



Sunrise

Tuesday, 09 May 2017

Rates: Core bonds lose ground, but be aware of risk sentiment

With French election risk out of the way, focus may shift to the potentially key June ECB and Fed meetings. Anticipation on hawkish outcomes could push the German and US yields back higher. The fragile picture of commodity markets, historically low volatility, and record equity prices are a risk scenario which could lift safe haven assets in case of a risk-off correction.

Currencies: Dollar rebounds

Yesterday, the dollar captured a better bid. EUR/USD fell prey to profit taking after the Macron victory. USD/JPY profited from the resilience of US equities and a rise in US yields. Today, the eco calendar is thin. Some further pro-USD repositioning might be on the cards.

Calendar

Headlines

- **US stocks closed flat yesterday**, after Apple shares surged to an all-time high and **the Vix index closed at its lowest point since 1993**. Overnight, Asian stock markets trade mixed.
- **The Australian dollar eased to four-month lows after disappointing retail sales** (-0.1% M/M) figures reinforced expectations of steady interest rates for months to come.
- **German production** fell a smaller-than-expected 0.4% in March (expected -0.7% M/M), but February production was slightly downwardly revised to 1.8% from 2.2%. It confirms strong activity in Germany. The **trade surplus** widened to €25.4B from 20B previously, even as exports lagged imports.
- **Saudi Arabia's oil minister** said that oil producers would **"do whatever it takes" to rebalance the market** and that he expected a global deal on cutting crude output to be extended to the end of 2017 or possibly longer.
- The former head of the US Department of Justice told Congress that **she had warned the White House in January that Michael Flynn**, the first national security adviser appointed by Donald Trump, **could be blackmailed by Russia**.
- **South Koreans headed to voting stations today to elect a new leader**, looking to move on from a corruption scandal that brought down former President Park Geun-hye and shook the political and business elite to the core.
- **Today's eco calendar** remains thin with only US NFIB small business optimism. Austria, the Netherlands, Germany (inflation-linked) and the US tap the market. Fed governors Kashkari, Rosengren and Kaplan are scheduled to speak.

| | |
|--------------|---|
| S&P | ↔ |
| Eurostoxx 50 | ↔ |
| Nikkei | ↔ |
| Oil | ↔ |
| CRB | ↔ |
| Gold | ↔ |
| 2 yr US | ↔ |
| 10 yr US | ↔ |
| 2yr DE | ↔ |
| 10 yr DE | ↔ |
| EUR/USD | ↔ |
| USD/JPY | ↔ |
| EUR/GBP | ↔ |

Rates

Buy-the-rumour, sell-the-fact after Macron's victory

German bonds virtually unchanged

T-Note future loses 125-03+ support

Greek bonds continue to outperform

| | US yield | -1d |
|----|----------|------|
| 2 | 1,32 | 0,00 |
| 5 | 1,90 | 0,01 |
| 10 | 2,38 | 0,02 |
| 30 | 3,02 | 0,02 |

| | DE yield | -1d |
|----|----------|-------|
| 2 | -0,66 | 0,01 |
| 5 | -0,30 | -0,01 |
| 10 | 0,42 | 0,00 |
| 30 | 1,20 | 0,00 |

NFIB and JOLTS data to confirm health of US labour market and economy

Slight profit taking after Macron's victory

Profit taking after the confirmation of Macron's presidential elections victory characterised early European trading amid an empty eco calendar. European equities, the single currency and core bond yields slid marginally lower. ECB Mersch argued in favour of changing the ECB's forward guidance in order to put in line with economic reality (good growth momentum, picking up inflation). **German bonds topped out around the start of US trading and soon returned earlier gains before lingering listless around Friday's closing levels.** The US Note future lost 125-04+/03+ support (previous high/38% retracement) underperforming German bonds, while equities and oil, after testing the \$50/barrel level, had a sideways US trading session.

