



Sunrise

Tuesday, 18 April 2017

Rates: Consolidation as core bonds entered overbought conditions?

Sunday's first round of the French presidential elections and geopolitical concerns are set to dominate trading this week. It should underpin core bonds via safe haven flows though the rally could lose some steam with the Bund and US Note future in overbought conditions.

Currencies: USD decline to slow?

Yesterday, the dollar (USD/JPY and DXY) rebounded after comments from US Treasury Secretary Mnuchin who said that a strong currency was positive longer term. Today, the eco calendar is thin. A sustained bottoming out process of the dollar probably needs support from higher US yields. The topside of EUR/USD looks well protected ahead of the French elections.

Calendar

Headlines

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	↗

- **US equities ended yesterday on a strong foot**, recording gains of nearly 1%. **Overnight, most Asian stock markets gain ground as well** though risk sentiment is less ebullient.
- **US Treasury secretary Mnuchin has conceded that the timetable for ambitious tax reforms is set to slip** following setbacks in negotiations with Congress over healthcare. He also **downplayed Trump's weak dollar comments**.
- International observers said a closely contested **vote on Turkey's presidential powers contravened Turkish law** by changing rules on ballot-counting at the last minute, one of several alleged voting irregularities prompting criticism.
- **Vice Fed chair Fischer said he doesn't see a replay of the so-called taper tantrum** of 2013 as the central bank rolls out its plan for reducing its big balance sheet.
- **North Korea's UN envoy** warned that the US has pushed the Korean peninsula to the "brink of war", as President Trump and his administration kept up their rhetoric against Kim Jong Un's regime.
- **Marine Le Pen and Emmanuel Macron's support** rose half a point to 23% and 24%, respectively, Elabe's latest poll showed. Francois Fillon and Jean-Luc Mélenchon each slipped half a point to 19.5% and 18%.
- **Today's eco calendar** contains US housing starts, building permits and industrial production. Kansas city Fed George is scheduled to speak and Bank of America, Goldman Sachs and Yahoo are among the companies who publish Q1 earnings.

Rates

Geopolitical risks, French election fears and doubts on Trump's pro-growth agenda dominate US pre-Easter trading

Trump's comments on dollar, rates and Yellen triggers break below key yield support

	US yield	-1d
2	1,20	0,00
5	1,77	0,00
10	2,24	0,01
30	2,90	0,01

US housing starts/permits & production on the calendar

Earnings season resumes

Fed George (hawk) speaks

	DE yield	-1d
2	-0,87	-0,01
5	-0,53	-0,01
10	0,19	0,00
30	0,93	0,01

Easter holidays have passed: A round up.

Recapitulating pre-Easter trading: geopolitical risks (Syria and North Korea), French presidential election fears and doubts about US president Trump's ability to implement his pro-growth, pro-deregulation agenda after failing to get Obamacare repealed in Congress, drove core bond trading. The survey data started to lose their post-Trump shine on disappointment. The US Treasury will by the end of April again face the debt ceiling issue and there are only a few days left to muster an agreement about a continuation resolution through Congress. Last but not least, **US president Trump talked the dollar down and reversed course on monetary policy, by saying he liked an easy policy stance and might still decide to keep Ms. Yellen as a chairwoman when her term expires.**

Especially the reaction on Trump's comments was significant in the bond market as they pushed the 5- and 10-yr Treasury yields well below key yield support at respectively 1.80% and 2.30% The US 30-yr yield tests 2.90%. The German 10-yr yield extensively tested the key area around 0.20%, but no clean break occurred yet.

US Housing starts & permits and production in focus

March housing data are forecast to show a mixed picture. Starts are expected to have dropped 3% M/M to 1250K (annual rate) following a similar increase in February, while permits are expected to have risen modestly by 2.8% to 1250K following a 6% M/M drop in January. **That would keep starts and permits near the cycle highs. The upward trend isn't broken, but signs of some moderation become gradually visible. Industrial production** is expected to have rebounded in March, rising by 0.4% M/M from an upwardly revised 0.1% M/M in February. However, the lion part of the gains will be in the weather-related **utility output**, which fell sharply in previous months on unseasonably warm weather. **Mining** is doing well, but following outsized gains in February, there may be some payback. The more cyclical **manufacturing output** is expected flat in March after a strong 0.5% M/M in February. The decline in manufacturing hours worked and a slight weakening in activity surveys suggests only a small gain. **All in all, the data won't have too much market impact.**



German 10-yr yield: Tests again key yield support area around 0.20%.



