



Sunrise

Wednesday, 30 March 2016

Rates: Core bonds rally as Yellen gives markets what they always want

Following a string of hawkish comments, Yellen reasserted her leadership by signaling that the rate path may still be softer. A (long) series of conditions are attached on the decision to hike rates. US Treasuries rallied with the short to medium part of the curve outperforming. Equities did well too. European bonds still have some catching up to do.

Currencies: Dollar hammered by soft Yellen speech

After directionless trading early in the session, the dollar was hammered as Fed's Yellen kept an soft bias on Fed policy normalization. EUR/USD returns to the 1.13 barrier. Today, the data might be slightly supportive for the dollar. However, after the Yellen comments, investors will probably be cautious on the dollar going into 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	↘

- The soft tone of Yellen supported equity sentiment in the US with **the S&P gaining almost 1% to close at its highest level for the year**. The Nasdaq outperformed, ending 1.67% higher. **Asian shares profit from the soft tone of Yellen too with Chinese stocks gaining 2%. Japanese shares underperform hit by a stronger yen and poor eco data.**
- **Global economic and financial uncertainty poses risks to the US economy and justifies a slower path of interest-rate rises**, Fed Chairwoman **Yellen** said yesterday, striking a more dovish tone than her colleagues recently who suggested that a next move may be just around the corner.
- According to a telephone opinion poll, **the campaign for Britain to stay in the EU saw its lead fall sharply in the last month** with 49% voting to remain in the EU and 41% in favour of Brexit. Another poll by BMG Research showed 45% wanted to leave the EU, winning over the 41% preferring to stay in.
- **Japan's industrial production dropped in February at its sharpest pace since 2011**, when the country was hit by a devastating earthquake. Production fell by 6.2% compared with the month before, as falling exports are denting demand, pointing to a weak first quarter.
- **Crude oil prices reversed part of their losses yesterday** with the Brent closing above \$39/barrel as API data showed a smaller than expected increase in US inventories. **Gold (\$1239.40/barrel) rallied** after Yellen sounded more dovish than expected at her speech in New York.
- Today, the **eco calendar** contains the first estimate of **German HICP inflation** for March, European Commission's economic confidence and the **US ADP employment report**. Fed's Evans is scheduled to speak.

Rates

US Treasuries rally as Yellen softens talk on rate hike

Yellen asserts leadership with very dovish speech

Market aggressively priced out FF hikes

Impressive bull steepening

	US yield	-1d
2	0,7882	-0,0907
5	1,2872	-0,0816
10	1,807	-0,0808
30	2,6058	-0,0532

	DE yield	-1d
2	-0,4900	-0,0220
5	-0,3440	-0,0400
10	0,1300	-0,0470
30	0,8041	-0,0697