In a daily perspective, the US yield curve slightly steepened with yields 2 bps (2-yr) to 3.9 bps (30-yr) higher. The German yield curve barely budged with yield changes between +1.4 bps (2-yr) to -0.4 bps (5-yr). **On intra-EMU bond markets, Italy** (+8 bps, upcoming supply) underperformed while **Greece** continued to outperform (-16 bps) on hopes its **bonds may take part in the ECB's APP buying programme.**

US NFIB and Jolts data, sole points of attention

US eco releases merit attention today, even if they probably won't give the markets firm direction. We get deeper insight in the labour market with the March **JOLTS data.** The Jolts report lags the April payrolls report, but gives more details on the labour market condition. It is no market mover though. The **NFIB small business sentiment** is expected to have declined to 104 from 104.7 previously. That is still a historically very high level, only slightly topped during 2004 in the last 30-years. It is important because job growth is very much linked to employment in small businesses. We expect a confirmation of the strong business conditions at small firms and wouldn't be concerned with a drop as expected by consensus. **Various Fed governors speak, but Kashkari, Kaplan and Rosengren on specific non-monetary policy themes. Ultra-hawk George** speaks on the balance of economic risks and monetary policy. She might warn that the Fed risks to be behind the curve, like her soul mate Mester did yesterday. However, her words shouldn't carry much weight as she is an outsider inside the FOMC. **The market discounts a June hike and the absence of (key) contrarian voices since the FOMC meeting suggests that there's consensus.** Governors speak little about balance sheet tapering, suggesting that the debate inside the FOMC is ongoing.



Bund future (black) and EuroStoxx (orange) (intraday): Bund tries to rally after Macron's victory, but reverses to unchanged, while equities register modest losses. t



VIX at 5-yr low, while S&P matched record high and shows potential doji (trend reversal). No reason to panic, but some correction may be in store

| | | |
|-------------|--------|------|
| R2 | 163,99 | -1d |
| R1 | 162,49 | |
| BUND | 160,43 | 0,15 |
| S1 | 158,73 | |
| S2 | 158,28 | |

The Netherlands, Austria and US tap market

The Dutch debt agency taps the on the run 5-yr DSL (0% Jan2022) for up to €3B. The bond traded stable in ASW spread terms going into the auction, but sits rather cheap on the Dutch curve. **The Austrian treasury auctions the on the run 10-yr RAGB (0.5% Apr2027) and 30-yr RAGB (1.5% Feb2047) for a combined €1.1B.** Bonds on offer stabilized going into the auction. The very long RAGB trades normal on the curve, while the 10-yr RAGB is a tad cheap. We expect both the Dutch and Austrian auctions to be plain vanilla. **The US Treasury starts its mid-month refinancing operation** with a \$24B 3-yr Note auction. Currently, the WI trades around 1.54%.

Bonds drop, but be aware of risk sentiment!

Overnight, most Asian stock markets trade mixed in uneventful dealings. Brent crude stabilizes, but remains below \$50/barrel. The US Note future has a small upward bias, but we expect a neutral opening for the Bund.

Today's eco calendar remains rather thin. US eco data are expected to remain strong, but are second-tier and probably irrelevant for trading. Fed speakers (see above) are a wildcard for trading. Upcoming supply is negative for core bonds. With French election risk out of the way, **focus may shift to the potentially key June ECB and Fed meetings. Anticipation on hawkish outcomes could push the German 10-yr yield back to 0.5% and the US 10-yr yield to 2.6%.** The fragile picture of commodity markets, historically low volatility, and record equity prices are a risk scenario which could lift safe haven assets in case of a risk-off correction.

Technically, the US Note future trades below 125-04+/03+ support (previous high/38% retracement), suggesting more downside towards the 123-area. The German Bund dropped below 160.64 last week, suggesting return action towards the 158-area.



German Bund: ECB exit speculation becomes trading theme. Break below 160.64 suggests more downside



US Note future: technical picture deteriorates

Currencies

Dollar rebounds as European/French risk traded runs in to resistance

| | | |
|---------|--------|---------|
| R2 | 1,13 | -1d |
| R1 | 1,1145 | |
| EUR/USD | 1,0924 | -0,0070 |
| S1 | 1,0778 | |
| S2 | 1,0341 | |

Dollar maintains gains against the euro and the yen.