US 10-yr yield breaks key support (2.3%) making the technical picture bullish for US Treasuries

Germany, France and Spain tap market

R2	164,40	-1d
R1	163,82	
BUND	163,63	0,09
S1	161,88	
S2	158,28	

This week's scheduled EMU bond supply comes from Germany, Spain and France. The German Finanzagentur taps the off the run 30-yr Bund (€1B 2.5% Aug2044). On Thursday, the French treasury taps the on the run 3-yr BTAN (0% Feb2020) and 5-yr BTAN (0% May2022) for a combined €4.5-5.5B. Additionally, they sell three inflation-linked bond for a combined €0.75-1.25B. The Spanish debt agency taps the on the run 5-yr Bono (0.4% Apr2022), 10-yr Obligacion (1.5% Apr2027), 30-yr Obligacion (2.9% Oct2046) and off the run Obligacion (6% Jan2029) for a combined €4.5-5.5B.

Consolidation on overbought core bond markets?

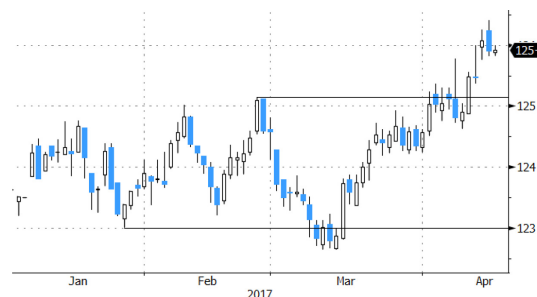
Overnight, most Asian stock markets gain some ground but risk sentiment is less ebullient than in the US yesterday. The US Note future and Brent crude trade stable. The German Bund could still open somewhat lower though, catching up with US Treasuries' price action yesterday.

Last week's risk aversion pushed the US 5- and 10-yr yield below key support levels (respectively 1.8% and 2.3%) while the test of German 10-yr yield support (0.2%) is ongoing. Geopolitical concerns (North Korea & Syria) and French presidential elections (1st round on April 23) probably prevent return action (higher yields) this week as the eco calendar is irrelevant for trading apart from Friday's euro area PMI's. However, both the Bund and US Note future entered overbought conditions, suggesting that the core bond rally could lose some steam. We expect consolidation around current levels.

Our medium term strategy remains that US yields will recapture lost support levels and turn higher in the old trading bands as the Fed prepares another rate hike in June and starting to run-off its balance sheet before the end of the year.



German Bund: New contract high. German 10-yr yield tests key support (0.2%). Contract overbought.



US Note future: payrolls and technically inflicted losses erased by risk aversion.

Currencies

Dollar rebounds on US Mnuchin 'comments

EUR/USD holding in established range, within reach of recent lows

Dollar decline to slow?

On Monday, USD equities and by comments from US Treasury Secretary Mnuchin supported the dollar. The FinMin said he agreed with president Trump that the strength of the dollar was negative for exports, but added that the currency's strength was a positive longer term. USD/JPY returned to the 109 area after touching a correction low in the 108.13 area in thin trading early in the session. The picture of the dollar against the euro remained a bit different. The euro rebounded against the dollar even as the decline in US bond yields halted. A short-squeeze in EUR/JPY (due to a better US equities) probably was the driver behind the move. EUR/USD closed the session at 1.0643 (from 1.0618 on Friday evening).

Overnight, Asian equities trade with modest gains. USD/JPY is holding off the recent lows and is changing hands in the 109 area. Markets are keeping an eye at meetings between US Vice President Pence and the Japanese PM Abe and FinMin Aso. There might be some frictions between the two countries on trade issues, but the focus will be on a joined strategy against North Korea. EUR/USD shows no clear trend, holding tight in the mid 1.0650 area.

Today, the US the March housing data are expected mixed. Starts are expected to have dropped 3% M/M to 1250K (annual rate while permits are expected to have risen modestly by 2.8% to 1250K. That would keep starts and permits near the cycle highs. The upward trend isn't broken, but signs of some moderation become gradually visible. Industrial production is expected to have rebounded in March, rising by 0.4% M/M. The more cyclical manufacturing output is expected flat in March after a strong 0.5% M/M in February. **All in all, the data won't have too much impact on USD trading.**

R2	1,1145	-1d
R1	1,0906	
EUR/USD	1,0648	0,0030
S1	1,0341	
S2	1,0000	

Eco data of second tier importance

USD decline slows, but a USD rebound needs interest rate support

EUR/USD topside capped ahead of French election



EUR/USD: stabilizes in the 1.06 big figure. Political uncertainty weighs, but no strong dollar momentum



USD/JPY holding below the 110 support. Technical picture remains bearish, but tentative signs of bottoming

Yesterday, there were first tentative signs that the recent downward correction of the dollar is losing momentum. USD/JPY and the trade-weighted dollar rebounded off the recent low. For now, we don't draw any firm conclusions yet. A sustained outperformance of the dollar probably needs support from a bottoming/rise of US bond yields. We're not that far yet. So, we look for confirmation that the decline/correction of USD/JPY (and of DXY) has run its course. **Of late, EUR/USD was an exception to the overall trend of USD weakness.** The pair hovers in a tight range in the 1.06 area.

