Sunrise

Friday, 28 April 2017

Rates: Dovish Draghi pushes European bonds higher

Today's trading may be interesting. Eco data may be slightly bond negative, but overwhelmed by geopolitical risk & weekend habit to de-risk positions, end-of month buying, technical consideration (Bund) and the impact of yesterday's ECB meeting (European bonds).

Currencies: Euro rebound blocked by soft Draghi comments

Yesterday, EUR/USD declined off the recent recovery top as ECB's Draghi dismissed calls for a policy normalization. Today , the EMU CPI and the US Q1 growth take center stage. There might be some further profit taking on the EUR/JPY and EUR/USD if sentiment on risk eases and if European bond yields decline further after yesterday's soft ECB speak.

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 nearly flat (Dow, S&P) to modestly higher (NASDAQ).** The S&P held within reach of the all-time highs but a retest didn't occur maybe as investors wanted to see results of Alphabet & Amazon and Q1 GDP.
- **Asian equities show modest to moderate losses overnight as geopolitical risks on North Korea flared up.** Trump said he sees chances of a major, major conflict with the country though he prefers a diplomatic solution.
- **A Saturday EU summit in Brussels** will serve as a stage for EU leaders to talk up unity and warn British officials against sowing division in the hope of securing a better exit deal. UK PM May said the rest of Europe will line up to oppose us.
- The **U.S. government will remain open, for a few days at least.** Lawmakers filed a 7-day stopgap spending bill that buys more time for them to cobble together an omnibus package. Trump says he will sign the bill if presented to him.
- **Brent oil had a rollercoaster ride**, threating the $50/barrel level on news Libya will restart two of its largest oil fields and doubts the OPEC production cuts will be enough to push inventories lower. However, **a spectacular rebound followed.**
- **Alphabet and Amazon spun out some earnings magic.** The former posted $20.12 billion in sales, above the $19.75 billion estimate, and profit topped consensus. Amazon beat by 40 cents and projected revenue that may exceed the consensus in Q2. Both shares skyrocket in after trading.
- **Busy calendar today** with EMU inflation, US, France and UK Q1 GDP releases and US Michigan consumer sentiment highlights going toward next week's FOMC meeting. European earning results include Barclays, Sanofi, RBS…

Rates

Draghi manages to avoid ECB exit speculation

ECB keeps policy including forward guidance unchanged

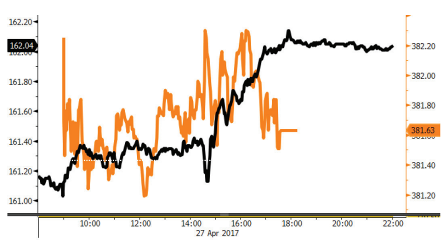
Bunds moved higher outperforming US Treasuries

Peripherals outperform Bunds modestly

Yesterday, German bonds largely outperformed US Treasuries, which did very little, as Mr. Draghi managed to avoid speculation on a nearby exit from its Asset Purchase Programme. Mr. Draghi called the recovery increasingly solid and tweaked very slightly the risk assessment on the growth outlook ("moving toward balanced"). However, that contrasted with his comments on inflation, where he saw no sustained increase in underlying inflation dynamics. **As inflation and not growth is the ECB mandate, as Mr. Draghi finely said, the ECB kept its policy unchanged, including its forward guidance and repeated that ongoing substantial monetary accommodation was needed and more could be done if conditions worsened. That was more dovish than expected. European bonds rose a bit during the press conference before stabilizing. Well after the end of the press conference, European bonds resumed their upswing to close with solid gains.** Equities moved broadly sideways after a weak opening and were temporarily slightly higher after the ECB decision and Mr. Draghi's comments. The euro lost little ground versus dollar and yen, despite the widening spread differential with the dollar.

	US yield	-1d
2	1.25	-0.02
5	1.82	-0.02
10	2.29	-0.02
30	2.96	0.00

In a daily perspective, the German yield curve declined by 4.7 bps (2-yr) to 5.7 bps (10-yr). Changes on the US yield curve varied between -1.4 bp (2-yr) and +0.4 bps (30-yr). **On intra-EMU bond markets**, 10-yr yield spreads narrowed modestly by 1 to 3 bps, Portugal outperforming (-6 bps).



