



## Sunrise

Friday, 29 April 2016

### Rates: Will the Bund profit from weak data and risk-off?

Recently, the Bund showed signs of fatigue and couldn't really gain of bond-friendly factors. Today, there is a raft of eco data with downside risks and risk-off sentiment on equity markets in Asia. Will the Bund finally show more vigor again, helped by end-of-month buying?

### Currencies: USD/JPY sets new correction low on yen strength and USD weakness

USD/JPY set a new correction low in the wake of the BOJ's unchanged policy decision. However, the move also indicates USD weakness. Today, the data and a global risk-off sentiment might keep the dollar under pressure. EUR/USD is testing the 1.1398 resistance.

### 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 dropped sharply lower** in the final hour of trading to close the session 1% down. The sell-off was led by technology shares. **This morning, most Asian shares trade lower** in the absence of Japanese investors; although losses remain contained.
- **Talks between Greece and its international creditors have almost reached a conclusion**, an EU official said, adding that they are working to agree further contingency steps by May 9 when an extraordinary meeting of euro zone finance ministers will be held in Brussels.
- **French economic growth accelerated at the start of the year** led by a rebound in household spending and accelerating investments, while demand from abroad remained sluggish. The quarterly rate of growth accelerated to 0.5% from 0.3% Q/Q at the end of last year, beating the market consensus.
- **The Brent crude oil prices rose yesterday for a fourth consecutive session, closing above \$48/barrel**, its highest level since November. The WTI jumped above \$46/barrel, for the first time since early December.
- **China's central bank allowed the yuan to strengthen the most since the peg was dismantled in 2005**, raising the reference rate by 0.6% after the US dollar tumbled overnight. The reaction of the offshore yuan was however muted.
- Today, the **eco calendar is well-filled** with euro zone Q1 GDP, euro zone HICP inflation for April, the EMU unemployment rate, US personal income, spending and the PCE data, the Chicago PMI and University of Michigan consumer confidence. **Japanese markets are closed in observance of Showa Day.**

# Rates

## Late session equity sell-off push US Treasuries higher.

*German Bund can't keep initial gains.*

*US Treasuries rally on a late session equity sell-off.*

*Bull curve steepening in US, and bull flattening in Germany*

	US yield	-1d
2	0,7895	-0,0238
5	1,2891	-0,0243
10	1,8243	-0,0141
30	2,6819	-0,0047

	DE yield	-1d
2	-0,5000	-0,0080
5	-0,3170	-0,0040
10	0,2460	-0,0430
30	0,9951	-0,0284

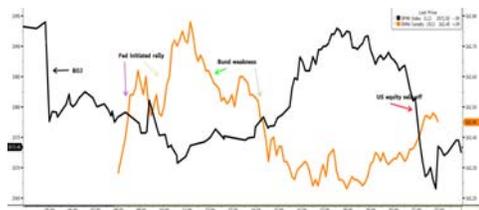
*Downside risks EMU inflation.*

*Downside risks for US Chicago PMI and Michiaan consumer*

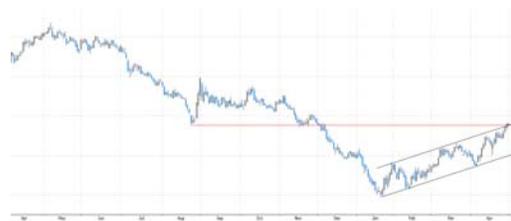
Global core bonds had quite some reasons to correct higher yesterday, but they failed to do so in a sustained manner until late in the US session when equities tanked. Core bonds then gained on a safe haven bid (especially US Treasuries). The European trading suggests that sentiment remains negative towards the Bund, but renewed risk-off, if sustained, could change sentiment. In a daily perspective, the German yield curve bear flattens with yields 0.5 bps (2-yr) to 3.8 bps (30-yr) lower. One should take into account that European bonds still had to catch up with the post FOMC developments in US Treasuries, which downplays the significance of lower yields. The US yield curve bull steepened with yields 3.6 bps (2-yr) to 2.1 bps (30-yr) lower, typical risk-off behaviour that favoured the short end. The 7-yr US Note auction went well, while the Italian and Belgian auctions went okay. Eco data were mixed with stronger EMU EC confidence, lower than expected German CPI and unsurprising claims/US GDP. They had no direct impact on trading. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged.

