



## Sunrise

Tuesday, 29 March 2016

### Rates: Will Yellen join hawkish talk or cling to dovish statement?

Uneventful bond trading left US Treasuries slightly higher yesterday. Today, besides US consumer confidence, investors will carefully listen to the speech of Fed chair Yellen. After being dovish at the March FOMC meeting, will she follow recent hawkish rhetoric of her colleagues? That would be negative for US Treasuries

### Currencies: Dollar rally slows ahead of Yellen speech

Yesterday, the dollar lost slightly ground after soft US spending data. Today, the focus is on US consumer confidence and a speech of Fed Yellen. Will Yellen provide ammunition for further USD gains?

### Calendar

## Headlines

S&P	→
Eurostoxx50	↓
Nikkei	↗
Oil	→
CRB	→
Gold	→
2yr US	→
10yr US	→
2yr EMU	→
10yr EMU	→
EUR/USD	→
USD/JPY	↗
EUR/GBP	↓

- **US Equities closed mixed yesterday** in a thinly traded session without important market movers. **This morning, most Asian shares trade lower. In China, property developers remain under pressure** after the nation's biggest cities rolled out measures to tame soaring real-estate prices.
- **The Japanese parliament is set to approve today a record 96.72 trillion yen state budget for the fiscal year starting in April.** According to Reuters, the government is considering a tax-hike delay and more fiscal stimulus, especially to spur consumption.
- **Japanese consumer spending rose in February for the first time in six months,** official data showed this morning. Overall household spending rose by 1.2% Y/Y, while a further decline was expected. The pick-up might however be due to special factors as an extra holiday and consumers taking advantage of subsidies before they expire.
- **Brent crude oil prices are trading lower for a fourth consecutive session** this morning, falling below the \$40/barrel level. Data showed yesterday that **Saudi Arabia lost market share** in more than half of the most important countries it sold crude to in the past three years.
- **China's industrial profits returned to growth in the first two months of the year,** partly due to a recovery in the property market, while also stronger sales of industrial firms helped.
- Today, the **eco calendar** contains the **euro zone M3** money supply and credit growth data, US S&P CS house prices and **US Conference Board's consumer confidence. Fed Chairwoman Yellen speaks to the Economic Club of New York.**

# Rates

## Slow start of US trading after Easter weekend

While European markets were still closed yesterday, **US markets re-opened**. However, thinly staffed trading desks set the stage for an **uneventful session**. **US Treasuries were initially upwardly oriented, even as gains remained modest and price action occurred in the recent tight range, without technical implications. At the end of trading, US Treasuries lost some shine though. In a daily perspective, the US curve bull flattened** with yields 0.4 bps (2-yr) to 1.6 bps (30-yr) lower. Equities ended narrowly mixed, while oil pricers declined. The impact on Treasuries was minor. **The 2-yr Note auction** disappointed (see lower). **Eco data (trade balance and PCE) were close to expectations**. The price indices got some more attention. The PCE deflator dropped as expected to 1% Y/Y (from 1.2% Y/Y previously) and the core PCE stabilized at 1.7% Y/Y (1.8% Y/Y expected). The PCE release might have temporarily impacted inflation expectations, even if one should be cautious in interpreting yesterday's moves.

*US curve bull flattens in thin trading*

*No clear trigger and moves technically insignificant*

	US yield	-1d
2	0,8789	0,0182
5	1,3688	0,0085
10	1,8878	0,0071
30	2,659	0,0008

*Continuation pick-up EMU lending?*

*Upside risks US consumer confidence*

*Fed Williams & Kaplan and ECB Makuch speak*

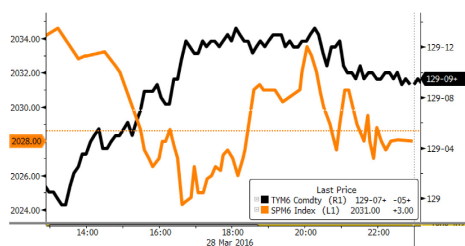
*Will Yellen give more guidance?*

## Focus today on Fed speakers and consumer confidence

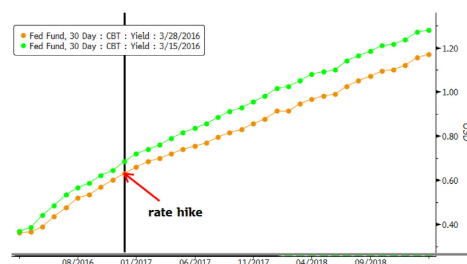
In February, growth in **euro zone M3 money supply** is expected to have stabilized at 5.0% Y/Y, following an uptick in January. After a dip in December, lending picked up again in January and **we expect the positive trend to have been continued**. In the US, the **Conference Board's consumer confidence** is forecast to pick up in March, from 92.2 to 94.0, following a dip in February. Although University of Michigan consumer confidence weakened unexpectedly this month, we **see risks for an upward surprise** in the Conference Board's index, supported by improving labour market conditions, easing global growth concerns and reduced volatility on financial markets.