Bund future (Black) & EuroStoxx (orange): Bund rises after Draghi's comments, but not at once while equities gain slightly before given back intra-day gains

Brent oil approached yesterday again crucial $50/barrel level, but stage an impressiver recoveruy. Market continue to doubt that production cuts will be enough to bring inventories lower.

Busy, interesting eco calendar to close the week.

	DE yield	-1d
2	-0,69	0,10
5	-0,35	0,09
10	0,33	0,01
30	1,07	0,03

EMU CPI risks on the upside

Q1 US GDP to disappoint, but nevertheless risks on upside

US Michigan consumer sentiment to stabilize at high level.

In EMU, HICP inflation is expected to rebound to 1.8% Y/Y for the headline and 1% Y/Y for the core in April from respectively 1.5 and 0.7% Y/Y in March. German CPI surprised on the upside due to service inflation components (linked to late Easter timing), which was the source of the downside surprise in March. Also Spanish inflation surprised on the upside. Therefore, **we think that EMU HICP risks are on the upside of consensus.** France, Spain and Belgium publish Q1 GDP figures, which allow us to get an idea about EMU growth during Q1. We expect solid figures which may be level or a tad higher than the solid Q4 of 2016 figures. **In the US, Q1 GDP and Michigan consumer sentiment** are the key releases. **Q1 GDP is expected at a disappointing 1% Q/Qa** following a 2.1% Q/Qa in Q4 of 2016. While we believe the **risks are on the upside of expectations**, Q1 growth will nevertheless be disappointing. It does so regularly in Q1 in the past years, suggesting a statistical quirk might be at work.

However, if confirmed markets won't dismiss it completely. **Michigan consumer sentiment is expected unchanged** at 98 in April. That would keep sentiment near the cycle highs. The Conference Board measure of consumer confidence dropped in April, but had risen more than the Michigan in past months. Therefore, **we stick to the consensus view of a stabilization.**

Bonds to go higher today?

R2	163.99	-1d
R1	162.49	
BUND	161.96	0.77
S1	158.73	
S2	158.28	

Risk sentiment is slightly negative overnight. Geopolitical risks surrounding N-Korea spook the equity market, even as Japanese data were mixed and neutral. The yen is a little stronger and US Treasuries are modestly higher. We expect the Bund to open little changed.

The dovish comment of Draghi gave bond bulls some respite after last Sunday's French presidential elections. Looking forward, the eco data might be influential. EMU inflation might surprise on the upside and US Q1 GDP is expected so weak that an upward surprise looks likely. The former is a negative for bonds and may be a wake-up call suggesting that yesterday's ECB meeting might have been the last one in favour of bond bulls. However, also higher US GDP is a bond negative, even if we still expect it to be weak. However? Doubts on its reliability may linger on. Two factors are bond positive. Some end of month extension buying and geopolitical risks ahead of the long weekend. Bunds and Treasuries have space to move higher without encountering key resistance and the Bund may need to close the gap (close before French elections 162.49). So, we position for a bond friendly session today , but without technical implications.

Technically and in a longer term perspective, the US 5- and 10-yr yield **recaptured lost support levels (1.8% and 2.3% respectively), which allows them to turn higher in the old trading bands** as the Fed prepares another rate hike in June and will start to run-off its balance sheet before the end of the year. The German 10-yr yield is already back in its old 0.2%-0.5% trading range as markets no longer discount a Frexit tail risk. However, today may be different.

German Bund: Nice rebound on Draghi. Technically not relevant , but gap may need to be closed before some renewed downward action may occur.

US Note future: showed less upside in past days, suggesting ST low (125-06+) is still a possibility, but end of month buying, geopolitical risks and weak GDP may protect downside today.

