



## Sunrise

Tuesday, 12 April 2016

### Rates: More sentiment-driven trading? Italian wildcard

Today's eco calendar remains thin bar three speeches by hawkish Fed governors which could slightly weigh on US Treasuries. Overall, risk sentiment and oil price swings will likely remain the dominant trading factor though. On peripheral markets, we look out whether the Italian backstop plan for the banking sector triggers a relief rally.

### Currencies: Dollar still going nowhere

Yesterday, EUR/USD held a tight range near the 1.14 pivot as there was no eco news to guide trading. USD/JPY tried to move away from the correction lows. Sterling succeeded a remarkable technical rebound. Today, there are again few eco data to guide USD trading. Sterling traders keep an eye at the UK price data.

### 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	↘

- Despite positive sentiment in Europe and a higher oil price, **US Equities failed to maintain early gains, ending the session slightly lower**. This morning, **most Asian shares trade in positive territory. Japanese stocks outperform following a slightly weaker yen this morning**.
- **Italy's strongest banks, insurers and asset managers have agreed to pony up about €5 billion to create a systemic backstop fund to bail out weaker lenders** in an effort to calm investor concern about the stability of the banking sector.
- **Fed's Kaplan said yesterday he is very open-minded to deciding whether to raise interest rates at the mid-June meeting**, but signalled that the 26-27 April meeting will be too early to tell whether the strong jobs growth or the weak economic growth was the enduring feature of the first quarter of this year.
- **Crude oil prices extended their rally** yesterday with the Brent close at its highest level in four months (\$42.83/barrel) and the WTI closing above \$40/barrel ahead of the Doha meeting this weekend. This morning however, oil prices trade slightly lower.
- **Aluminium producer Alcoa reported a first quarter profit of \$16 million**, down sharply from the \$195 million last year, but slightly above market expectations. Revenues were hit by weak aluminium prices. Alcoa also lowered expectations for this year.
- Today, **the eco calendar remains thin** with only the **UK industrial production** data and **US NFIB small business confidence**. Fed's Harker, Lacker and Williams are scheduled to speak.

# Rates

## Volatile opening session amid empty calendar

Global core bonds were little changed (US) to lower (Germany) at the end of the opening session of the week. Initially, bond selling occurred on the back of positive risk sentiment (rallying Italian banking stocks) amid an empty eco calendar. The sell-off persisted though as equities stabilised, but fizzled out in US trading, allowing Treasuries to close little changed and keep Friday's closing levels intact. Oil prices fluctuated around the \$42/barrel mark, but went higher again later in US trading, while equities sold off. The US yield curve was flat at the 2-yr and up a tiny 0.4/0.5 bps further out while the German yield curve bear steepened, also helped by the announcement of extra supply at the 20- and 50-yr tenors in France. German yield changes varied between flat (2-yr) and +4.7 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany widened up to 4/5 bps (Ireland; supply announcement and Portugal). Spain outperformed (-2 bps).

Dallas Fed Kaplan said weak data show there's no need for an April hike in the light of a puzzling weakening of economic growth though a June tightening remains a possibility. "I am certainly very open" to the possibility of a June move. President Obama had a meeting with Fed chair Yellen behind closed doors, the first since November 2014. The spokesman said before the meeting the president was pleased with Yellen. Kaplan's comments and those of the Obama spokesman had no market impact.

## Thin eco calendar but lots of supply

The eco calendar remains thin today, both in the US and euro zone with only US NIFB small business confidence. EU General Affairs Ministers meet in Amsterdam and Fed's Harker, Williams and Lacker are scheduled to speak. Fed Harker and Lacker are certainly in the hawkish camp within the FOMC, but Williams, until recently more a centrist, has shifted a bit towards the hawkish camp, based on his views on the economy and inflation.

In February, US NIFB small business confidence weakened unexpectedly to reach its lowest level in two years. Small business confidence dropped from 93.9 to 92.9, but for March a pick up to 93.7 is expected. We believe that the risks are for a stronger outcome following substantial improvements in other business confidence indicators. Markets usually ignore the releas

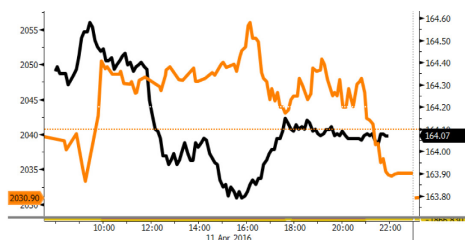
Bear steepening German yield curve while US yields end little changed.