Aussie dollar extends decline on poor retail sales.

Only second tier eco data

Technical considerations to trump. USD rebound to continue?

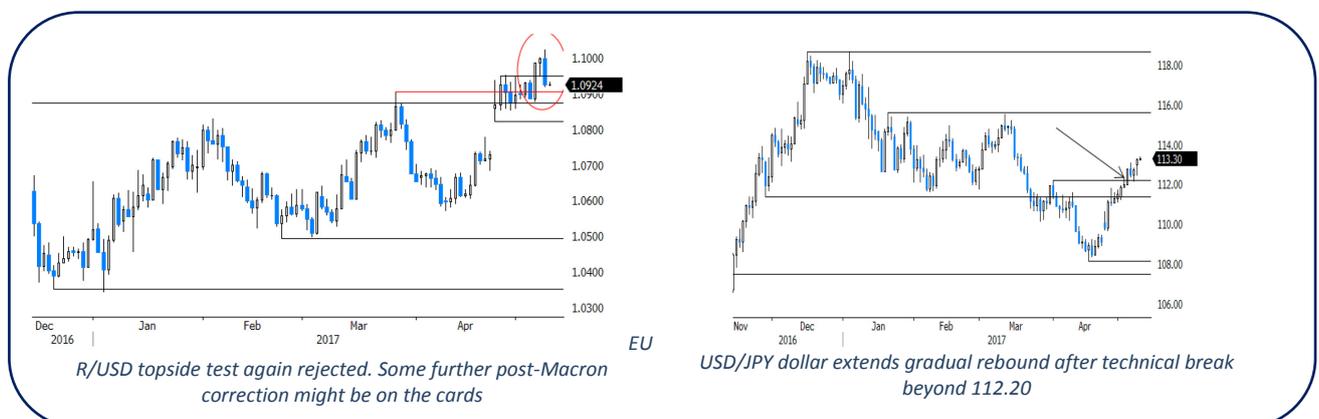
Dollar rebounds as euro rally runs into resistance

On Monday, a buy-the-rumour, sell-the-fact correction after Macron's victory caused a modest reversal on earlier EUR/USD, EUR/JPY and USD/JPY gains. EUR/USD tested the 1.10 level in Asia, but declined throughout the session and closed at 1.0924. The European equity correction initially also weighed on USD/JPY, but the pair found a better bid as US equities were very resilient and USD bond yields reversed an early decline. USD/JPY finished at 113.26 (from 112.76 on Friday).

Overnight, Asian equity markets trade narrowly mixed in the absence of new eco info. EUR/USD stabilizes in the 1.0930 area. USD/JPY maintains yesterday's gains and trades in the 113.30 area. Of late, price declines in several industrial commodities weighed on **the Aussie dollar**. Today, a domestic factor, disappointing retail sales, were to blame for a further AUD/USD to the 0.7355 area.

Today, the US calendar only contains the JOLTS Job Openings and the NFIB small business confidence, no market movers. We expect them to come out at healthy levels. **Various Fed governors will speak on non-monetary policy themes. Ultra-hawk George**, on the contrary, speaks on the balance of economic risks and monetary policy. She might warn that the Fed risks to be behind the curve, but she's an outsider inside the FOMC and her comments shouldn't carry much weight. So, little guidance for USD trading today.

Yesterday, the euro fell prey to post-Macron profit taking. At the same time, the dollar was in good shape as US equities outperformed Europe and as US yields maintained an upward bias. The post-Macron equity correction shouldn't go far. **This might continue to support USD/JPY**. For EUR/USD the picture remains indecisive. Markets are still looking for signs that the ECB will change its communication at the June meeting. The euro recently already anticipated on such a scenario. If there is no additional news on this issue, the euro rally might (temporary) slow. At the same time, the downside of the dollar is becoming better protected. **So, some further technical correction in EUR/USD toward to the 1.0821 (Spike higher after first round victory of Macron) is likely.**