Currencies

Euro rebound blocked after ECB press conference

EUR/USD declines off the 1.09 area as Draghi remains dovish

R2	1.13	-1d
R1	1.1145	
EUR/USD	1.0865	-0.0037
S1	1.0778	
S2	1.0341	

EUR/USD and USD/JPY are holding tight ranges as Asian equities fall prey to modest profit taking

On Thursday, the Trump tax plan didn't provide clear guidance for the dollar. The focus for euro trading turned to the ECB's press conference. ECB's Draghi kept a balanced message. Good growth is counterbalanced by soft underlying inflation. So, for now, there is no strong enough reason for FX markets to anticipate early steps to policy normalisation. The interest rate differential between the dollar and the euro widened. EUR/USD dropped from 1.09 to the mid 1.08 area and closed the session at 1.0873. USD/JPY held a sideways range in the lower half of 111.

Overnight, Asian equities are ceding modest ground even as some tech bellwethers in the US posted strong results after the close. Geopolitical tensions (North Korea) an end of month profit taking are probably to blame. Japanese eco data were mostly good, confirm a further gradual recovery, but the CPI data remained soft. The yen trades little changed. USD/JPY still holds a tight range in the low 111 area. EUR/USD maintains yesterday's post-ECB decline and trades around 1.0865.

EMU inflation and US Q1 GDP key data today

Soft Draghi speak might inspire some further euro profit taking

Today, the eco calendar is again well filled. EMU April HICP inflation is expected to rebound to 1.8% Y/Y for the headline and 1% Y/Y for the core from respectively 1.5 and 0.7% Y/Y in March. We see upside risks as German and Spanish CPI surprised on the upside. France, Spain and Belgium publish Q1 GDP figures. We expect solid figures. **In the US, Q1 GDP, Michigan consumer sentiment** and the Chicago PMI will be published. **Q1 GDP is expected at a meagre 1% Q/Qa**. Q1 US growth will be disappointing, but **risks are on the upside of expectations.**

In a daily perspective, the eco data might be mixed for EUR/USD trading. Of late, higher EMU price data had the potential to support the euro, but the figure shouldn't come as a surprise. At the same time, markets look convinced by yesterday's soft ECB inflation assessment. **If sentiment on risk would turn a bit softer (end of month profit taking?) and if European yields decline a bit further after yesterday's soft ECB speak, EUR/JPY and the EUR/USD might lose some further ground.** A cautious risk sentiment might also be a slightly negative for USD/JPY. So, the topside in EUR/USD looks a bit better protected after this week's rally.

EUR/USD rebound running into resistance as ECB's Draghi dismisses calls for early policy normalization

USD/JPY: rebound slows

This week, FX trading was **driven by the global risk trade as (European) political event risk eased.** This supported USD/JPY but also EUR/USD and EUR/JPY. Market speculation that the decline in EMU political event risk could bring forward the ECB normalisation process supports the euro, too. However this hope is erased, at least temporary, after ECB's Draghi's press conference yesterday. **From a technical point of view,** the rebound of USD/JPY suggests a bottoming out process might have started, but the pair needs to regain the 112.20 level (neckline ST double bottom) to improve the picture. **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 French election and set minor new highs. We look out how this test turns out. If EUR/USD would regain the 1.10 barrier, next resistance comes in in the 1.1145/1.13 area (US pre/post-election swings). The jury is still out, but we are not convinced that the time is already ripe for a sustained break higher of EUR/USD.**

EUR/GBP eases after this week's rebound

R2	0.8881	-1d
R1	0.8854	
EUR/GBP	0.8419	-0.0052
S1	0.8314	
S2	0.8304	

Sterling already received a better bid on Wednesday and the rebound continued on Thursday. We didn't see any specific story behind move. Cable jumped temporary north of 1.29 and then settled near the big figure. EUR/GBP drifted back south to the 0.8450 area. **At noon, the CBI reported sales were very strong at a multi month high, supported by good weather conditions.** The report was sterling supportive, but sterling had already realized an important part of its intraday gains at the time of the publication. In the afternoon, EUR/GBP trading joined the euro decline after the ECB press conference. The pair closed the session at 0.8425 (from 0.8487). Cable finished the session at 1.2904.

Overnight, GFK consumer confidences declined slightly from -6 to -7, in line with expectations. **Today,** the first estimate of the Q1 UK GDP will be published. An easing of growth to 0.4% Q/Q from 0.7% Q/Q is expected. A soft report shouldn't come as a surprise for markets and only the details from the supply side will be available. **So given the GBP positive momentum, we don't expect a strong negative sterling reaction.** A softer euro might also weigh slightly on EUR/GBP.

