



Sunrise

Thursday, 19 April 2018

KBC Sunrise Market Commentary

Markets

- Yesterday, **global core bonds initially held tight ranges, but came under pressure later in the session.** A further receding of global trade/geopolitical tensions, a constructive equity sentiment and higher oil prices all reduced demand for safe haven bonds. US yields rose between 3.5 bp (2-yr) and 4.4 bp (10-year). **The 2-year US yields set a new cycle top north of 2.40%.** The rise in European yields was more modest. A downward revision of March EMU inflation probably supported the outperformance for German bunds. Today there are no important data in Europe. **In the US, the jobless claims, the Philly Fed outlook and the leading indicators will be published.** The data will only be of intraday significance for bond trading. **Global risk sentiment will probably remain the main driver for bond trading.** There are tentative signs that core bond yields could again move further north. However, for now, we don't see any news that is important enough to push 10-yields (Bunds and Treasuries) out of the established ranges.
- Yesterday morning, **there were tentative signs that the dollar could capture a better bid.** EUR/USD spiked temporary lower to the mid 1.23 area as EMU March inflation was downwardly revised to 1.3% from 1.4%. However, **the dollar wasn't able to build on this temporary euro weakness.** EUR/USD rebounded back higher in the 1.23 big figure; despite late session rise in US yields. **Today, the eco calendar probably won't break the recent stalemate in USD trading.** EUR/USD is locked in the middle of the 1.2155/1.2555 trading range. USD/JPY profits slightly from the positive risk sentiment. Markets will also look forward to comments on FX on the sidelines of the IMF spring meeting.
- Yesterday, sterling fell prey to profit taking after UK March inflation was reported softer than expected (2.5% M/M). EUR/GBP rebounded north of 0.87. So, recent extensive attempt of the EUR/GBP cross rate to break below the 0.8650 support was rejected, at least for now. The UK Upper House also complicated the Brexit strategy of UK PM may as it voted an amendment pushing the UK government to keep a customs union with the EU post Brexit. **Today, the UK retail sales will be published.** A setback (-0.6% M/M) is expected after a rebound in February. UK retail sales were rather soft over the previous months. Even so, we are keen to see the market reaction in case of decent UK retail sales. Decent activity data might convince markets that the easing in inflation shouldn't prevent the BoE to gradually bring interest rate to a more neutral level further out this year.

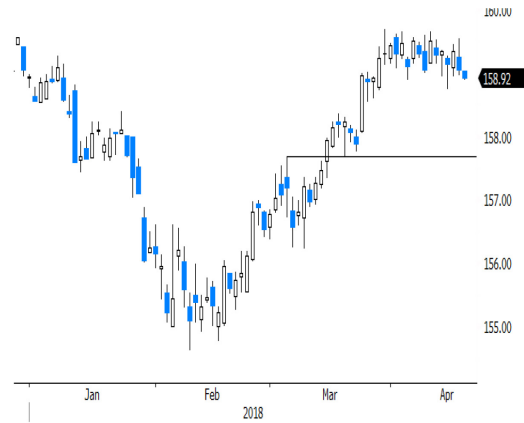
News Headlines

- US President Trump and Japanese PM Abe agreed to step up talks aiming for 'free, fair and reciprocal' trade deals.** Trump reiterated its preference from bilateral trade deals. At the same time, President Trump didn't openly criticize the valuation of the Japanese yen or Japanese monetary policy.
- Brent Crude Oil touched \$ 74 p/b.** The move was supported by press headlines (Reuters) that OPEC intends to **keep the supply cutting measures in place.** It was also indicated that Saudi Arabia won't have any objections for the oil price the return to the \$80/100 p/b range.
- Australian labour market data disappointed.** March employment growth printed at a soft 4 900 and February jobs growth was revised sharply lower from a gain of 17 500 to a job loss of 6.3%. The easing of momentum in the Australian labour market might be a good reason for the Reserve bank of Australia to maintain a wait-and-see approach. For now, it shouldn't feel pressured to raise the policy rate anytime soon.
- Today, the eco calendar** in Europe is thin. In the US, the jobless claims, the Philadelphia Fed business outlook and the leading indicators will be released. In the UK, the focus will be on the **March retail sales.** Spain and France will hold bond auctions. Fed's Brainard and Quarles will speak, but will address non-monetary policy issues.

