



Sunrise

Thursday, 28 April 2016

Rates: Fed in no hurry to raise rates

Expectations the Fed would become more “hawkish” weren’t fulfilled. It helped US Treasuries higher, albeit following a string of losses. Overnight, the BOJ unexpectedly kept policy unchanged despite increased downside risks, pushing LT yields down. Today, eco calendar is enticing. Can the Bund sustainably gain on recent and upcoming developments?

Currencies: yen jumps sharply higher as BOJ leaves policy unchanged

Yesterday, the dollar closed the session little changed, as the Fed keep all options open on the timing of further rate increases. This morning, the yen jumped sharply higher as the BOJ dismissed calls for further easing. Later today, the focus is on the US Q1 GDP. A poor figure might weigh on the dollar. The recent sterling rebound looks like losing momentum.

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 ended again mixed yesterday.** The S&P and Dow ended slightly higher, but the Nasdaq continued to underperform due to weakness in technology shares. This morning, **Asian shares trade mixed to slightly lower.** Japanese stocks lose up to 4% after the BOJ kept its policy unchanged, pushing the yen sharply higher.
- **The US Federal Reserve left interest rates unchanged, but failed to give any guidance on an eventual rate hike in June,** reiterating again its plans to move carefully in raising interest rates.
- **The Bank of Japan held off on expanding monetary stimulus, keeping both rates and its quantitative easing programme unchanged** as they preferred to take more time to assess the impact of negative rates. As markets had expected further action, the yen rose sharply after the decision.
- **The Reserve Bank of New Zealand kept its benchmark interest rate unchanged at 2.25%,** but said monetary policy will remain accommodative and further easing may be required to ensure that inflation will reach the target.
- **Japan’s consumer prices dropped 0.3% in March from a year earlier,** the first decline in five months. Although energy prices weighed on inflation, also core inflation dropped significantly. Household spending disappointed too.
- Today, the **focus will be on the first estimate of US Q1 GDP,** while also the first estimate of German HICP inflation, European Commission’s economic confidence, the German unemployment figures and US jobless claims will be released.

Rates

Listless German bond trading ahead of FOMC decision

US Treasuries rally on dovish FOMC statement.

US 30-yr bond outperforms

	US yield	-1d
2	0,8133	-0,0357
5	1,3134	-0,0681
10	1,8384	-0,0745
30	2,6866	-0,0553

Downside risks US Q1 GDP, German inflation and EC

	DE yield	-1d
2	-0,4920	-0,0070
5	-0,3130	-0,0240
10	0,2890	-0,0060
30	1,0235	-0,0091

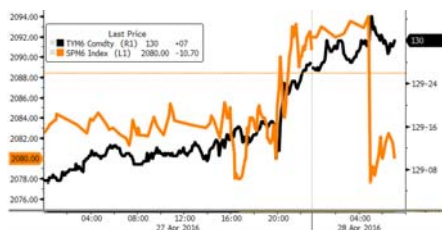
Fed in no hurry to raise rates: Treasuries rally

Yesterday, global core bonds traded listless in the run up to FOMC meeting. **US Treasuries outperformed German Bunds slightly.** The eco calendar was empty apart from EMU M3 money supply data, which were in line with expectations. Equity markets had a constructive trading session, while Brent crude temporary moved above \$47/barrel, a new cycle high. **The FOMC meeting was more dovish than expected with no clear hint that rates would be raised in June.** (cf. below). **US Treasuries rallied on the decision. In a daily perspective,** the US curve shifted lower by 4.4 (2-yr) to 7.6 bps (10-yr). The German yield curve traded 0.2 bps (2-yr) to 1.3 bps (10-yr) lower with the very long end of the curve underperforming (+2.6 bps). The Kingdom of Belgium's announcement of two syndicated deals in the near future (OLO 79 Oct2023 & OLO 80 Jun2066) and the German 30-year Bund auction weighed on that part of the curve. **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany narrow up to 5 bps (Portugal)

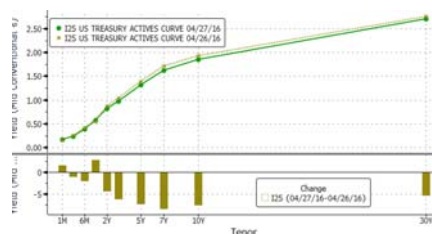
US Q1 GDP growth and German inflation eye-catchers

