



Sunrise

Monday, 02 May 2016

Rates: Is correction core bonds nearly completed?

We see signs that the risk-on rally is over. Equities and oil look toppish and no additional central bank support is forthcoming in the next weeks. In this respect we expect the 160.81 key Bund support to hold, setting the stage for an eventual return action higher. So, we become again neutral for the Bund.

Currencies: Dollar at key support levels

Soft US eco data and global risk-off sentiment pushed the dollar to key support levels. EUR/USD is testing the key 1.1465/95 area. A weak US ISM might keep the US currency in the defensive. The US officials see recent yen moves as orderly and no reason for yen-interventions. This makes the downside in USD/JPY vulnerable, too.

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 reversed part of their losses on Friday** to close the session 0.5% lower. This morning, most **Asian shares trade lower** in the absence of Chinese investors. **Japanese stocks extend their sell-off** losing 3.5% (yen strength).
- **Both China's official manufacturing and non-manufacturing PMI dropped marginally in April, confirming the substantial improvement seen in March** and raising expectations that the government won't add to stimulus in the near future.
- **Canadian rating agency DBRS maintained Portugal's BBB rating with a stable outlook**, saying the rating reflects Portugal's euro zone membership and favourable public debt maturity. **The decision ensures the country will continue to benefit from QE bond buying by the ECB.**
- **Irish Prime Minister Kenny took a major step towards forming a government on Friday** when he secured the agreement of the country's second-largest party and arch rival Fianna Fail to facilitate a minority administration, several sources said.
- **Gold prices (\$12960/ounce) jumped to its highest level in 15 months** boosted by a weaker US dollar and safe-haven demand. **Crude oil prices dropped lower** this morning due to oversupply worries. The Brent trades currently around \$46.87/barrel.
- Today, **the eco calendar is interesting today** with the euro zone (final) manufacturing PMI and the US manufacturing ISM. **A whole range of central bankers are scheduled to speak including ECB President Draghi.** UK Markets are

Rates

Core bonds limit losses in final session of April

US Treasuries end little changed, while German bonds lose again some ground. .

Greece profits from new Eurogroup meeting on concluding review

	US yield	-1d
2	0,7817	-0,0078
5	1,2956	0,0065
10	1,8245	0,0002
30	2,6773	-0,0046

	DE yield	-1d
2	-0,4760	0,0240
5	-0,2920	0,0250
10	0,2690	0,0230
30	1,0190	0,0239

On Friday, global core bonds initially lost more ground despite risk aversion, mixed eco data and the end-of-month conditions. However, losses were erased (US) or partially recouped (Germany) in later US trading. In a daily perspective, the US yield curve barely changed with yields flat (2-yr) to 0.9 bps (10-yr) higher. Changes on the German yield curve were slightly bigger and ranged from +0.4 bps (30-yr) to +2.2 bps (5-yr). The early US data, PCE, PI and Employment Cost Index were too close to expectations to affect markets, but equity futures started to head south allowing core bonds first to stabilize then to recoup losses. The mid-morning US (Chicago PMI & Michigan consumer sentiment) were weaker than expected, but once more weren't decisive market-wise. ECB chief economist Praet said that negative rates cannot be reduced to indefinitely lower levels, but didn't exclude deploying negative interest rates again in the future in case of a distinct worsening of the inflation outlook. Dallas Fed Kaplan, who doesn't vote on policy this year, said that he will advocate Fed action if Q2 data rebound. In line with other governors, he added that markets may be underestimating how soon the Fed will raise rates. Their remarks had little impact though.

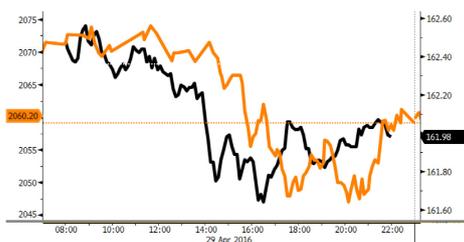
US ISM and central bank talk main ingredients session

Downside risks US ISM.