Graphs & Table



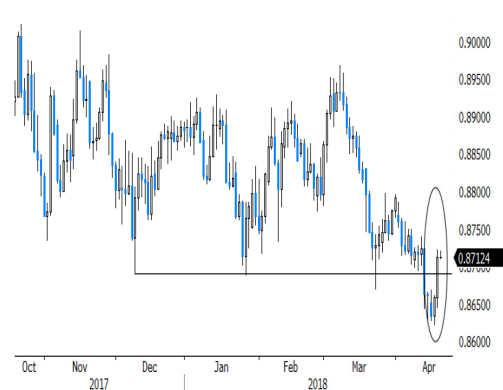
US 10-y yields drifting back higher in the established range as safe haven bid for bonds eases.



Bund future contract: holding near recent top, but tentative signs of topping out?



EUR/USD: still going nowhere as dollar doesn't profit from higher US yields.



EUR/GBP rebounds north of 0.87 on soft inflation. Will UK retail sales prevent further damage for sterling?

Calendar

Thursday, 19 April		Consensus	Previous
US			
14:30	Initial Jobless Claims	230k	233k
14:30	Continuing Claims	1845k	1871k
14:30	Philadelphia Fed Business Outlook (Apr)	21.0	22.3
16:00	Leading Index (Mar)	0.3%	0.6%
UK			
10:30	Retail Sales Ex Auto Fuel MoM / YoY (Mar)	-0.4%/1.4%	0.6%/1.1%
10:30	Retail Sales Inc Auto Fuel MoM / YoY (Mar)	-0.6%/1.9%	0.8%/1.5%
Events			
Q1 Earnings	Novartis, Bank of New York (12:30), Procter & Gamble..		
10:30	Spain to Sell 0.45% 2022, 1.4% 2028 and 2.35% 2033 Bonds		
10:50	France to Sell 0% Feb2021, 0% Mar2023 and 1.75% Nov 2024 Bonds		
14:00	Fed's Brainard Speaks on Regulatory Reform		
15:30	Fed's Quarles Testifies on Supervision Before Senate Panel		
18:30	BoE's Cunliffe speaks in Washinton		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2.87	0.04		US	2.43	0.04	DOW	24748.07	-38.56
DE	0.53	0.02		DE	-0.57	0.01	NASDAQ	7295.236	14.14
BE	0.79	0.02		BE	-0.49	0.01	NIKKEI	22191.18	32.98
UK	1.41	-0.02		UK	0.85	-0.04	DAX	12590.83	5.26
JP	0.04	0.00		JP	-0.14	0.01	DJ euro-50	3490.89	12.98
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	0.03	2.79	1.24	Eonia	-0.3680	0.0000			
5y	0.38	2.85	1.38	Euribor-1	-0.3710	0.0000	Libor-1	1.8956	0.0000
10y	0.96	2.90	1.54	Euribor-3	-0.3280	0.0000	Libor-3	2.3554	0.0000
				Euribor-6	-0.2710	-0.0010	Libor-6	2.5013	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.2374	0.0004		EUR/JPY	132.69	0.32	CRB	202.97	3.59
USD/JPY	107.23	0.23		EUR/GBP	0.8712	0.0054	Gold	1353.50	4.00
GBP/USD	1.4203	-0.0085		EUR/CHF	1.1987	0.0035	Brent	73.48	1.90
AUD/USD	0.7784	0.0018		EUR/SEK	10.4003	0.0054			
USD/CAD	1.263	0.0079		EUR/NOK	9.6041	0.0029			

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