From a technical point of view, USD/JPY bottomed out in April and regained the 112.20 resistance last week. This improved the technical picture. The rebound continues in a gradual way, but looks quite robust. Next intermediate resistance comes in at 115.51. EUR/USD extensively tested the topside of the MT range (1.0874/1.0906 area) late March. The pair returned to the range top after the first round of the French election and broke above the 1.09/1.0950 resistance at the end of last week. However, the break isn't confirmed. A sustained break would improve the ST picture. Next resistance stands at 1.1129 (62% retracement) and at 1.1366 (correction top). A decline below 1.0821 would suggest that the dollar is regaining traction against the euro. A ST EUR/USD correction might occur as the pair is unwinding overbought conditions.

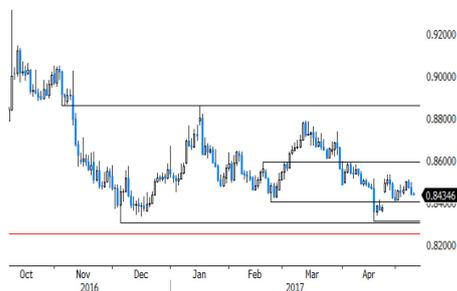
EUR/GBP joins post-Macron euro correction

The global post-Macron reaction dominated UK trading yesterday. EUR/GBP corrected south and finished the session at 0.8442 (from 0.8473). The decline of EUR/USD (relative strength of the dollar) weighted slightly on cable. The pair dropped to the 1.2930 area and closed the session at 1.2940.

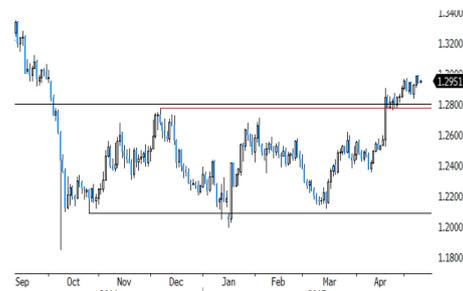
Overnight, the UK BRC like-for-like sales rebounded by an impressive 5.6% Y/Y (from -1.0% Y/Y in March). However, the figure was probably distorted by the timing of Easter. Sterling's reaction remained limited. There are no important eco data on the agenda today. Technical considerations will prevail for sterling trading. Markets will look forward to the BoE's policy meeting and the quarterly inflation report (Thursday). We don't expect the BoE to herald a big change before the Parliamentary election. Soft Q1 growth gives the BoE the room not to hurry to signal a rate hike anytime soon.

Two weeks ago, EUR/GBP dropped below EUR/GBP 0.84 support, (temporary) improving the sterling picture. The pair came within reach of key 0.8305 support (Dec low), but no real test occurred. After a late April EUR/GBP rebound, the range bottom is better protected. Longer term, Brexit-complications remain potentially negative for sterling. On technical considerations we slightly prefer a EUR/GBP buy-on-dips approach.

| | | |
|---------|--------|---------|
| R2 | 0,8881 | -1d |
| R1 | 0,8854 | |
| EUR/GBP | 0,8433 | -0,0044 |
| S1 | 0,8314 | |
| S2 | 0,8304 | |



