auction (€4B 0% 2018) (11:30)		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	1,73	-0,02	US	0,73	-0,01	DOW	17603 17603,32
DE	0,10	-0,02	DE	-0,48	0,00	NASDAQ	or Exch - NQI #VALUE!
BE	0,36	-0,01	BE	-0,43	0,01	NIKKEI	15710 15710,49
UK	1,37	-0,05	UK	0,39	-0,03	DAX	9563,36 9563,36
JP	-0,06	0,01	JP	-0,24	0,00	DJ euro-50	2890 2890,35

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,332 -0,001
3y	-0,115	0,937	0,812	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,010	1,138	0,954	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,498	1,587	1,372	Euribor-6	-0,13	0,00	Libor-6 USD	0,74 0,74

Currencies		- 1d	Currencies		- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1366	-0,0017	EUR/JPY	125,36	-0,71		165,7912	1228,56	38,47
USD/JPY	110,3	-0,45	EUR/GBP	0,8029	0,0039	- 1d	0,00	2,31	0,84
GBP/USD	1,4149	-0,0095	EUR/CHF	1,0881	-0,0039				
AUD/USD	0,7557	-0,0047	EUR/SEK	9,2478	0,00				
USD/CAD	1,3129	0,0032	EUR/NOK	9,4724	-0,01				

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