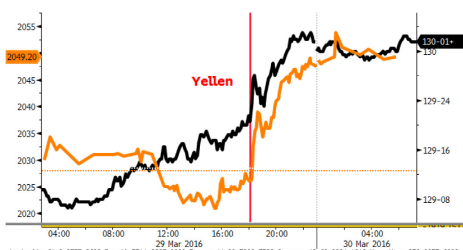
Upside risks German HICP inflation

Upside risks EC confidence and US ADP employment report

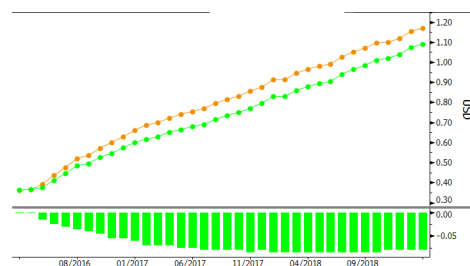
Global core bonds rallied in early dealings before sliding in a tight sideways range near the highs awaiting Yellen. Following a string of rather hawkish comments of her FOMC colleagues, she sounded very dovish, asserting her leadership over a divided FOMC council as various governors pleaded openly for speedier and more tightening than concluded at the March meeting. She very clearly stated that rates will be raised at a cautious pace and cited a great number of conditions to be fulfilled before the Fed would tighten policy. She also wiped an eventual April hike off the table by avoiding the message that every FOMC meeting is a “live” meeting. **Markets reacted sharply. US Treasuries rallied further with the shorter end outperforming. In a daily perspective**, the US yield curve shifted 8.2 to 9.4 bps lower in the 2-to-10-yr sector. The 30-yr yield dropped by 5.7 bps. The German yield curve bull flattened with yields 1.5 bps (2-yr) to 5.6 bps (30-yr) lower, but the market closed ahead of Yellen’s speech. **Markets discount a zero chance for an April rate hike and a more than even chance on a rate hike only from November onwards.** The first fully discounted rate hike is now expected for February 2017, according to the FF strip curve (see graph) and a second one in January 2018, while the February 2019 contract implies a 1.09% FF rate. **The dollar lost ground and equities eked out juicy gains. Commodities couldn’t erase much of earlier losses.** In the shadow of the Yellen speech, US consumer confidence printed much stronger than expected, the US 5-yr Note auction was mixed (see lower) and Dallas Fed Kaplan sounded also dovish.

Today: Eco calendar heats up

German HICP inflation is expected to pick up in March with the consensus looking for an increase from -0.2% Y/Y to 0.0% Y/Y. On a monthly basis, prices are forecast to have increased by 0.7% M/M supported by price increases ahead of Easter and a limited rebound in the oil price. Although the bar is already quite high, we still see **risks for an upward surprise. EC economic confidence** is expected to stabilize at 103.8 in March following two consecutive monthly declines. The first estimate of March consumer confidence showed a significant drop, but business confidence surveys improved and therefore **we see risks for better Commission’s indicators too.** In the US, the **ADP employment report** is expected to show a limited slowdown in hiring in March to 195 000 from 214 000 in February. We have no reasons to expect a slowdown in hiring with claims hovering near the multi-year lows and so, **we see risks for an upward surprise.**



T-Note future (black) & S&P future (orange) (intraday): Party on markets, as Yellen refills the punch bowl



Fed Fund strip curve: What a difference Yellen makes! Dovish speech shifts strip curve lower as softer rate path is priced in

Bobl, new 5-yr BTP and US 7-yr Note auction

R2	165	-1d
R1	164	
BUND	163,76	0,7200
S1	160,81	
S2	160,11	

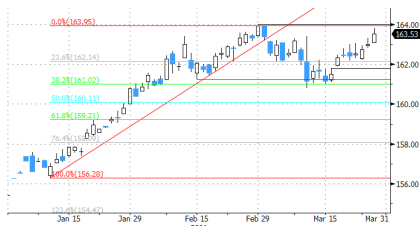
Germany and Italy hold this week's only scheduled bond auctions. **The German Finanzagentur taps the on the run 5-yr Bobl (€4B 0% Apr2021)**. Total bids averaged €4.34B at the previous 4 Bobl auctions. Given the very low, negative, auction yield, we expect again plain vanilla demand at best. **The Italian treasury releases a new 5-yr BTP (€3-3.5B 0.45% Jun2021) and taps the on the run 10-yr BTP (€2.5-3B 1.6% Jun2026) & floating rate CCTeu (€1-1.5B Dec2022)**. Grey market trading suggests that the new BTP will be launched with a 6.7 bps pick-up in ASW spread terms compared to the previous 5-yr benchmark (0.65% Nov2020). That's a 11 bps pick-up in yield terms and rather juicy. The Jun2026 BTP cheapened marginally in the run-up to this tap, but is rich on the Italian curve. This week's auctions will be supported by a Belgian €9.5B OLO-redemption. **The US Treasury continued its end-of-month refinancing operation yesterday with a mixed \$34B 5-yr Note auction**. The auction stopped dead on the 1:00 PM bid side, but the bid cover (2.38) was a little light. Bidding details were soft with a particularly small direct bid. **Today, the Treasury ends its refinancing operation with a \$28B 7-yr Note auction**. Currently, the WI trades around 1.585%.