Upside risks final EMU manufacturing PMI

According to the preliminary estimate, the euro zone manufacturing PMI dropped marginally from 51.6 to 51.5 while a limited increase was expected. The final reading is expected to confirm this outcome, but we see risks for an upward surprise following an improvement in the EC's confidence indicators and the IFO's forward looking indicator. In the US, the manufacturing ISM is expected to have weakened from 51.8 to 51.5 in April following a sharp uptick in the month before. We believe that a weaker outcome is not excluded as regional confidence indicators reversed some of their March improvement.

Central bankers are active too with ECB's Draghi, Weidmann, Lautenschlaeger and Fed's Lockhart and Williams scheduled to speak. We don't expect the ECB governors to break new ground on policy. The ECB is for some time out of the picture, as it wants to give previous measures the time to have their impact. However, the rise of EUR/USD to near key resistance makes them nervous and could seduce them to some verbal intervention. The speeches of Fed Lockhart and Williams (both moderate centrists) are unlikely to affect markets as their subjects (welcome remarks/Systemic risk) suggest they may stay silent on policy.



Bund future (black) & S&P future (orange) (intraday): Initial downward bias despite equities losing ground. Later on, some relief.



German 10-year bund yield: 0.33% resistance approached but not broken. Will risk-off push yields back down?

R2	163,16	-1d
R1	162,79	
BUND	162,07	-0,3900
S1	161,46	
S2	160,81	

Low EMU bond supply this week

This week's EMU bond supply is limited to France, Germany and Spain tapping the market. On Wednesday, the French debt agency taps the off the run 30-yr OAT (6% Oct2025), the on the run 10-yr OAT (0.5% May2026) and the on the run 15-yr OAT (1.5% May2031) for a combined €7-8B. The German Finanzagentur auctions the on the run Bobl on the same day (€4B 0% Apr2021). **This week's auctions will be supported by €28B redemptions and coupon payments. The DBRS rating agency confirmed Portugal's BBB rating (stable outlook).** So, Portuguese bonds remains eligible for ECB purposes as the other Agencies rate Portugal as junk

Important test of core bonds' health

This weekend, Chinese PMI manufacturing confidence (PMI) was reported at just 50.1 for April, slightly below the March reading (50.2) and the consensus (50.3). The Caixin manufacturing PMI was little changed at 49.8. The non-manufacturing PMI fell slightly to 53.5 from 53.8 previous. Japanese PMI was marginally higher at 48.2, but still below 50 boom/bust. Glass is still half empty in China, or optimists will say half full. Asian markets are in risk-off mode, as Japanese equities drop more than 3% on stronger yen (106.60), but also other Asian bourses trade in the red (Chinese bourses are closed). Commodities are lower too and EUR/USD sticks near 1.1465.

Today's eco calendar is light with only the EMU final PMI's and the US ISM. We see some upside risks for the former, but as it as a final figure, market shouldn't react too much. There are some downside risks for the US ISM which might be core bond positive. **A new quarter starts and so we are on the lookout for maybe some new directions in markets, more in particular whether the risk-on has further to go. Our basic view is no and today's early indications support our view.** Riskier assets are richly priced and oil/commodities should be toppish. Central banks are side-lined and so are no support for riskier assets. Markets have priced in only one Fed rate hike by April 2017. Unless recession risks would rise, there is little scope for a still more gradual rate path. If it's because of higher recession risk, that shouldn't help the risk-on rally either. Of course, in recent weeks, especially the Bund traded weak, also in circumstances that would have justified a more bullish run. Also overnight, the risk-off was of little help for the US Treasuries that trade little changed from Friday. For the Bond we think that 160.81 is strong support (0.33% in 10-year German yield). **So the downward correction of the Bund may have nearly run its course, unless these levels are broken which isn't our favourite scenario.** So we change our view on the core bonds from bearish to neutral.



German Bund: move below 163.16 suggests return action to March low (160.81) is still possible. However, don't expect a break and make our view neutral from bearish (160.81 to 164.60).