## Busy calendar with EMU Q1 growth & inflation key

In contrast to the US and the UK, euro zone economic growth is expected to have picked up in Q1 from 0.3% Q/Q to 0.4% Q/Q (consensus). We have no reason to distance ourselves from consensus. Data suggested that the recovery remained sluggish with little signs of improvement, but French GDP surprised on the upside (see headline). The EMU CPI inflation for April is expected to show a stabilisation at 0%, but yesterday's data showed a slowdown of inflation in Germany, Spain and Belgium and therefore we see downside risks. Higher energy prices will probably be offset by a lower core reading (due to an exceptional early Easter effect, which has downward effect in the month after). Finally, the EMU unemployment rate is expected to have stabilized at 10.3% in March. In the US, both personal income and spending are forecast to have picked up slightly in Marc, while the PCE deflator is expected to have slowed from 1.0% Y/Y to 0.8% Y/Y and the core PCE from 1.7% Y/Y to 1.5% Y/Y. After yesterday's GDP, the PCE should have much impact on markets though. The Chicago PMI might reverse some of its March uptick, with the consensus looking for a drop from 53.6 to 53.0, but we see risks for a downward surprise. Finally, Michigan consumer confidence (final figure) is expected to increase from 89.7 to 90.2, but also here we see downside risks.



Bund future (black) & S&P future (orange) (intraday): Initial post-FOMC rally aborted, but late US equity selling pushes Bund sluggishly higher.



Brent oil tests key resistance.

### Strong 7-yr Note auction

R2	164,6	-1d
R1	163,16	
<b>BUND</b>	<b>162,46</b>	0,6100
S1	160,81	
S2	160,11	

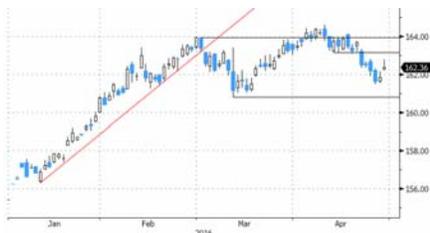
**The US Treasury concluded its end-of-month refinancing operation with a very good \$28B 7-yr Note auction.** The auction stopped firmly through the 1:00 PM bid side and the bid cover (2.65) was the best in more than two years. Bidding details showed strong indirect and good direct bids. Yesterday's \$15B 2-yr FRN auction went good as well.

### Important test of core bonds' health

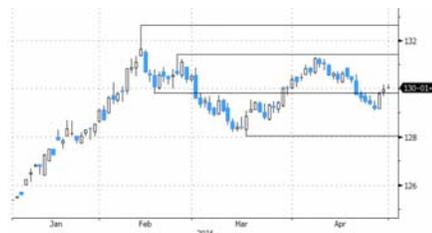
**Overnight,** Asian stock markets trade weaker though losses remain contained given late night WS weakness. Comments from billionaire investor Icahn who sold all his Apple stock triggered selling. Japanese markets are closed today for Showa day. Brent crude continues his march higher and trades now above key resistance (\$47.81/dollar). A sustained move above that level would be very significant. The US Note future is unchanged overnight, but the Bund could have some catching up to do in the opening as US Treasuries gained on WS's losses.

**Today's eco calendar is heavy both in the EMU and the US (see above). Risks are mainly located on the downside of expectations.** This could be another good test for our hypothesis that sentiment on core bond markets soured. We expect some gains if eco data effectively disappoint and especially if equity markets correct lower. However, can these gains be safeguarded today? The past sessions, bonds had a hard time doing so...