EUR/GBP: trading within a tight 0.83/0.85 range



GBP/USD: holding near the recent top on USD softness

Calendar

| Tuesday, 9 May | | Consensus | Previous |
|----------------|---|-------------------|------------------|
| US | | | |
| 12:00 | NFIB Small Business Optimism (Apr) | 104.0 | 104.7 |
| 16:00 | JOLTS Job Openings (Mar) | 5725 | 5743 |
| Japan | | | |
| 02:00 | Labor Cash Earnings YoY (Mar) | A -0.4% | 0.4% |
| 02:00 | Real Cash Earnings YoY (Mar) | A -0.8% | 0.0% |
| UK | | | |
| 01:01 | BRC Sales Like-For-Like YoY (Apr) | A 5.6% | -1.0% |
| Germany | | | |
| 08:00 | Industrial Production SA MoM / WDA YoY (Mar) | -0.7%/2.5% | 2.2%/2.5% |
| 08:00 | Trade Balance (Mar) | 21.5b | 20b |
| 08:00 | Current Account Balance (Mar) | 26.5b | 20.4b |
| 08:00 | Exports SA MoM (Mar) | 0.2% | 0.8% |
| 08:00 | Imports SA MoM (Mar) | 1.6% | -1.6% |
| France | | | |
| 08:30 | Bank of France Bus. Sentiment (Apr) | 103 | 103 |
| Italy | | | |
| 10:00 | Retail Sales MoM / YoY (Mar) | 0.2%/0.7% | -0.3%/-1.0% |
| Events | | | |
| 11:15 | Austria to Sell 0.5% 2017 & 1.5% 2047 Bonds | | |
| 11:30 | Netherlands to Sell Up to €3B 0% 2022 Bonds | | |
| 11:30 | Germany to Sell €0.5B 0.1% I/L 2046 Bonds | | |
| 15:00 | Fed's Kashkari to Speak to Minnesota High Tech Conference | | |
| 17:40 | Fed George speaks in Santa Barbara | | |
| 19:00 | US to Sell \$24B 3-yr Notes | | |
| 19:00 | Fed's Rosengren Speaks at NYU Conference on Risk Management | | |
| 22:15 | Fed's Kaplan Speaks to Dallas Regional Chamber | | |

| 10-year | <u>td</u> | <u>-1d</u> | | 2-year | <u>td</u> | <u>-1d</u> | | Stocks | <u>td</u> | <u>-1d</u> |
|------------|------------|------------|------------|------------|------------|------------|--|-------------|-----------|------------|
| US | 2,38 | 0,02 | | US | 1,32 | 0,00 | | DOW | 21012,28 | 5,34 |
| DE | 0,42 | 0,00 | | DE | -0,66 | 0,01 | | NASDAQ | 6102,66 | 1,90 |
| BE | 0,82 | 0,01 | | BE | -0,51 | 0,01 | | NIKKEI | 19843 | -52,70 |
| UK | 1,15 | 0,03 | | UK | 0,16 | 0,02 | | DAX | 12694,55 | -22,34 |
| JP | 0,04 | 0,01 | | JP | -0,19 | 0,00 | | DJ euro-50 | 3642,11 | -16,68 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| IRS | <u>EUR</u> | <u>USD</u> | <u>GBP</u> | EUR | <u>-1d</u> | <u>-2d</u> | | USD | <u>td</u> | <u>-1d</u> |
| 3y | -0,01 | 1,78 | 0,68 | Eonia | -0,3560 | 0,0010 | | Libor-1 | 0,9944 | 0,0000 |
| 5y | 0,24 | 2,00 | 0,86 | Euribor-1 | -0,3740 | 0,0000 | | Libor-3 | 1,1804 | 0,0000 |
| 10y | 0,85 | 2,32 | 1,22 | Euribor-3 | -0,3290 | 0,0000 | | Libor-6 | 1,4327 | 0,0000 |
| | | | | Euribor-6 | -0,2490 | -0,0010 | | | | |
| | | | | | | | | | | |
| Currencies | <u>td</u> | <u>-1d</u> | | Currencies | <u>td</u> | <u>-1d</u> | | Commodities | <u>td</u> | <u>-1d</u> |
| EUR/USD | 1,0924 | -0,0070 | | EUR/JPY | 123,84 | -0,14 | | CRB | 178,13 | 0,21 |
| USD/JPY | 113,36 | 0,59 | | EUR/GBP | 0,8433 | -0,0044 | | Gold | 1227,10 | -2,70 |
| GBP/USD | 1,2954 | -0,0015 | | EUR/CHF | 1,0912 | 0,0042 | | Brent | 49,28 | -0,53 |
| AUD/USD | 0,7351 | -0,0064 | | EUR/SEK | 9,6574 | -0,0067 | | | | |
| USD/CAD | 1,3695 | 0,0050 | | EUR/NOK | 9,4371 | -0,0041 | | | | |

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