German Bund ready to test contract high

Overnight, most Asian equities profit from the positive risk sentiment generated by a dovish Yellen speech in the US yesterday. Japanese stocks underperform on the back of a strong yen and disappointing industrial production data. Oil prices and the US Note future trade stable, but the Bund could still open somewhat firmer in a catch-up move with US Treasuries' gains on the back of Yellen's warnings on the eco and inflation outlook.

Today's eco calendar contains EC confidence data, German CPI numbers and the US ADP employment report. Risks are on the upside of expectations, but following Yellen's comments and ahead of the payrolls, we don't expect a negative reaction in US Treasuries. Higher German inflation could keep the Bund below the 164 contract high tough. Chicago Fed Evans is expected to hold on to his dovish views, which shouldn't surprise markets.

Technically, the Bund is ready for a test of the upper bound of the 160.81-164 sideways trading range. We don't expect a break higher, but wait to install a sell-on-upticks approach. The US Note future broke first resistance (129-26, previous neckline double top) as Yellen hung on to the dovish March policy statement. Next resistance is 131-14. We favour sideways trading going forward in a wider range (128-01+ support).



German Bund: Heading for test of upper bound 160.81-164 trading range. No break expected.



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26) ahead of payrolls.

Currencies

Dollar hammered as Yellen speaks dovish

R2	1,1495	-1d
R1	1,1376	
EUR/USD	1,1303	0,0117
S1	1,1144	
S2	1,1058	

Asian equities rebound on Yellen

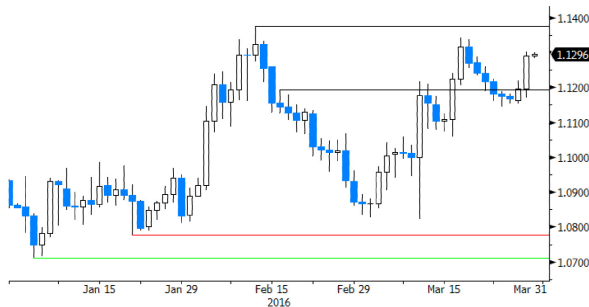
Yen stays in the defensive

Commodities hardly profit from soft Yellen speak

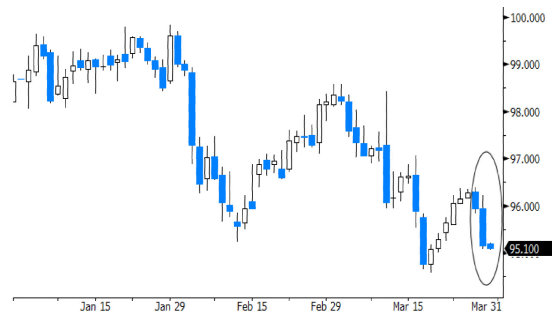
Dollar hammered after soft Yellen comments

On Tuesday, USD trading initially showed no clear trend as investors awaited a speech of Fed chairwoman Yellen. Contrary to other Fed speakers of late, Yellen kept a dovish tone. She said that it is appropriate to proceed cautiously on raising interest rates. Uncertainty on the global economy, on the US inflation outlook and the risk of a strong dollar all contribute to this assessment. US yields and the dollar declined. EUR/USD gained about one big figure and closed the session at 1.1291. USD/JPY dropped from the 113.45 area to finish the session at 112.61.

This morning, most Asian equities recorded decent gains in the wake of Yellen's soft comments. Japan is the exception with losses of about 1%, as the decline of USD/JPY weighs. Japan February production data were very weak (see headlines). The data raise recession fears and put pressure on the BOJ and the government to take additional stimulus measures. However, these considerations are not enough to weaken the yen, as USD weakness prevails. USD/JPY trades currently in the 112.45 area. The soft Yellen speech provides only limited support to commodities. However, the Aussie dollar rebounded on overall USD weakness. AUD/USD trades in the 0.7625 area, close to the highs.