	DE yield	-1d
2	-0,4680	0,0130
5	-0,3040	0,0040
10	0,1770	-0,0160
30	0,8738	-0,0288

**Three Fed members speak today. San Francisco Fed Williams** sounded quite hawkish after the FOMC and doesn't want to exclude an April rate hike. In a WSJ interview, **Dallas Fed Kaplan** said on Thursday that *"we want to normalize as fast as we can"*. He added though *"we have to be patient and gradual"*, while he also hopes to see more evidence that inflation will firm. **Chair Yellen speaks in NY**. During her press conference after the previous FOMC, she sounded optimistic on the economy, while on the other hand warning for global risks and defending a very dovish rate path going forward. Will she stick to that line, despite many individual Fed governors talking more hawkish? **We hope to get more straightforward guidance today**. The probability of an April move is just 6% and the June meeting gets only a 38% chance of a hike. Chances of rate hike are more than even from September (59%) onwards and one hike is fully discounted in December.



T-Note future (black) & S&P future (orange) (intraday): Dull post-Easter range trading



Fed Fund strip curve (now = orange, before FOMC 15/3 = green): First and only 2016 rate hike fully priced in for December

R2	164	-1d
R1	163,4	
<b>BUND</b>	<b>163,04</b>	0,1900
S1	160,81	
S2	160,11	

## US \$34B 5-yr Note auction; no EMU bond supply

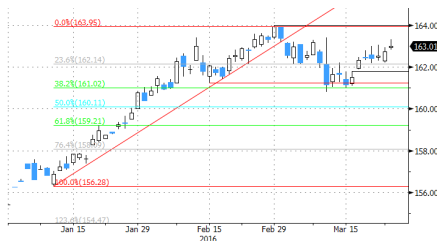
**This week's scheduled EMU bond supply is low with only Germany and Italy tapping the market tomorrow.** The German Finanzagentur taps the on the run 5-yr Bobl (€4B 0% Apr2021). The Italian treasury releases a new 5-yr BTP (€3-3.5B 0.45% Jun2021) and taps the on the run 10-yr BTP (€2.5-3B 1.6% Jun2026) & floating rate CCTeu (€1-1.5B Dec2022). 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 weak \$26B 2-yr Note auction.** The auction stopped slightly through the 1:00 PM bid side, but the bid cover (2.58) was the smallest since December 2008. Bidding details showed weakness all around tough especially the dealer bid was very small. **Today, the Treasury continues its refinancing operation with a \$34B 5-yr Note auction.** Currently, the WI trades around 1.385%.

## Yellen: Join hawkish talk or cling to dovish statement?

**Overnight,** most Asian equities lose modest ground with China underperforming. Oil prices and the US Note future trade with a very small downward bias. European markets reopen following the long Easter weekend, but the Bund hasn't much catching up to do, so we expect a fairly neutral opening.

**Today's** eco calendar heats up in the US with consumer confidence (upside risks) and Fed speeches. Yellen's comments will draw most attention and will likely cast a shadow over trading in the run-up to the event. **Will she hold to the March policy statement or align with recent more hawkish comments by several Fed governors and open the door for a June rate hike?** The former should be neutral for trading while the latter would be negative for US Treasuries. **Technically,** the Bund remains near the middle of the 160.81/164 range. For the US Note future, it seems that first resistance (129-26), previous neckline double top) will be able to hold. Stronger eco data and hawkish Fed talk might **bring the contract eventually back towards the lower bound of the trading range at 128-01+.** Short term, we favour more sideways trading.



German Bund: sideways trading between 160.81 and 164



US Note future: 129-26 resistance holds after FOMC.