**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

## Dollar in the defensive as global sentiment deteriorates

*USD/JPY nosedives post BOJ*

*EUR/USD drifting cautiously higher*

R2	1,1495	-1d
R1	1,1398	
EUR/USD	1,13935	0,0066
S1	1,1217	
S2	1,1144	

*USD/JPY sets new correction low*

*EUR/USD nearing the 1.14 big figure as sentiment remains risk-off*

*Plenty of data in the US and the EMU*

*However, global sentiment on risk will probably be the key driver For USD trading;*

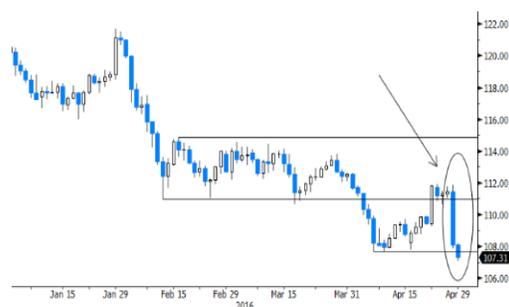
On Wednesday, the focus for USD trading was on the fall-out from the Fed decision and even more from the BOJ meeting. USD/JPY was hit hard by the BOJ's decision not to ease policy further and by the risk-off sentiment. USD/JPY filled bids below 108. The impact on other major USD cross rates was more modest. EUR/USD gained slightly ground, but the pair remained within established ranges. US Q1 GDP was too close to expectations to affect markets. EUR/USD closed the session at 1.1352 (from 1.1322 on Wednesday). USD/JPY finished the day at 108.11 (from 111.46).

Overnight, Asian equities trade with modest losses or slight gains (China/Australia). Commodities and especially oil remain well bid. The Aussie dollar rebounds after the post-CPI decline. AUD/USD trades in the 0.7660 area. Japanese markets are closed, but global risk-off sentiment continues to support the yen. USD/JPY has dropped to the low 107 area. Yesterday, the impact of the decline in USD/JPY on USD/EUR was rather limited, but now the dollar is also under pressure against the euro. EUR/USD is testing the 1.1398 resistance.

Today, EMU Q1 growth is expected to have picked up at the start of the year. An acceleration in growth from 0.3% Q/Q to 0.4% Q/Q is expected. The first estimate of CPI inflation for April is expected stable at 0%. Yesterday's data showed a slowdown in inflation in Germany, Spain and Belgium and therefore we see downside risks for the euro area measure. Finally, the EMU unemployment rate is expected to have stabilized at 10.3%. In the US, both personal income and spending are expected slightly higher at 0.3% M/M and 0.2% M/M respectively, but the PCE deflator is expected to have slowed to 0.8% Y/Y (1.5% for the core). The Chicago PMI might reverse some of its March uptick. Finally, Michigan consumer confidence is expected to increase from 89.7 to 90.2. We see downside risk for overall US data.



EUR/USD: testing the 1.1398 resistance



USD/JPY set new correction low on yen strength and USD weakness

We see downside risk both for US and EMU data. In theory, this should be neutral for EUR/USD. However markets might give slightly more weight to the US data. European markets will open in risk-off modus. This might be a negative for the dollar rather than for the euro. In the current environment, the high oil price might also be dollar negative. So, the odds are for a weaker dollar today. EUR/USD might drift higher in the 1.14 area. The key 1.1465/1.1495 resistance is coming on the radar, but we don't expect a sustained break.

USD/JPY continues to struggle. The BOJ/MOF might sent warning signals, but we don't row against the tide and are yen positive.

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 test of the 1.1234 support 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 107.08 overnight, below the 107.63 support (April 11 low). The inaction of the BOJ helped the break occur. **Verbal interventions to stop the rise of the yen are likely, but we doubt they will change the trend.**

