



Sunrise

Monday, 25 April 2016

Rates: Risk aversion at the start, but waiting on the Fed?

Asian risk aversion is supportive for core bonds at the onset of European dealings. Today's eco calendar contains German IFO but we expect that this week's trading could be rangebound ahead of Wednesday's FOMC meeting.

Currencies: USD/JPY rebound supports USD across the board

Strong run of the dollar on Friday on BOJ speculation. This week, attention will go to the FOMC meeting (Wednesday) and BOJ (Friday). The former may become a tad more hawkish, while the latter is expect to ease policy. Technicals are clearly in play for USD/JPY and EUR/USD. Can technical breaks be confirmed today?

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 continued to trade sideways on Friday** as losses in technology shares were offset by gains in other sectors. This morning, **Asian shares trade lower**. Japanese stocks lose 1% as the yen trades slightly stronger this morning.
- In an last-ditch effort to stop Republican front-runner Donald Trump, **Ted Cruz and John Kasich, his two remaining rivals, announced yesterday evening they are divvying up the upcoming primary states to try to block Trump's path to the Republican nomination.**
- **China's total debt rose to a record 237% of GDP in the first quarter** while it was only 148% of GDP at the end of 2007, the FT reports, saying it raises risks of a financial crisis or a prolonged slowdown in growth.
- **German Finance Minister Schaeuble reiterated his position during the weekend, saying that Greece does not need a debt relief at the moment** as it has already low rates and long maturities.
- **Philips reported an 14% increase in Q1 earnings** before interest, taxes and amortizations to €374 million, above market expectations and confirmed its outlook for this year. The company also said it will likely seek IPO for its lightning business.
- **Austria's far right won more than a third of the votes in the presidential elections yesterday and will face an independent candidate in next month's run-off**, dumping out the country's two main parties.
- Today, the **eco calendar** contains the German IFO business climate indicator, the UK CBI industrial trends survey and US new home sales.

Rates

Global core bonds conclude week with quiet session

On Friday, global core bonds moved sideways in an uneventful closing session of the week. The Bund digested Thursday's losses. There was some intraday correlation with the gyrations from oil prices, but it didn't leave much traces.

The EMU business sentiments indicators stabilized in April, a bit below consensus, but could only push Bunds temporarily higher. The US Market PMI sentiment disappointed, but was ignored. Also other markets couldn't give bonds a distinct direction. European equities traded sideways, ending modestly lower. Oil closed a bit higher, while the dollar strengthened across the board. **In a daily perspective, the German yield curve steepened with yields 1.5 bps (2-yr) lower to 2.5 bps higher (30-yr). The Bund was up a minuscule 9 ticks on the day though. US yields were 1.2 to 2.7 bps higher, the belly of the curve slightly underperforming the wings.**

Peripheral and non-German core 10-yr yield spreads virtually stabilized.

Greece outperformed again, while Portugal underperformed. After narrowing 58 bps on Thursday, Greek spreads narrowed another 30 bps Friday **on hopes an agreement between parties would lead to a conclusion of the first bail-out review and allow the disbursement of funds.** However, there are still more negotiations needed and support of Greeks to stay inside the euro area is diminishing according to polls. **IMF Lagarde** said an agreement was within reach as long as Greece approves "contingency measures to ensure a 2018 budget surplus is met", but the Greek FM said legislation on that base isn't allowed in Greece. The remarks show though that a haircut, a IMF demand, is no longer needed to secure IMF participation now, but nevertheless seem to be possible later on (bait for Greece). The **Spanish Economy Minister De Guindos** said that the overshoot of the deficit target was due to lower than expected inflation that eroded the tax income. An attempt to avoid EU measures?