# Currencies

*Dollar losing slightly ground on soft US spending data*

R2	1,1495	-1d
R1	1,1376	
<b>EUR/USD</b>	<b>1,1186</b>	0,0009
S1	1,1144	
S2	1,1058	

*Asian equities trade slightly lower*

*Yen in the defensive*

*Dollar shows no clear trend*

## Dollar rebound to slow?

On Monday, US markets reopened after the Easter weekend, while European ones remained closed. The dollar traded with a slightly negative bias in very thin volumes. February US spending and income data were close to expectations and January spending (as expected) was revised sharply lower. US bond yields were already sliding lower, but the dollar declined on the release, only to recoup some losses later on. EUR/USD closed the session at 1.1196 (from 1.1174 on Thursday evening). USD/JPY decoupled from the overall USD decline and finished the session at 113.45 (from 112.90 on Thursday evening).

This morning, most Asian equities mostly show moderate losses. Japanese data were mixed. Overall households spending came out at a stronger than expected 1.2% Y/Y, but the figure was probably affected by calendar issues. Other indicators like the retail sales suggest ongoing sluggish consumer dynamics. There is a lot speculation that PM Abe might announce another delay in the planned sales tax hike and announce snap elections for July. **Speculation on more fiscal, but also monetary stimulus, is currently a (slightly) negative for the yen.** USD/JPY is changing hands in the 113.60 area. Oil (\$40 p/b) and other commodities trade with a slightly negative bias. EUR/USD is holding close to the 1.12 level, showing no clear directional trend.



EUR/USD: dollar rebound to slow?

USD/JPY: yen weakens further

*EMU M3 and US consumer confidence to guide EUR/USD trading*

*Fed's Yellen holds a wildcard*

Later today, the February EMU M3 money supply growth is expected to have stabilized at 5.0% Y/Y. Lending picked up in January and we expect the positive trend to have continued. In the US, Conference Board's consumer confidence is forecast to pick up, from 92.2 to 94.0. Although University of Michigan confidence weakened unexpectedly this month, we see risks for an upward surprise in the Conference Board's index. So, the data probably won't give a clear guidance for EUR/USD trading. Regarding Fed speakers, the focus will be on Fed chairwoman Yellen speaking in New York. Of late, several Fed members kept the door open for an April hike, despite the soft tone of the March FOMC meeting. Markets will look out whether Yellen will keep this line. If she is more neutral/soft, it might be a negative for the dollar. We start the week with a neutral bias on the dollar.

Tuesday, 29 March 2016

Over the previous ten days, the dollar recouped part of the post-Fed losses, but its rebound seems to be losing momentum. Yellen and/or the US data will decide whether the USD comeback as further to go.

After the ECB meeting and the dovish mid-March FOMC meeting, the dollar was sold as the Fed signalled a much more gradual rate path going forward. 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 even wasn't challenged. So, EUR/USD trading remains a range trading story, albeit at a slightly higher level. 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.

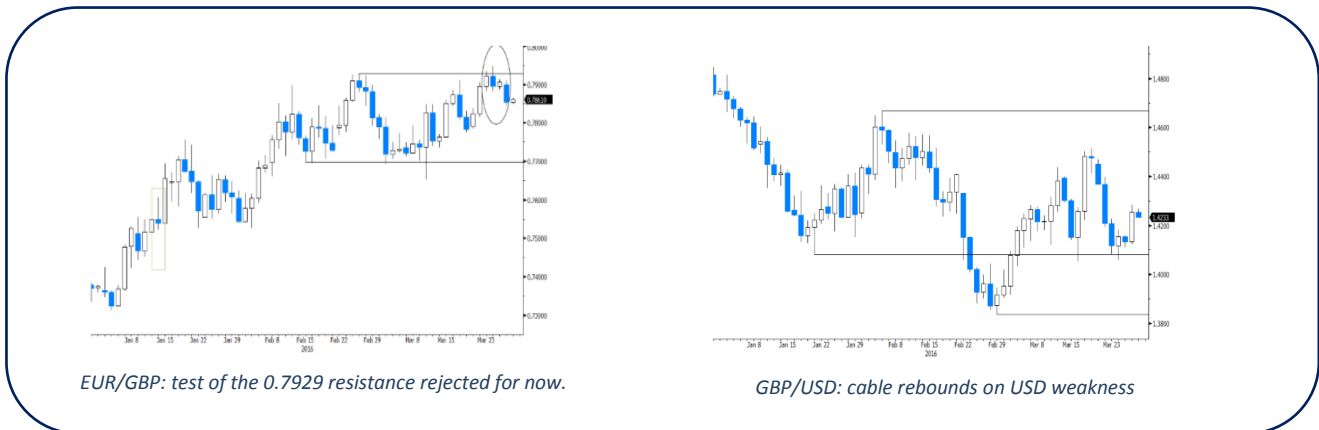
R2	0,8066	-1d
R1	0,7947	
EUR/GBP	<b>0,7864</b>	-0,0063
S1	0,7774	
S2	0,7652	