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Political uncertainty in Europe (mainly due to the French elections) counterbalances the overall USD decline even as interest rate differentials between the dollar and the euro and narrowed. In a day-to-day perspective, we don't see much upside for EUR/USD as long as uncertainty on the French elections reigns.

Technical: USD/JPY decline slows EUR/USD neutral

From a technical point of view, USD/JPY broke through the 110 key support, after having failed to regain the 111.36/60 previous range bottom. We downgraded our USD/JPY assessment to bearish, as long as the pair does not regain and sustains above 112.20 (neckline ST double bottom). Next key support (62% retracement) comes in at 107.18. EUR/USD extensively tested the topside of the MT range (1.0874/1.0906 area) late March, but the test was rejected. EUR/USD returned lower in the 1.0875/1.05 trading range with the odds for a test of the downside of the range. However, real downside break is difficult as the dollar trade rather weakish of late.

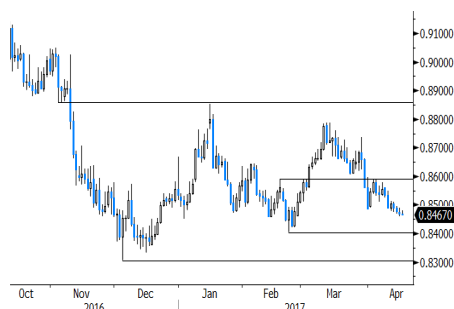
Sterling holding near the recent highs

R2	0,8881	-1d
R1	0,8854	
EUR/GBP	0,8470	-0,0009
S1	0,8403	
S2	0,8304	

Of late, EUR/GBP drifted cautiously lower and this trends remained in place yesterday. Technical considerations in a very thin market dominated trading. EUR/GBP touched a minor correction low in the 0.8461 area and closed the session at 0.8470 (from 0.8478 on Friday). Sterling also held strong against the dollar even as the US currency showed tentative signs of bottoming. Cable closed the session at 1.2565.

There are no important eco data in the UK today. So, sterling trading will be driven by technical considerations. With both the dollar and the euro trading soft of late, sterling recorded some by default gains of late. However, both in EUR/GBP and cable there was no really strong sterling momentum. EUR/GBP drifted cautiously lower, but the magnitude of the decline remained modest, awaiting a clear move in the euro (French elections) or some high profile news from Brexit. For now, we don't see a change of this sterling scenario.

We have a neutral short-term bias on EUR/GBP. The EUR/GBP 0.88/0.84 range should guide trading for now. Early April, the sterling rally/short-squeeze ran slowed, but sterling held near the recent highs. We see no trigger for a real change in sentiment yet. Longer term, Brexit-complications remain a potential negative for sterling. The BoE won't raise rates anytime soon.



EUR/GBP: gradual downtrend continues



GBP/USD: rally to run into resistance as USD decline slows?

Calendar

Tuesday, 18 April		Consensus	Previous
US			
14:30	Housing Starts / MoM (Mar)	1250k/-3%	1288k/3.0%
14:30	Building Permits / MoM (Mar)	1250k/2.8%	1213k/-6.2%
15:15	Industrial Production MoM (Mar)	0.4%	0.0%
15:15	Capacity Utilization (Mar)	76.1%	75.4%
15:15	Manufacturing (SIC) Production (Mar)	0.0%	0.5%
Events			
Q1 earnings	J&J (12:40), Bank of America (12:45), Goldman Sachs (13:30), Yahoo!		
03:30	RBA April Rate Meeting Minutes		
18APR-21APR	ECB Survey of Professional Forecasters (Q&A)		
15:00	Fed's George Speaks at Bard College Conference		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,24	0,01		US	1,20	0,00		DOW	20636,92	183,67
DE	0,19	0,00		DE	-0,87	-0,01		NASDAQ	5856,788	51,64
BE	0,76	0,00		BE	-0,56	0,00		NIKKEI	18418,59	82,96
UK	1,04	0,00		UK	0,11	0,00		DAX	12109	0,00
JP	0,02	0,01		JP	-0,20	0,02		DJ euro-50	3448,26	0,00
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	-0,08	1,67	0,61	Eonia	-0,3580	0,0000				
5y	0,12	1,88	0,75	Euribor-1	-0,3720	0,0000		Libor-1	0,9944	0,0000
10y	0,68	2,21	1,08	Euribor-3	-0,3310	0,0000		Libor-3	1,1584	0,0000
				Euribor-6	-0,2460	0,0000		Libor-6	1,4032	0,0000
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0648	0,0030		EUR/JPY	116,13	0,77		CRB	187,39	-0,38
USD/JPY	109,07	0,43		EUR/GBP	0,8470	-0,0009		Gold	1285,80	-2,70
GBP/USD	1,2572	0,0049		EUR/CHF	1,0688	0,0016		Brent	55,34	-0,55
AUD/USD	0,7559	-0,0020		EUR/SEK	9,5833	-0,0144				
USD/CAD	1,3319	-0,0006		EUR/NOK	9,117	0,0019				

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
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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