US economic growth is expected to have slowed further in Q1. The consensus is looking for an annualized growth figure of 0.6% Q/Q, less than half the pace of growth seen at the end of last year. While personal consumption is expected to remain the main growth driver, a slowdown is forecast. Besides consumption, also residential investments and government expenditures probably contributed to growth, while net exports, non-residential investments and inventories probably acted as a drag on growth. **We believe that the risks are for a downward surprise, indicating that growth was close to zero during Q1. In Germany, inflation** is expected to have slowed again in April following an uptick in March. The consensus is looking for a slowdown from 0.1% Y/Y to 0.0% Y/Y, but we see **risks for a downward surprise** due to the early timing of Easter. Energy prices might however support headline inflation. Finally, in the euro area, **Economic confidence** is expected to have picked up slightly in April, from 103.0 to 103.4, following three consecutive monthly declines. Recent survey data showed a mixed picture and therefore we continue to see **downside risks** for the Commission's confidence indicators too. **US jobless claims and German unemployment** data will only be of second-tier importance

The **FOMC wasn't ready to give markets already more guidance about an eventual rate hike at the June meeting.** The FOMC dropped the reference to global & financial risks posing risks for the US, but will continue to monitor inflation and global and financial developments. For more details, see our [flash](#) report.



T-Note future (black) & S&P future (orange) (intraday): Nice move up Treasuries, equities recoup earlier losses, but drop overnight on BOJ decision to stand put.



US yield curve shifts lower with belly outperforming.

R2	164,6	-1d
R1	163,16	
BUND	161,85	0,9400
S1	160,81	
S2	160,11	

New Belgian syndications: 7-yr and 50-yr!

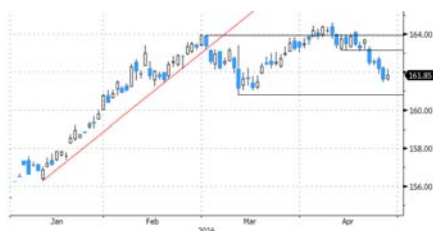
The Kingdom of Belgium announced its intention yesterday to launch a new 7-yr OLO 79 (Oct2023) and 50-yr OLO 80 (Jun2066). The syndicated deals are expected to take place today. Concerning the pricing of the new OLO 79 on the Belgian yield curve, we interpolate asset swap spreads between OLO 68 (2.25% Jun2023) and OLO 72 (2.6% Jun2024). **The interpolation corresponds with an asset swap spread of minus 15 basis points, including a small new issue premium.** For the pricing of OLO 80, we compare 30-yr Belgian and French bonds. Belgian OLO's trade around 10 bps more expensive than French ones at that part of the curve. **France already has a 50-yr OAT outstanding which currently trades around 79 above swap. Taking into account the spread at the 30-yr tenor and a new issue premium, suggest that the bond will be priced to yield around MS + 100 bps.** The Italian treasury launches a new 7-yr floating rate CCTeu (€2.5-3B Jul2023) and also taps the on the run 5-yr BTP (€1.75-2.25B 0.45% Jun2021) and 10-yr BTP (€2-2.5B 1.6% Jun2026). We expect plain vanilla demand at best, but investors should still be able to digest the relatively low amounts on offer.

Neutral Fed so sell the uptick?

Overnight, most Asian equity markets trade lower with Japan underperforming on the back of a stronger yen, as the BoJ kept policy unchanged. The JGB curve shifts lower at the 10-to 30-yr sector by 2.7 to 3.4 bps. The US Note future gains more ground after yesterday evening's uneventful FOMC meeting and today's BOJ decision to stand put. We expect a somewhat stronger opening of the Bund as well. Brent crude continues to trade near the cycle high around \$47/barrel.

Today's eco calendar heats up with EMU EC consumer confidence, German CPI and Q1 US GDP. Risks are on the downside of expectations, which is a positive for bonds. **In light of the outcome of the Fed meeting, it will be interesting to see whether core bonds are able to eke out gains today.** Sentiment versus the Bund and the US Note future soured over the past days. We believe that any corrective action will remain short-lived and hold on to our sell-on-upticks approach.