Thin eco calendar: IFO & US New Home sales

On Friday, the German PMI's showed a mixed picture with the manufacturing one showing a substantial improvement (51.9 from 50.7), while the services PMI weakened slightly (54.6 from 55.1). Today's **German IFO business climate indicator** is expected to show a limited improvement, from 106.7 to 107.1, in April which, if confirmed, would be the second straight increase. We see risks for **a stronger outcome** following a significant weakening earlier in the year. **US new home sales** are expected to have increased for a second straight month in March, but we believe that the **risks are for a downward surprise.**

Sideways trading core bonds

Slight steepening German curve

Limited narrowing peripheral spread

	US yield	-1d
2	0,8136	-0,0001
5	1,3469	0,0099
10	1,8754	0,0107
30	2,6945	0,0103

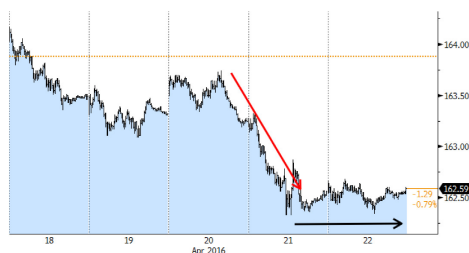
Deal on Greece closer, as is deal on IMF participation

Signs of easing fiscal policy, as Spain points to lower inflation as reason of the deficit overshoot.

	DE yield	-1d
2	-0,5060	-0,0190
5	-0,3460	-0,0270
10	0,2200	-0,0060
30	0,9589	0,0374

Upside risks IFO business sentiment

Downside risk US New Home sales



Bund future (intraday, 5 days): Sideways session on Friday, as market digested Thursday sell-off.



Greek 10-yr yield: Sharp drop in past 2 days on hopes that a conclusion of the review is within reach. No euphoria as Tsipras' majority is very thin and appetite Greek people to stay in EMU wanes

Low EMU bond supply this week

R2	164,6	-1d
R1	163,16	
BUND	162,71	0,1400
S1	160,81	
S2	160,11	

This week's EMU bond supply is thin with only scheduled auctions in Germany and Italy. On Wednesday, the German Finanzagentur taps the on the run 30-yr Bund (€1B 2.5% Aug2046). On Thursday, the Italian treasury launches a new 7-yr floating rate CCTeu (€2.5-3B Jul2023) while also tapping the on the run 5-yr BTP (€1.75-2.25B 0.45% Jun2021) and 10-yr BTP (€2-2.5B 1.6% Jun2026). This week's auctions will be supported by redemptions from France (€30B), Italy (€12.5B) and Spain (€21B). **The US Treasury holds its end-of-month refinancing operation** with a \$26B 2-yr Note auction tomorrow, a \$34B 5-yr Note auction on Wednesday and a \$28B 7-yr Note auction & \$15B 2-yr FRN auction on Thursday

Minor risk aversion, but waiting on the Fed?

Overnight, Asian stock markets trade around 0.5% lower. Oil prices trade with a small negative bias, while the yen gains some ground. Some limited risk aversion thus, with the US Note future marginally higher. We expect a neutral to slightly stronger opening for the Bund.

Headlines about the Austrian presidential election outcome (gain extreme-right) and the car scandal could initially prolong risk aversion this morning though we don't expect a lasting impact. The eco calendar contains German Ifo Business Climate with risks on the upside of expectations. That's a minor negative for the Bund. **However, we expect that many investors will remain side-lined at the start of the trading week awaiting the FOMC meeting (statement on Wednesday evening).** Risk sentiment will remain the main driver behind intraday moves in the run-up to that meeting.

Technically, the US Note future trades below 129-26 support. We would short US Treasuries and aim for return action lower (next support at 128-01+) as US markets are 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). 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. More downside after drop below 129-26?