	US yield	-1d
2	0,7107	0,0080
5	1,1737	0,0227
10	1,7429	0,0279
30	2,5745	0,0228

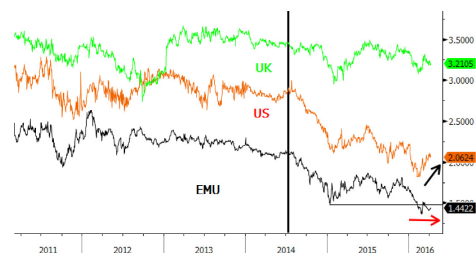
	DE yield	-1d
2	-0,5130	-0,0050
5	-0,3830	0,0040
10	0,1220	0,0230
30	0,8074	0,0536

Upside risk NIFB business confidence?

Fed Harker, Lacker & Williams speak.



Bund (black) and S&P future (orange): Initial bond selling fizzles out; US equities drop in late-session sell-off



US 5-yr/5-yr inflation expectations moving up, while EMU expectations stabilize at low levels. ?

US-Ger

R2	165	-1d
R1	163,74	
<b>BUND</b>	<b>164,04</b>	<b>-0,1600</b>
S1	160,81	
S2	160,11	

## France and the Netherlands tap very long end curves

**The Dutch debt agency taps the on the run 30-yr DSL (€0.75-1.25B 2.75% Jan2047).** The bond cheapened around 5 bps in ASW spread terms in the run up to the auction. It trades cheap on the Dutch curve, but slightly below swap. We expect plain vanilla demand. **The French treasury announced its intention to launch two new benchmarks via syndication.** The new 20-yr OAT (May2036) and 50-yr OAT (May2066) are expected to be launched today. The German Finanzagentur holds an inflation-linked auction. **This week's auctions will be supported by several redemptions:** Finland (€6.5B), the Netherlands (€11.5B), Germany (€15B) and Italy (€16.25B). **In the US, the Treasury starts its mid-month refinancing operation** with a \$24B 3-yr Note auction. Currently, the WI trades around 0.85%. The auction will be followed by a \$20B 10-yr Note auction tomorrow and a \$12B 30-yr Bond auction on Thursday.

## Sentiment-driven trading; periphery wildcard

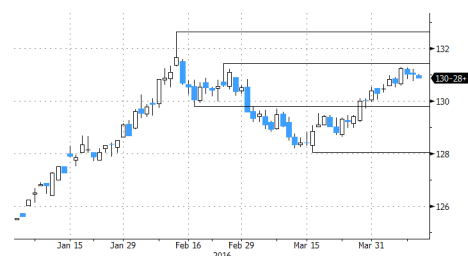
**Overnight,** most Asian equity markets trade positive despite the late session setback of WS. China underperforming and Japan outperforming (+1.5%). The latter on the back of a slightly weaker yen. Brent crude tested the cycle high just north of \$43/barrel yesterday, but a break didn't occur for now. The US Note future trades with a minor downward bias, suggesting a neutral to slightly lower opening of the Bund.

**Today's** eco calendar is empty apart from US NFIB Small Business Optimism and speeches by Fed governors Harker, Williams and Lacker. Given their profiles, we expect them to sound more hawkish which could at the margin be negative for US Treasuries. **We mainly look at general risk sentiment and oil prices to guide trading. Developments on peripheral markets are interesting as well.** Overnight, Italian PM Renzi announced the creation of a €5B backstop fund to bail out weaker lenders. It remains doubtful whether or not this suffices to ease growing investor concern about the stability in the Italian banking sector.

**Technically, the US Note future** broke first resistance (129-26) as Yellen was more dovish than at the March policy meeting. A stronger batch of eco data couldn't turn the tide. Next resistance is at 131-14. **The German 10-yr yield is heading for a test of the all-time low (0.05%). We are wary at current absurd levels and "fear" a sudden correction like this time last year. The same ingredients are available: a unilaterally positioned market (long), low liquidity, more Fed tightening ahead and improving growth perspectives. Therefore, we would start selling Bunds.**



German Bund: time to add short positions



US Note future: Dovish Yellen pushes US Note future above first resistance (129-26). Test 131-12 rejected?

# Currencies

## Dollar going nowhere, for now

R2	1,1714	-1d
R1	1,1495	
<b>EUR/USD</b>	<b>1,1414</b>	<b>0,0007</b>
S1	1,1327	
S2	1,1144	

## Asian equities trade mixed

## USD/JPY tries to hold above 108

## Upside risk NIFB business confidence?

## Dollar holds near the recent lows

## Dollar still looking for guidance

On Monday, USD trading developed in well-known territory as there were no important data. EUR/USD held a tight range near 1.14 for most of the session. The pair spiked to the mid 1.1450 area on rumours of a rift between the ECB and the German Finance Ministry on the ultra-easy monetary policy. However the gains could not be sustained. EUR/USD closed the session at 1.1408 (little changed from 1.1399 on Friday). USD/JPY rebounded off the recent lows due to a decent equity sentiment, but showed also no sign of a sustained rebound. The pair finished the session at 107.94 (from 108.07).