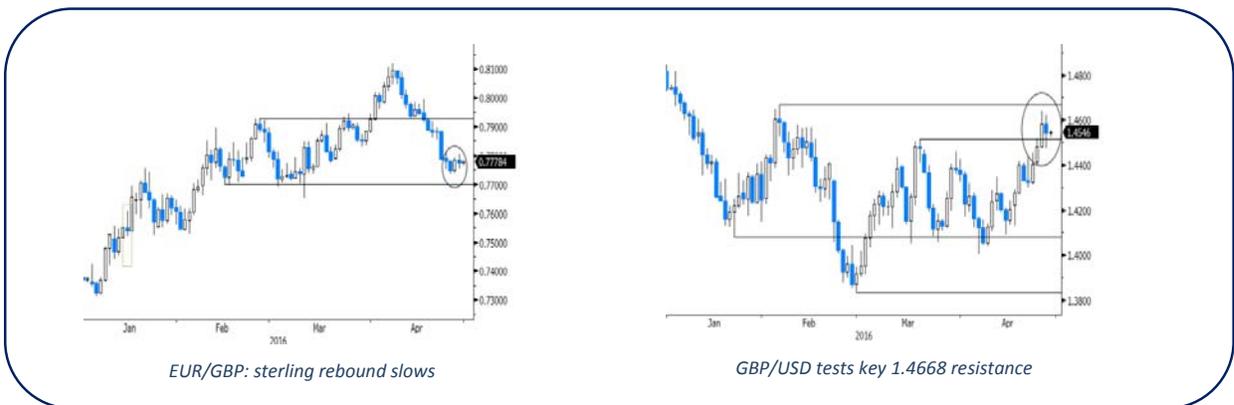
### Sterling in consolidation modus

R2	0,8117	-1d
R1	0,7993	
<b>EUR/GBP</b>	<b>0,7776</b>	<b>-0,0010</b>
S1	0,7684	
S2	0,7526	

**On Thursday**, sterling trading was at the mercy of global market developments. Risk aversion was negative for sterling, but higher oil prices supported sterling. Sterling didn't really know which way to go. However, the UK currency held up rather well. Losses in the wake of Wednesday's correction were very modest. EUR/GBP gained a few ticks. The pair closed the session at 0.7773 (from 0.7786). Cable held close to the 1.46 barrier as the dollar traded weak across the board.

**Overnight**, the GFK consumer confidence was weaker than expected, but it didn't hurt sterling. The UK currency is holding fairly strong against the euro and against a weak dollar. **Later today**, the money supply and lending data will be published. Lending is expect to hold at decent levels. A negative surprise might be slightly negative for sterling. **However, we expect more consolidation, especially in EUR/GBP as the recent rebound as run its course. USD weakness might keep cable well supported.** The pair is nearing the key 1.4668 resistance.