Currencies

R2	1,1463	-1d
R1	1,14	
EUR/USD	1,1242	-0,0056
S1	1,1144	
S2	1,1058	

USD/JPY jumps sharply higher on expectation of more BOJ easing

Yen weakness filtered through in other USD crosses, pushing EUR/USD lower too

Asian equities modestly lower

USD/JPY down and EUR/USD up in mild risk-off climate

Upside risk IFO and downside risks US New Home sales

USD/JPY rebound supports USD across the board

On Friday, USD/JPY strength was the dominant factor for USD trading. It was driven by rumours that the BOJ would ease policy further when they meet on Thursday. More in particular, they would offer negative rates on some loans to banks to counterbalance the effects of the negative deposit rate and keep the door open for still lower rates. It was a one way street higher for USD/JPY, starting at about 109.50 to close at 111.78, the biggest one-day rise since January 29 when the BOJ introduced negative rates. Back then, the yen weakening lasted one single day and was followed for weeks by yen strengthening, as the effectiveness of the BOJ move was questioned and the Fed turned dovish. Will the market once more shrug off the BOJ's attempt to weaken the yen (ease policy)? Can high market expectations of BOJ action be matched? **The rise of USD/JPY filtered also through in other USD cross rates. EUR/USD traded with a negative bias throughout the session and fell from about 1.1290 at the European open to close at 1.1228.**

Overnight, Asian opened with a slight risk-off move that might also be interpreted as positioning ahead of key Fed and BOJ meetings and a raft of key eco data. So, we wouldn't take it for granted that the "risk off" sentiment will dominate trading in Europe and US later on. Asian equities are moderate lower (mostly 0.5-to 1%) and so are commodities including oil. In the same vein, the dollar is a tad weaker overall. USD/JPY changes hands at 1.1130, off intraday lows, but down from 111.78 Friday eve. EUR/USD is quoted at 1.1243, up around 20 ticks. Gains for the US T-note future are small. Overall, a quiet start of the session with uncertainty on the main direction of FX later today.

Today, the **German IFO business climate indicator** (see FI part) is expected to show a limited improvement. We see risks for **a stronger IFO outcome. US new home sales** are expected to have increased for a second straight month in March, but we believe that the **risks are for a downward surprise**. Positive global eco data and higher core bond yields are usually positive for the dollar, but the greenback showed recently no consistent reaction to US/global eco data. While oil and equities often dominated USD trading, this reaction function wasn't stable either. The outcome of today's data should have limited effect. **We favour more sideways trading of EUR/USD, but look closely whether Friday's dollar gains can be safeguarded or even extended a bit ahead of Wednesday's FOMC meeting. After Friday's rebound, the USD/JPY downside is certainly better protected, but will there be some profit taking by yen shorts?** Risk sentiment is the wildcard (see higher). In this respect, attention may focus on the escalating car scandal and its implications for the financial sector.



EUR/USD: Minor technical improvement dollar, if the break below 1.1234 is confirmed



USD/JPY jumps on speculation about negative BOJ lending rates.

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 better protected, with Friday's move pushing the pair below 1.1234. If confirmed, it paints a ST double top on the charts with potential targets at 110.68/01 and intermediate support at 110.67 (March 24 low). We see no trigger for a clear directional move in EUR/USD short-term, unless the FOMC (Wednesday) becomes more hawkish and/or US eco data show a genuine economic improvement. The soft Fed approach and risk aversion pushed USD/JPY to a new correction low at 107.63 (April 11). Rumours that the BOJ will ease policy further next Friday weakened the yen substantially, driving USD/JPY back to 111.91 and breaking first (minor) resistance at 110.67/99. For USD/JPY, the technical picture only becomes bullish if the pair breaks sustainably above 113.80 (March 29 high). The FOMC and BOJ meetings this week may be decisive for the broader outlook.

Sterling shines after a strong week

On Friday, sterling kept its positive momentum from earlier last week, despite an empty calendar. Cable moved higher from the start of trading to finish at 1.4403, (from 1.4323 previous close). GBP/USD now approaches an important resistance area at 1.4439/1.4514/1.4635. The strength of cable made the rise of sterling against the euro even more striking. EUR/GBP dropped from 0.7881 at Friday's opening to 0.7787 at its close, almost a full big figure gain for sterling. The move was partially due to the down-move of EUR/USD, partly due to warnings of Obama about a Brexit. It also confirmed recent sterling strength, unwinding part of the Brexit-driven GBP short positioning.