**Overnight**, Asian equities are mostly positive oriented despite a weak WS close. China underperforms today and Japan outperforms. Japanese equities rebound as the rally of the yen is running into resistance. USD/JPY trades in the 108.35 area. Oil is holding in the high \$ 42 p/b but with little direct impact on currency trading. EUR/USD is almost unchanged from yesterday morning, changing hands in the 1.1405 area.

**The eco calendar remains thin today** with only US NIFB small business confidence and the US import prices on the agenda. **EU General Affairs Ministers meet** and **Fed's Harker, Williams and Lacker** are scheduled to speak. In February, **US NIFB small business confidence** dropped unexpectedly from 93.9 to 92.9. For March a pick up to 93.7 is expected. We see upside risks following substantial improvements in other confidence indicators. **The report, at best, has only intraday significance for USD trading.** Import prices are expected to rise by 1.0% M/M, but (currency) markets will look at the PPI and CPI to assess price developments. **So, US data might be marginally positive for the dollar, but we don't expect any sustained directional move.** In Europe, there will be plenty of analysis on the Italian Bank plan, but it is no big issue for euro trading. **Global risk sentiment** and, to a lesser extent oil, will probably remain the drivers for intraday currency trading as market look out for the US retail sales and PPI (tomorrow) and the CPI (Thursday). First US corporate results later this week (especially banks) and official's comments ahead of the G20 meeting at the end of the week have also potential to unlock the FX stalemate. **So, more technical trading can be expected as global markets await more concrete eco data. USD/JPY struggles to rebound from the recent lows.**



EUR/USD holds near the LT range top



USD/JPY struggles to rebound off recent lows

After the 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 a new 2016 high at 1.1454**. **The 1.1495 resistance is important medium term, but is left intact for now**. **We see no trigger for a clear directional move in EUR/USD short-term**. **Medium term, the dollar probably needs really good news from the US 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 set a new correction low below 108 and this level was retested yesterday. A sustainable USD/JPY rebound is difficult as long as risk sentiment remains fragile. **We look whether official talk on more BOJ easing or 'verbal interventions' can stop the yen rebound**. USD/JPY has moved into oversold territory. So, there is room for a technical rebound/consolidation.

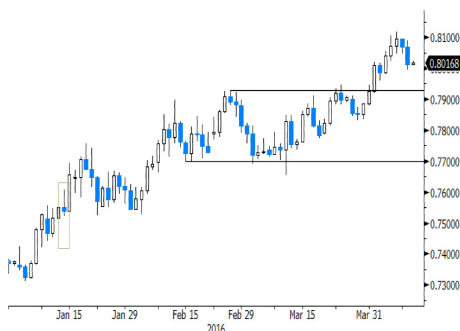
R2	0,8153	-1d
R1	0,8117	
<b>EUR/GBP</b>	<b>0,8009</b>	<b>-0,0063</b>
S1	0,7947	
S2	0,7774	

### Sterling off the recent lows

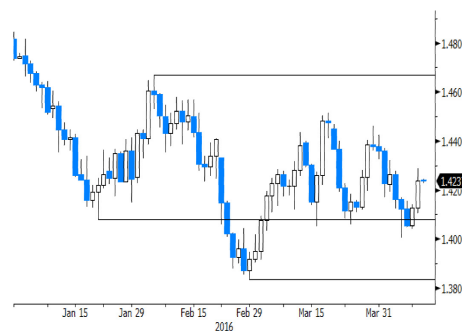
**On Monday sterling succeeded a remarkable rebound. Soon after the European open, sterling jumped sharply higher**. We didn't see any news to explain the move. **There were rumours about a big buying order (short-squeeze in GBP/JPY)**. The move, via crosses, also affected other sterling cross rates. Aside for the GBP/JPY story, investors maybe also wanted to offload sterling short exposure going into today's UK price data and ahead of the BOE policy announcement later this week. Whatever the reason, EUR/GBP dropped temporary below the 0.80 barrier and closed the session at 0.8011 (from 0.8067). Cable rebounded from the low 1.41 area and closed the session at 1.4239 .