Technically, we would short US Treasuries and aim for return action lower (support at 128-01+) as US markets remain too dovish positioned. We also hold on to our sell-on-upticks approach in the Bund. The drop below 163.16 suggests return action to the March low (160.81). In yield terms, the German 10-yr yield could advance further towards 0.33%. We "fear" that the ECB has no (or limited) tools left to ease policy further and a sudden correction like this time around last year could be around the corner.



German Bund: move below 163.16 suggests return action to March low (160.81). Sell-on-upticks.



US Note future: Test 131-14 rejected. Fed remains on hold, but still more downside?

Currencies

R2	1,1495	-1d
R1	1,1398	
EUR/USD	1,1328	0,0029
S1	1,1217	
S2	1,1144	

Fed turns marginally less dovish, but the gains of the dollar are negligible

USD/JPY nosedives as BOJ keeps its policy unchanged

EUR/USD gains a few ticks

Today, the focus US Q1 GDP

Poor US growth and a risk-off sentiment post BOJ might weigh on the dollar

Dollar little changed after Fed statement

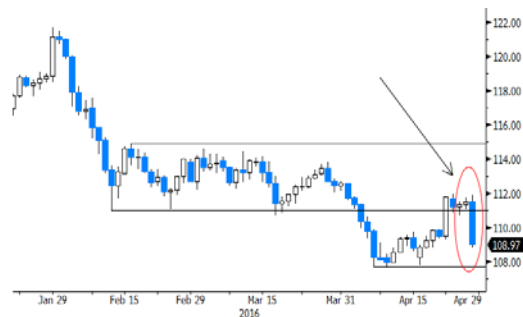
On Wednesday, the dollar traded mostly sideways as investors awaited the FOMC decision. **The FOMC wasn't ready to give markets already more guidance about an eventual rate hike at the June meeting.** The FOMC dropped the reference to global & financial risks posing risks for the US, but will continue to monitor inflation and global and financial developments. It didn't say that risks were balanced. For more details, see our [flash report](#). **US short-term yields declined by 4.2 bps (2-yr) following a short-lived rise higher immediately after the release. EUR/USD hovered up and down, but finally closed the session in well-known territory at 1.1322. USD/JPY finished the day slightly higher, but also failed to break above the recent highs (high 111 area). So, the dollar moves were very limited.**

Overnight, Japanese equities initially outperformed on hopes for additional BOJ easing. Japanese was inflation lower than expected (-0.1% Y/Y from 0.3%Y/Y), while activity data including the unemployment rate, retail sales and production were better than expected. **The BOJ left its interest rate and the amount of asset purchases unexpectedly unchanged even as it sees high downside risks for the inflation outlook.** USD/JPY dropped below 109 and trades currently at 108.90, while Japanese Equities fell off a cliff. The decline of the USD/JPY pushed EUR/USD slightly higher (to 1.1335 currently). **The Reserve bank of New-Zealand left its policy rate also unchanged at 2.25%,** but signaled that a lower NZD is desirable to keep inflation near target. The kiwi dollar gained slightly ground to trade currently at NZD/USD 0.6920.

The **eco calendar is interesting today** with the US Q1 GDP, the German HICP inflation and European Commission economic confidence. US jobless claims and German unemployment data will only be of second-tier importance. **US Q1 GDP growth** is expected to have slowed further to annualized 0.6% Q/Q. Personal consumption is expected to remain the main driver, but a slowdown is forecast. The contribution from other parts of the economy might have been limited or even negative. **We see risks for a downward surprise (growth close to zero). In Germany, inflation** is expected to have slowed in April from 0.1% Y/Y to 0.0% Y/Y. We see risks for a downward surprise due to the early timing of Easter. Finally, in EMU **Economic confidence** is expected to have picked up slightly from 103.0 to 103.4. Recent survey data showed a mixed picture. We see **downside risks** for the Commission's confidence indicators too.