US Note future: Sideways trading likely in 131-21 to 128-01 range

Currencies

R2	1,1712	-1d
R1	1,1495	
EUR/USD	1,1466	0,0072
S1	1,1398	
S2	1,1217	

Dollar stays in the defensive on weak US eco data

USD/JPY holds near the recent lows

US Treasury signals no good reason for yen interventions

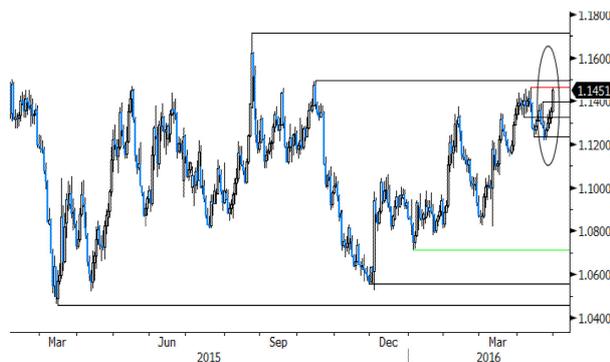
US ISM manufacturing in Focus today

Dollar nearing key support levels

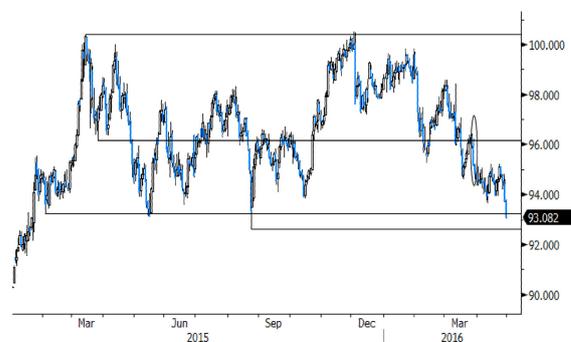
On Friday, the dollar stayed in the defensive driven by global risk-off sentiment. European data (strong GDP, lower than expected inflation) were ignored. US data surprised on the downside and added to the USD negative sentiment. EUR/USD trended higher in the 1.14 big figure and neared the key 1.1465/95 resistance. USD/JPY initially stabilized in the 107 area, as market feared BOJ action, but finally set a new correction low in the 106.15 area.

Overnight, several Asian markets including China are closed. Japanese equity markets decline 3.5% after being closed on Friday, as the strong yen bites. Friday evening, the US Treasury published a FX monitoring list containing five countries (China, Korea, Taiwan Japan and Germany) with big current account surpluses. The Treasury considers the recent yen moves still as 'orderly' and said that Japan must comply with its commitments on exchange rate policies. Japanese officials already replied that the US report won't prevent them from acting in the currency market if needed, but it won't be evident. USD/JPY is hovering in the 106.55 area, still within reach of the recent lows. The dollar also remains in the defensive against the euro with EUR/USD trading in the 1.1470 area. So, the test of the 1.1465/95 resistance has started.

According to the preliminary estimate, the euro zone manufacturing PMI dropped marginally from 51.6 to 51.5. The final reading is expected to confirm this outcome, but we see risks for an upward surprise. The US manufacturing ISM is expected to have weakened from 51.8 to 51.5 following a rebound last month. We see risks for a weaker outcome as regional confidence indicators reversed some of their March improvement. Central bankers are active too with ECB's Draghi, Weidmann, Lautenschlaeger and Fed's Lockhart and Williams scheduled to speak. We don't expect the ECB governor to break new ground on policy. The ECB is for some time out of the picture as it wants to give previous measures the time to have their impact. However, the rise of EUR/USD to near key resistance could seduce them to some verbal intervention.



EUR/USD: testing the key 1.1465/95 resistance



USD (trade-weighted) testing key support

Monday, 02 May 2016

In a daily perspective, a poor US Manufacturing ISM could keep the dollar under pressure. On the other side of the EUR/USD equation, the ECB has not that much ammunition to counter a rise of the euro. Germany being on the monitoring list of the US Treasury is a slightly euro positive. So, a test of the 1.15 key resistance looks likely.

Technically, EUR/USD set a new 2016 high at 1.1465 helped by a dovish Fed. **Key 1.1495 resistance remained intact. However, EUR/USD down moves were also blocked, leaving the pair near the recent highs.** A genuine economic improvement in the US is needed to inspire a USD rebound. This trigger isn't available right now. For now, we don't anticipate a sustained USD decline as we expect US growth to be strong enough to allow to Fed to raise rates further later this year. **However, with EUR/USD and the trade weighted dollar near key resistance/support, risks for additional USD losses are mounting. A sustained break of EUR/USD beyond 1.15 would be a serious warning signal and open the way for a retest of the key 1.1712 2015 high.** The soft Fed approach, risk aversion and the Treasury report on currencies pushed USD/JPY to a new correction low at 106.14 on Friday. The inaction of the BOJ keeps the downside in USD/JPY fragile. **Verbal interventions from Japan to stop the rise of the yen are likely, but we doubt they will change the trend.**

Sterling comeback to slow?