**Today**, the UK eco calendar contains the UK price data. Headline CPI is expected at 0.3% M/M and 0.4% Y/Y. Core CPI is expected to rise from 1.2% Y/Y to 1.3% Y/Y. Of late, UK eco data usually had only a very limited impact on sterling trading as the focus was on the Brexit story. This will probably remain the case until June 23. That said, it will be interesting to see the reaction of sterling in case of higher than expected price data. We have the impression that the market turned a bit more cautious on sterling shorts ahead of the BOE meeting. So, a further temporary sterling rebound is possible in case of higher CPI data.

**The technical picture of EUR/GBP improved further as the pair broke above resistance at 0.7929/31 and at 0.8066**. **The recent sterling decline has been fast, which heightens the chances for a (temporary) pause**. **Even so**, we don't try to catch a falling knife and remain cautious on sterling longs.



EUR/GBP: more than a temporary correction?



GBP/USD: decline halts on USD weakness

# Calendar

Tuesday, 12 April		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Mar)	93.7	92.9
14:30	Import Price Index MoM YoY (Mar)	1.0% / -4.6%	-0.3% / -6.1%
20:00	Monthly Budget Statement (Mar)	-\$104b	-\$52.9B
<b>Japan</b>			
01:50	Bank Lending Incl/Ex Trusts YoY (Mar)	A 2.0%/2.0%	2.2% / 2.2%
08:00	Machine Tool Orders YoY (Mar P)	A -21.2%	-22.5%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Mar)	A -0.7%	0.1%
10:30	<b>CPI MoM YoY (Mar)</b>	<b>0.3% / 0.4%</b>	<b>0.2% / 0.3%</b>
10:30	<b>CPI Core YoY (Mar)</b>	<b>1.3%</b>	<b>1.2%</b>
10:30	PPI Input NSA MoM YoY (Mar)	2.3%/-6.2%	0.1% / -8.1%
10:30	PPI Output NSA MoM YoY (Mar)	0.2% / -1.0%	0.1% / -1.1%
10:30	PPI Output Core NSA MoM YoY (Mar)	0.1%/0.3%	0.2% / 0.2%
10:30	ONS House Price YoY (Feb)	--	7.9%
<b>Germany</b>			
08:00	CPI EU Harmonized MoM YoY (Mar F)	A 0.8% / 0.1%	0.8% / 0.1%
<b>Portugal</b>			
12:00	CPI – EU Harmonized MoM YoY (Mar)	--	-0.5%/0.2%
<b>Sweden</b>			
08:00	PES Unemployment Rate (Mar)	A 4.0%	4.1%
09:30	CPI MoM YoY (Mar)	0.3% / 0.6%	0.3% / 0.4%
09:30	CPI CPIF MoM YoY (Mar)	0.4% / 1.3%	0.3% / 1.1%
<b>Events</b>			
<b>EU General Affairs Ministers Meet in Amsterdam</b>			
15:00	Fed's Harker Speaks on Economic Outlook in Philadelphia		
21:00	Fed's Williams Speaks in San Francisco		
22:00	Fed's Lacker Speaks in Wilmington, North Carolina		
<b>Netherlands</b>	<b>Bond Auction (€0.75-1.25B 2.75% Jan2047) (11:00)</b>		
<b>Germany</b>	<b>IL Bond Auction (€0.5B 0.1% 2046) (11:30)</b>		
<b>US</b>	<b>3Yr Notes Auction (\$24B) (19:00)</b>		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,74	0,03	US	0,71	0,01	DOW	17556,17556,41
DE	0,12	0,03	DE	-0,52	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,52	0,03	BE	-0,45	0,02	NIKKEI	15929,15928,79
UK	1,40	0,03	UK	0,39	0,03	DAX	9682,99,9682,99
JP	-0,09	-0,01	JP	-0,26	-0,01	DJ euro-50	2924,2924,23

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,333,0,001
3y	-0,143	0,943	0,824	Euribor-1	-0,34	0,00	Libor-1 USD	0,51,0,51
5y	-0,008	1,146	0,964	Euribor-3	-0,25	0,00	Libor-3 USD	0,59,0,59
10y	0,519	1,599	1,382	Euribor-6	-0,13	0,00	Libor-6 USD	0,74,0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,14075	0,0002	EUR/JPY	123,56	0,54		171,8246	1254,57	42,6
USD/JPY	108,335	0,45	EUR/GBP	0,8009	-0,0067	-1d	0,78	5,56	0,62
GBP/USD	1,4238	0,0119	EUR/CHF	1,0881	0,0009				
AUD/USD	0,7617	0,0062	EUR/SEK	9,2538	-0,04				
USD/CAD	1,2910	-0,0078	EUR/NOK	9,3579	-0,03				

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