EUR/USD: dollar little changed as Fed policy assessment gives not clear guidance



USD/JPY: yen jumps sharply higher as BOJ leaves policy unchanged

Thursday, 28 April 2016

A poor US GDP and a deterioration in risk sentiment might be a negative for the dollar in a daily perspective. USD/JPY is most at risk. The downside risk of the dollar against the euro is probably smaller. Even so, at test of the recent high (1.1398) might be on the cards.

Technically, EUR/USD set a new 2016 high at 1.1465 helped by a dovish Fed. Key 1.1495 resistance remained intact. Last week's price action suggests that the topside of EUR/USD is still reasonably well. However, Friday's move that pushed the pair below 1.1234 was also rejected, leaving the pair in erratic sideways trading. We see no trigger for a clear directional move in EUR/USD short-term. A genuine economic improvement in the US is probably needed to inspire a USD rebound. This trigger isn't available right now. The soft Fed approach and risk aversion pushed USD/JPY to a new correction low at 107.63 (April 11). Rumours that the BOJ could ease policy further weakened the yen of late, but the move is reversed this morning as the BOJ didn't act. The correction low is now back on the radar

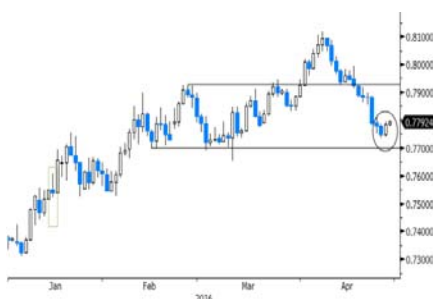
Sterling rebound running into resistance?

R2	0,8117	-1d
R1	0,7793	
EUR/GBP	0,7786	0,0031
S1	0,7684	
S2	0,7526	

On Wednesday, sterling reversed most of the early session losses as UK Q1 growth was in line with expectations, at 0.4% Q/Q and 2.1% Y/Y. Still, sterling gradually declined again later on against the euro and the dollar. The positive sterling momentum of past days petered out. Cable closed the session at 1.4543 (from 1.4582). The key 1.4668 resistance was left intact. EUR/GBP closed the session at 0.7786 (from 0.7749).

Today, there are no important UK data. Yesterday, the rebound of sterling finally ran into resistance. Sterling found a new equilibrium as Brexit fears became less compelling of late. There is no trigger for an new aggressive sterling down-leg. However, a somewhat bigger countermove on the recent rebound is possible. So, we put the short-term risk for some sterling decline. A global risk-off sentiment in the wake of the BOJ policy decision should be negative for sterling in a daily perspective.

The technical picture of EUR/GBP improved as the pair broke above the mid 0.79 area. A counter move occurred over the previous two weeks and threatened to deteriorate the picture again. The drop below 0.7830 was a first warning. A move below 0.7684 (38% retracement/previous lows) would make the technical picture again neutral. Sterling had a nice rebound, but sterling sentiment will remain fragile as long as the referendum outcome isn't clear. More sterling gains might become difficult from current levels.