EUR/USD: rang top coming within reach?



USD (trade-weighted): hammered after Yellen comments

German inflation and US ADP report in focus

Today, the eco calendar is interesting. Germany inflation is expected to pick up from -0.2% Y/Y to 0.0% Y/Y. On a monthly basis, prices are forecast to have increased by 0.7% M/M. The bar is already high, but we still see risks for an upward surprise. EC's economic confidence is expected to be stable at 103.8. The first estimate of consumer confidence dropped significantly, but business confidence surveys improved. Therefore we see risks for better Commission's indicators too. The US ADP labour report is expected to show a limited slowdown in hiring to 195 000. We have no reasons to expect a slowdown in hiring with claims near multi-year lows. We see risks for an upward surprise. Stronger eco data should normally be modestly positive for the dollar. However, especially the ADP report probably should be really good to inspire any sustained USD gains after yesterday's soft Yellen speak. A negative surprise will most probably trigger more repositioning out of the dollar. Given this asymmetrical risk, we stay cautious on the dollar going into the payrolls. The 1.1342/76 resistance is again on the radar.

Wednesday, 30 March 2016

After the ECB meeting and the dovish mid-March FOMC meeting, the dollar was sold. EUR/USD broke above the 1.1200/1.0810 range. However, the USD losses remained moderate as several Fed speakers kept the door open for a rate hike, even at the April meeting. A first resistance at **1.1376 wasn't challenged. Until now, EUR/USD traded in a range, albeit at a higher level. The risk of an test of the upper boundaries of the range is growing. 1.1495 remains 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. Last week's rebound is constructive and leaves the downside of USD/JPY better protected, unless risk sentiment turns outright negative again. The 114.87 range top is the first upside target.

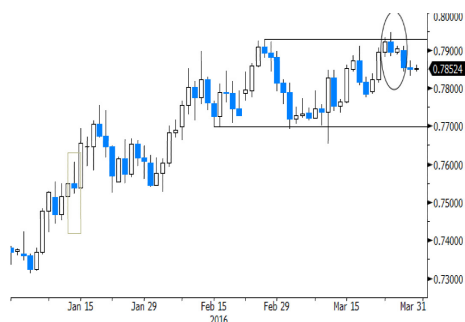
Sterling enters calmer waters, for now...

R2	0,8066	-1d
R1	0,7947	
EUR/GBP	0,7852	-0,0012
S1	0,7774	
S2	0,7652	

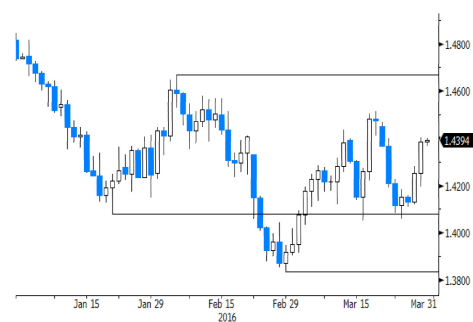
Yesterday, in technical trade, **sterling traded with a slightly positive bias.** Cable initially slightly outperformed EUR/USD, pushing EUR/GBP below the 0.7850 area. The BoE's Financial Policy Committee said the outlook for financial stability in the United Kingdom has deteriorated. *"Domestic risks have been supplemented by risks around the EU referendum"*. Sterling has weakened in recent months and heightened and prolonged uncertainty has the potential to increase risk premia investors require on a wider range of UK assets a technical move, the BoE raised the cyclical capital buffer for UK banks and recommended higher standards for buy-to-let financing. The reported weighed only temporary on sterling. Later in the session, cable rebound on the overall USD decline. The pair closed the session at 1.4384 (from 1.4254). EUR/GBP finished little changed at 0.7849.

Today, there are no UK eco data. Brexit polls show a diffuse picture, but suggest that the leave camp is gaining ground. For now, the negative impact on sterling is limited.