R2	0,8117	-1d
R1	0,7993	
EUR/GBP	0,7845	0,0069
S1	0,7735	
S2	0,7652	

On Friday, sterling was under pressure against the euro due to global risk-aversion. End of month EUR/GBP buying might also have been at work. The **UK money supply and lending data were mixed.** EUR/GBP maintained an upward bias in US dealings, in line with EUR/USD. The pair closed the session at 0.7837 (from 0.7773 on Thursday). Cable hovered sideways as the sterling correction and USD weakness counterbalanced each other. The key 1.4668 resistance was tested, but finally the pair closed the session little changed at 1.4612.

Today, UK markets are closed for a bank Holiday. So, sterling trading will develop in thin market conditions. It will probably follow global trends in the dollar and the euro. Markets will also keep an eye at the Brexit polls. Will uncertainty on Brexit come a bit more to the forefront after last week's constructive, pro-remain momentum?

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 threatens 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 break of 1.4668 resistance (yet?)

Calendar

Monday, 2 May		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Apr F)	50.8	50.8
16:00	ISM Manufacturing (Apr)	51.4	51.8
16:00	Construction Spending MoM (Mar)	0.5%	-0.5%
Canada			
15:30	RBC Manufacturing PMI (Apr)	--	51.5
China			
03:45	Caixin manufacturing PMI (Apr)	A 49.8	49.7
Japan			
04:00	Nikkei Japan PMI Mfg (Apr F)	A 48.2	48.0
07:00	Vehicle Sales YoY (Apr)	A 7.2%--	-3.2%
EMU			
10:00	Markit Manufacturing PMI (Apr F)	51.5	51.5
Germany			
09:55	Markit/BME Manufacturing PMI (Apr F)	51.9	51.9
France			
09:50	Markit Manufacturing PMI (Apr F)	-48.3	48.3
Italy			
	Budget Balance (Apr)		-20.9b
09:45	Markit/ADACI Italy Manufacturing PMI (Apr)	53-	53.5
18:00	New Car Registrations YoY (Apr)	--	17.38%
Norway			
09:00	Manufacturing PMI (Apr)	--	46.8
Spain			
09:15	Markit Manufacturing PMI (Apr)	--	53.4
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Apr)	--	53.3
Events			
	China, Hong Kong, UK ...Markets are Closed		
11:30	ECB's Weidmann Speaks in Leipzig		
14:50	Fed's Lockhart Makes Introductory Remarks in Florida		
15:45	ECB Publishes Weekly, Monthly QE Holdings		
16:00	ECB President Draghi Speaks at ADB Meeting in Frankfurt		
18:30	SNB's Jordan Speaks in Luzern		
19:00	ECB's Lautenschlaeger Speaks in Lucerne, Switzerland		
23:30	Fed's Williams Speaks in Los Angeles		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,82	0,00	US	0,78	-0,01	DOW	17774 17773,64
DE	0,27	0,02	DE	-0,48	0,01	NASDAQ for Exch - NQI	#VALUE!
BE	0,69	0,03	BE	-0,41	0,02	NIKKEI	16147 16147,38
UK	1,61	0,00	UK	0,50	-0,02	DAX	10038,97 10038,97
JP	-0,10	-0,03	JP	-0,25	-0,01	DJ euro-50	3028 3028,21

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,333 0,004
3y	-0,100	1,022	0,957	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,068	1,235	1,128	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,655	1,680	1,544	Euribor-6	-0,14	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,1468	0,0078	EUR/JPY	122,16	-0,08		184,6109	1293,56	46,86
USD/JPY	106,525	-0,78	EUR/GBP	0,7846	0,0068	-1d	1,45	19,00	-1,23
GBP/USD	1,461	-0,0032	EUR/CHF	1,0997	0,0027				
AUD/USD	0,7605	-0,0049	EUR/SEK	9,1949	0,04				
USD/CAD	1,2543	0,0018	EUR/NOK	9,2245	-0,02				

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