Today, the UK calendar contains only the April CBI industrial trends survey, while EMU-wise, the German IFO is the eye-catcher. BOE rate setter Gertjan Vlieghe said that "theoretically, I think interest rates could go a little bit negative". He's no fan of a deep freeze on interest rates though, stressing that he wants to "stay well away" from undermining the banking system. Comments are interesting though as they suggest that the BOE is looking to the contingency planning in case there would be Brexit or other external shock. Global factors, especially equities today. and oil, and expectations about the Brexit referendum might drive sterling The latest Bloomberg composite poll tracker points to a 11%-points advance for the Remain camp (50%) on the Leave camp (40%) with only 9%-point undecided. The recent debate on the costs of Brexit (Treasury report) and the warnings from Obama (and Clinton) have benefitted the Remain camp, which helps sterling recover. We look out for signs that the sharp countermove on the GBP Brexit decline has run its course, at least short term.

R2	0,8117	-1d
R1	0,7793	
EUR/GBP	0,7784	-0,0083
S1	0,7774	
S2	0,7684	



EUR/GBP: sterling rebound continued



GBP/USD: approaching key resistance area

Calendar

Monday, 25 April		Consensus	Previous
US			
16:00	New Home Sales Total/MoM(Mar)	520k / 1.6%	512k / 2.0%
16:30	Dallas Fed Manf. Activity (Apr)	-10.0	-13.6
Japan			
01:50	PPI Services YoY (Mar)	A 0.2%	0.2%
07:00	Leading Index CI (Feb F)	A 96.8	99.8
07:00	Coincident Index (Feb F)	A 110.7	110.3
UK			
12:00	CBI Industrial Trends Survey - Total Orders (Apr)	-17	-14
Germany			
10:00	IFO Business Climate (Apr)	107.0	106.7
10:00	IFO Current Assessment (Apr)	113.8	113.8
10:00	IFO Expectations (Apr)	100.6	100.0
Belgium			
15:00	Business Confidence (Apr)	-4.0	-4.2
Sweden			
09:30	Unemployment Rate Trend (Mar)	--	7.0%
09:30	Unemployment Rate SA (Mar)	7.0%	7.1%
Events			
ECB's Constancio, Coeure, Nouy at Conference in Frankfurt			
Philips (07:00), Halliburton (bef mkt), Xerox (13:00) Announce Q1 Earnings			

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,88	0,01	US	0,81	0,00	DOW	18004 18003,75
DE	0,22	-0,01	DE	-0,51	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,61	0,01	BE	-0,43	-0,04	NIKKEI	17439 17439,30
UK	1,60	0,02	UK	0,50	0,00	DAX	10373,49 10373,49
JP	-0,07	0,05	JP	-0,26	0,02	DJ euro-50	3141 3141,12

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,34 0,002
3y	-0,127	1,059	0,957	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,026	1,283	1,140	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,603	1,720	1,572	Euribor-6	-0,14	0,00	Libor-6 USD	0,75 0,75

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1243	-0,0055	EUR/JPY	124,94	0,39		179,6537	1235,1	44,67
USD/JPY	111,145	0,86	EUR/GBP	0,7785	-0,0082	-1d	-0,22	-11,40	-0,47
GBP/USD	1,444	0,0084	EUR/CHF	1,0979	-0,0025				
AUD/USD	0,7707	-0,0054	EUR/SEK	9,1623	-0,02				
USD/CAD	1,2682	-0,0018	EUR/NOK	9,2679	0,02				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	Bratislava	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	Budapest	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE ON WWW.KBCCORPORATES.COM/RESEARCH

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