EUR/GBP: sterling rebound slows



GBP/USD: no test of key 1.4668 resistance yet

Calendar

Thursday, 28 April		Consensus	Previous
US			
14:30	Initial Jobless Claims	--	247k
14:30	Continuing Claims	--	2137k
14:30	GDP Annualized QoQ (1Q A)	0.7%	1.4%
14:30	GDP Price Index (1Q A)	0.5%	0.9%
14:30	Core PCE QoQ (1Q A)	--	1.3%
15:45	Bloomberg Consumer Comfort	--	42.9
Japan			
	BOJ Annual Rise in Monetary Base	A¥80t	¥80t
	BOJ Policy Rate	A -0.100%	-0.100%
01:30	Jobless Rate (Mar)	A 3.2%	3.3%
01:30	Overall Household Spending YoY (Mar)	A -5.3%	1.2%
01:30	Natl CPI YoY (Mar)	A -0.1%	0.3%
07:00	Natl CPI Ex Fresh Food, Energy YoY (Mar)	A 0.7%	1.1%
01:30	Tokyo CPI YoY (Apr)	A -0.4%	-0.1%
01:50	Retail Trade MoM YoY (Mar)	1.4%/-1.1%	-2.3%/0.5%
01:50	Industrial Production MoM YoY (Mar P)	A 3.6%/0.1%	-5.2%/-1.2%
China			
03:00	Swift Global Payments CNY (Mar)	A 1.88%	1.76%
UK			
08:00	Nationwide House PX MoM YoY (Apr)	0.4% / 5.0%	0.8% / 5.7%
EMU			
11:00	Economic Confidence (Apr)	103.5	103.0
11:00	Business Climate Indicator (Apr)	0.13	0.11
11:00	Industrial Confidence (Apr)	-4.0	-4.2
11:00	Services Confidence (Apr)	10.2	9.6
11:00	Consumer Confidence (Apr F)	-9.3	-9.3
Germany			
	CPI Baden Wuerttemberg MoM YoY (Apr)	--	0.9% / 0.1%
09:00	CPI Saxony MoM YoY (Apr)	--	0.8% / 0.3%
09:55	Unemployment Change (000's) (Apr)	0k	0k
09:55	Unemployment Claims Rate SA (Apr)	6.2%	6.2%
10:00	CPI Brandenburg MoM YoY (Apr)	--	0.9% / 0.0%
10:00	CPI Hesse MoM YoY (Apr)	--	0.8% / 0.1%
10:00	CPI Bavaria MoM YoY (Apr)	--	0.8% / 0.3%
10:30	CPI North Rhine Westphalia MoM YoY (Apr)	--	0.7% / 0.4%
14:00	CPI MoM YoY (Apr P)	-0.1% / 0.2%	0.8% / 0.3%
14:00	CPI EU Harmonized MoM YoY (Apr P)	0.0% / 0.1%	0.8% / 0.1%
Belgium			
	CPI MoM YoY (Apr)	--	0.9%/2.24%
Norway			
10:00	Unemployment Rate AKU (Feb)	4.8%	4.8%
10:00	Retail Sales W/Auto Fuel MoM (Mar)	0.3%	-0.5%
Spain			
09:00	Unemployment Rate (1Q)	--	20.90%
09:00	CPI EU Harmonised MoM YoY Apr P)	--	2.0%/-1.0%
Sweden			
09:30	Retail Sales MoM YoY (Mar)	--	-0.2% / 3.9%
Events			
SKF (08:00), Deutsche Bank, Volkswagen AG, Coca Cola (bef mkt), Dow Chemical (bef mkt), Ford Motor Co (13:00), UPS (13:45), Amazon.com (aft mkt)			
Announce Q1 Earnings			
BOJ Monetary Policy Statement			
07:25	SNB Announces 1Q Earnings		
10:40	Bank of Finland Governor Liikanen Speaks in Helsinki Seminar		
11:15	Austrian central bank Governor Nowotny presents annual report		
13:30	Bank of Portugal's Costa Speaks at Conference in Lisbon		
Italy	5/10Yr Bond Auction		
US	2Yr FRN (\$15B) & 7Yr Notes (\$28B) Auction		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	1,84	-0,08	US	0,81	-0,04	DOW	18042 18041,55
DE	0,29	-0,01	DE	-0,49	-0,01	NASDAQ	or Exch - NQI #VALUE!
BE	0,68	-0,01	BE	-0,43	0,00	NIKKEI	16689 16688,80
UK	1,62	-0,06	UK	0,52	-0,03	DAX	10299,83 10299,83
JP	-0,07	-0,02	JP	-0,24	0,01	DJ euro-50	3130 3130,43

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,34 0,002
3y	-0,106	1,045	0,981	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,067	1,261	1,172	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,665	1,691	1,599	Euribor-6	-0,14	0,00	Libor-6 USD	0,75 0,75

Currencies		- 1d	Currencies		- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1329	0,0030	EUR/JPY	123,49	-2,02		181,4831	1249,2	46,88
USD/JPY	109,035	-2,10	EUR/GBP	0,7787	0,0033	- 1d	2,61	5,30	0,63
GBP/USD	1,4543	-0,0021	EUR/CHF	1,0991	-0,0009				
AUD/USD	0,7610	-0,0026	EUR/SEK	9,1586	-0,01				
USD/CAD	1,2586	-0,0031	EUR/NOK	9,2325	0,01				

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