**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 s 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.**



# Calendar

Friday, 29 April		Consensus	Previous
<b>US</b>			
14:30	Employment Cost Index (1Q)	0.6%	0.6%
<b>14:30</b>	<b>Personal Income (Mar)</b>	<b>0.3%</b>	<b>0.2%</b>
<b>14:30</b>	<b>Personal Spending (Mar)</b>	<b>0.2%</b>	<b>0.1%</b>
<b>14:30</b>	<b>PCE Deflator MoM YoY (Mar)</b>	<b>0.1% / 0.8%</b>	<b>-0.1% / 1.0%</b>
14:30	PCE Core MoM YoY (Mar)	0.1% / 1.5%	0.1% / 1.7%
<b>15:45</b>	<b>Chicago Purchasing Manager (Apr)</b>	<b>52.8</b>	<b>53.6</b>
<b>16:00</b>	<b>U. of Mich. Sentiment (Apr F)</b>	<b>90.0</b>	<b>89.7</b>
16:00	U. of Mich. 1 Yr Inflation (Apr F)	--	2.7%
16:00	U. of Mich. 5-10 Yr Inflation (Apr F)	--	2.5%
<b>Canada</b>			
14:30	GDP MoM YoY (Feb)	-0.2%/1.5%	0.6% / 1.5%
<b>UK</b>			
01:01	Lloyds Business Barometer (Apr)	A 38	43
01:05	GfK Consumer Confidence (Apr)	A -3	0
10:30	Net Consumer Credit (Mar)	1.3b	1.3b
10:30	Net Lending Sec. on Dwellings (Mar)	3.7b	3.6b
10:30	Mortgage Approvals (Mar)	74.2k	73.9k
<b>10:30</b>	<b>Money Supply M4 MoM YoY (Mar)</b>	<b>--</b>	<b>0.9% / 2.0%</b>
<b>EMU</b>			
<b>11:00</b>	<b>Unemployment Rate (Mar)</b>	<b>10.3%</b>	<b>10.3%</b>
<b>11:00</b>	<b>CPI Estimate YoY (Apr)</b>	<b>0.0%</b>	<b>--</b>
<b>11:00</b>	<b>CPI Core YoY (Apr A)</b>	<b>0.9%</b>	<b>1.0%</b>
<b>11:00</b>	<b>GDP SA QoQ YoY (1Q A)</b>	<b>0.4% / 1.4%</b>	<b>0.3% / 1.6%</b>
<b>Germany</b>			
08:00	Retail Sales MoM YoY (Mar)	0.4%/2.7%	-0.3%/5.4%
<b>France</b>			
<b>07:30</b>	<b>GDP QoQ YoY (1Q A)</b>	<b>A 0.5%/1.3%</b>	<b>0.3% / 1.4%</b>
<b>08:45</b>	<b>CPI EU Harmonized MoM YoY (Apr P)</b>	<b>0.1%/-0.1%</b>	<b>0.8% / -0.1%</b>
08:45	Consumer Spending MoM YoY (Mar)	-0.4%/2.1%	0.6% / 1.8%
<b>Italy</b>			
10:00	Unemployment Rate (Mar P)	--	11.7%
11:00	CPI EU Harmonized MoM YoY (Apr P)	0.5% / -0.1%	2.0% / -0.2%
<b>Belgium</b>			
11:00	Unemployment Rate (Mar)	--	8.6%
<b>Norway</b>			
10:00	Unemployment Rate (Apr)	3.3%	3.3%
10:00	Credit Indicator Growth YoY (Mar)	5.0%	5.2%
10:00	Norges Bank Daily FX Purchases (May)	--	-900m
<b>Spain</b>			
<b>09:00</b>	<b>GDP QoQ YoY (1Q P)</b>	<b>0.7%/3.3%</b>	<b>0.8% / 3.5%</b>
<b>Switzerland</b>			
09:00	KOF Leading Indicator (Apr)	103.0	102.5
<b>Events</b>			
	<b>BASF (07:00), Eni (07:45), Chevron (bef mkt), Exxon Mobil (bef mkt) Announce Q1 Earnings</b>		
07:30	Swiss National Bank Releases 1Q 2016 Currency Allocation		
09:30	BoE's Gracie Speaks at SRB Conference in Brussels		
10:00	SNB's Thomas Jordan Speaks at Annual General Meeting in Bern		
12:30	Fed's Kaplan Speaks in London		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,82	-0,01	US	0,79	-0,02	DOW	17831 17830,76
DE	0,25	-0,04	DE	-0,49	0,00	NASDAQ	or Exch - NQI #VALUE!
BE	0,65	-0,02	BE	-0,44	-0,01	NIKKEI	16666 16666,05
UK	1,61	-0,01	UK	0,53	0,00	DAX	10321,15 10321,15
JP	-0,07	0,00	JP	-0,24	0,00	DJ euro-50	3125 3125,43

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,337 0,003
3y	-0,110	1,027	0,965	Euribor-1	-0,34	0,00	Libor-1 USD	0,51 0,51
5y	0,048	1,245	1,146	Euribor-3	-0,25	0,00	Libor-3 USD	0,59 0,59
10y	0,636	1,680	1,573	Euribor-6	-0,14	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,139	0,0061	EUR/JPY	122,21	-1,25		183,162	1274,52	48,09
USD/JPY	107,31	-1,72	EUR/GBP	0,7776	-0,0011	-1d	1,68	25,62	1,21
GBP/USD	1,4643	0,0102	EUR/CHF	1,0972	-0,0019				
AUD/USD	0,7653	0,0042	EUR/SEK	9,1575	0,00				
USD/CAD	1,2521	-0,0066	EUR/NOK	9,2450	0,01				

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