Last week, Brexit fears set sterling again under pressure. Cable declined off the 1.45 area, but a first important support at 1.4053 was left intact. EUR/GBP moved temporary above the key 0.7929 resistance, but a sustained break didn't occur. If sustainably broken, it would additionally damage the sterling picture and open the way to the 0.8000/0.8066 area. We stay cautious on sterling long positions.



EUR/GBP: test of the 0.7929 resistance rejected for now.



GBP/USD: cable rebounds on USD weakness

Calendar

Wednesday, 30 March		Consensus	Previous
US			
13:00	MBA Mortgage Applications (Mar 25)	--	-3.3%
14:15	ADP Employment Change (Mar)	195k	214k
Japan			
01:50	Industrial Production MoM / YoY (Feb P)	A-6.2%/-1.5%	3.7%/-3.8%
06:00	Vehicle Production YoY (Feb)	A -6.9%	-5.8%
EMU			
11:00	Economic Confidence (Mar)	103.8	103.8
11:00	Business Climate Indicator (Mar)	0.08	0.07
11:00	Industrial Confidence (Mar)	-4.3	-4.4
11:00	Services Confidence (Mar)	10.8	10.6
11:00	Consumer Confidence (Mar F)	-9.7	-9.7
Germany			
	CPI Baden Wuerttemberg MoM / YoY (Mar)	--/--	0.3%/-0.3%
09:00	CPI Saxony MoM / YoY (Mar)	--/--	0.3%/-0.1%
10:00	CPI Brandenburg MoM / YoY (Mar)	--/--	0.2%/-0.4%
10:00	CPI Hesse MoM / YoY (Mar)	--/--	0.5%/-0.3%
10:00	CPI Bavaria MoM / YoY (Mar)	--/--	0.3%/-0.1%
10:30	CPI North Rhine Westphalia MoM / YoY (Mar)	--/--	0.4%/0.1%
14:00	CPI MoM / YoY (Mar P)	0.6%/0.2%	0.4%/0.0%
14:00	CPI EU Harmonized MoM / YoY (Mar P)	0.7%/0.0%	0.4%/-0.2%
Belgium			
	CPI MoM / YoY (Mar)	--/--	0.1%/1.39%
Spain			
09:00	Total Mortgage Lending YoY (Jan)	--	18.8%
09:00	Number of Mortgages YoY (Jan)	--	21.1%
Norway			
10:00	Unemployment Rate AKU (Jan)	4.5%	4.5%
Events			
19:00	Fed's Evans Speaks on Economy and Policy		
Italy	BTP (€3.5B Jun2021, €3B 1.6% Jun2016), FRN (€1.5B Dec2022) Auction (11:10)		
Germany	Bobl Auction (€4B Apr2021) (11:30)		
US	7Yr Notes Auction (\$28B)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,81	-0,08	US	0,79	-0,09	DOW	17633 17633,11
DE	0,13	-0,05	DE	-0,49	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,38	-0,06	BE	-0,42	-0,01	NIKKEI	16879 16878,96
UK	1,41	-0,07	UK	0,45	-0,02	DAX	9887,94 9887,94
JP	-0,09	-0,01	JP	-0,25	0,00	DJ euro-50	3005 3004,87

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,347 0,002
3y	-0,121	1,008	0,877	Euribor-1	-0,33	0,00	Libor-1 USD	0,51 0,51
5y	0,017	1,230	1,020	Euribor-3	-0,24	0,00	Libor-3 USD	0,59 0,59
10y	0,518	1,659	1,417	Euribor-6	-0,13	0,00	Libor-6 USD	0,74 0,74

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1303 0,0117	EUR/JPY	126,88 -0,12		171,4681	1237,55	39,42
USD/JPY	112,28 -1,25	EUR/GBP	0,7852 -0,0012	-1d	-0,71	19,36	-0,59
GBP/USD	1,4392 0,0173	EUR/CHF	1,0914 0,0014				
AUD/USD	0,7640 0,0090	EUR/SEK	9,2602 -0,01				
USD/CAD	1,3060 -0,0137	EUR/NOK	9,4671 0,02				

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