**EUR/GBP 0.7929/47 resistance still within reach**

Last week, sterling traded on the defensive, as several internal and external factors supported the case for a pro-Brexit vote at the June referendum. Yesterday, in thin US trading, cable jumped higher and outperformed EUR/USD in the wake of soft, but as expected, US spending data. As the move occurred when UK markets were closed, we don't give much weight to it. EUR/GBP closed the session at 0.7854. Cable finished the day at 1.4254.

**Today**, there are no UK eco data. The **BoE financial policy committee** will publish a statement following its March 23 meeting. It might propose restrictions on the buy-to-let market as the BoE sees potential risks to financial stability in that area. The analysis is interesting and underscores the side-effects of an ultra-easy monetary policy. However, we don't expect a big impact on sterling trading. We suspect yesterday's sterling rebound. So, in a daily perspective, sterling might correct a bit lower. This might a fortiori be the case if sentiment on risk turns negative.

**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 it would break sustainably, 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.**



# Calendar

Tuesday, 29 March		Consensus	Previous
<b>US</b>			
15:00	S&P/CS 20 City MoM YoY NSA (Jan)	0.7%/5.7%	0.8%/5.7%
<b>16:00</b>	<b>Consumer Confidence Index (Mar)</b>	<b>94.0</b>	<b>92.2</b>
<b>Japan</b>			
01:30	Jobless Rate (Feb)	A 3.3%	3.2%
01:30	Job-To-Applicant Ratio (Feb)	A 1.28	1.28
01:30	Overall Household Spending YoY (Feb)	A 1.2%	-3.1%
01:50	Retail Trade MoM YoY (Feb)	A-2.3%/0.5%	-0.1%
01:50	Dept. Store, Supermarket Sales (Feb)	A 2.2%	1.0%
07:00	Small Business Confidence (Mar)	A 48.8	47.9
<b>EMU</b>			
<b>10:00</b>	<b>M3 Money Supply YoY (Feb)</b>	<b>5.0%</b>	<b>5.0%</b>
<b>Italy</b>			
10:00	Consumer Confidence Index (Mar)	114.0	114.5
10:00	Business Confidence (Mar)	102.4	102.0
10:00	Economic Sentiment (Mar)	--	103.1
<b>Events</b>			
<b>11:15</b>	<b>Fed's Williams Speaks in Singapore</b>		
13:00	ECB's Makush Speaks in Bratislava		
15:45	ECB Publishes Weekly QE Data		
<b>18:20</b>	<b>Fed Chairwoman Yellen Speaks to the Economic Club of New York</b>		
19:00	Fed's Kaplan Speaks in Austin		
22:00	Fed's Kaplan Speaks at University of Texas at Austin		
<b>US</b>	<b>5Yr Notes Auction (\$34B) (19:00)</b>		

# Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,89	0,01	US	0,88	0,02	DOW	17535 17535,39
DE	0,18	-0,02	DE	-0,47	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,44	-0,01	BE	-0,41	0,01	NIKKEI	17070 17070,31
UK	1,48	0,03	UK	0,47	0,03	DAX	9851,35 9851,35
JP	-0,08	0,00	JP	-0,25	-0,01	DJ euro-50	2987 2986,73

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,108	1,087	0,893	Euribor-1	-0,33	0,00	Eonia EUR	-0,349	-0,003
5y	0,053	1,321	1,047	Euribor-3	-0,24	0,00	Libor-1 USD	0,51	0,51
10y	0,573	1,733	1,474	Euribor-6	-0,13	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1186 0,0009	EUR/JPY	127 1,00		172,1801	1218,19	40,01
USD/JPY	113,53 0,78	EUR/GBP	0,7864 -0,0063	-1d	-1,06	-0,42	-0,31
GBP/USD	1,4219 0,0125	EUR/CHF	1,09 -0,0004				
AUD/USD	0,7550 0,0052	EUR/SEK	9,2742 0,03				
USD/CAD	1,3197 -0,0041	EUR/NOK	9,4449 -0,05				

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