EUR/GBP correcting lower .as post-Macron rebound peters out

GBP/USD holds near the recent top.

Early last week, EUR/GBP dropped below EUR/GBP 0.84 support, (temporary) improving the sterling picture. The pair came within reach of the key 0.8305 support (Dec low), but no real test occurred. After this week's rebound, the range bottom is better protected. Longer term, Brexit-complications remain a potential negative for sterling. **Nevertheless on technical considerations we are inclined to reconsider a cautious EUR/GBP buy-on-dips approach.**

Calendar

Friday, 28 April		Consensus	Previous
US			
14:30	Employment Cost Index (1Q)	0.6%	0.5%
14:30	**GDP Annualized QoQ (1Q A)**	**1.0%**	**2.1%**
14:30	Personal Consumption (1Q A)	0.9%	3.5%
14:30	GDP Price Index (1Q A)	2.0%	2.1%
14:30	Core PCE QoQ (1Q A)	2.0%	1.3%
15:45	**Chicago Purchasing Manager (Apr)**	**56.2**	**57.7**
16:00	**U. of Mich. Sentiment (Apr F)**	**98.0**	**98.0**
Japan			
01:30	Jobless Rate (Mar)	A 2.8%	2.8%
01:30	Job-To-Applicant Ratio (Mar)	A 1.45	1.43
01:30	Overall Household Spending YoY (Mar)	A -1.3%	-3.8%
01:30	Tokyo CPI YoY (Apr)	A -0.1%	-0.4%
01:30	Tokyo CPI Ex-Fresh Food YoY (Apr)	A-0.1%	-0.4%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Apr)	A-0.1%	-0.2%
01:50	Retail Sales MoM / YoY (Mar)	A 0.2/2.1%%	0.3%/0.2%
01:50	Industrial Production MoM / YoY (Mar P)	A -2.1%/3.3%	3.2%/4.7%
07:00	Housing Starts YoY (Mar)	-2.6%	-2.6%
07:00	Annualized Housing Starts (Mar)	0.955m	0.940m
UK			
01:01	GfK Consumer Confidence (Apr)	A-7	-6
01:01	Lloyds Business Barometer (Apr)	A 47	35
10:30	BBA Loans for House Purchase (Mar)	42000	42613
10:30	**GDP QoQ / YoY (1Q A)**	**0.4%/2.3%**	**0.7%/1.9%**
10:30	Index of Services MoM / 3M/3M(Feb)	0.3%/0.5%	-0.1%/0.6%
28APR-03MAY	Nationwide House PX MoM / NSA YoY (Apr)	0.1%/3.3%	-0.3%/3.5%
EMU			
10:00	**M3 Money Supply YoY (Mar)**	**4.7%**	**4.7%**
11:00	**CPI Estimate YoY (Apr)**	**1.8%**	**1.5%**
11:00	**CPI Core YoY (Apr A)**	**1.0%**	**0.7%**
Germany			
08:00	Retail Sales MoM / YoY (Mar)	0.0%/2.2%	1.8%/-2.1%
08:00	Import Price Index MoM / YoY (Mar)	-0.1%/6.5%	0.7%/7.4%
France			
07:30	GDP QoQ / YoY (1Q A)	0.4%/0.9%	0.4%/1.1%
08:45	CPI EU Harmonized MoM / YoY (Apr P)	0.1%/1.4%	0.7%/1.4%
Italy			
11:00	CPI EU Harmonized MoM / YoY (Apr P)	0.5%/1.6%	1.8%/1.4%
Spain			
09:00	Retail Sales SA YoY (Mar)	0.4%	0.0%
09:00	GDP QoQ / YoY (1Q P)	0.7%/2.9%	0.7%/3.0%
Belgium			
15:00	GDP SA QoQ / YoY (1Q P)	--/--	0.5%/1.2%
Events			
Q1 Earnings	Barclays (08:00), GM (13:30), Exxon (14:00), Chevron (14:30),…		
10:00	**ECB Survey of Professional Forecasters**		
20:30	Fed's Harker Speaks in Washington		

10-year	td	-1d		2-year	td	-1d	Stocks	td	-1d
US	2.29	-0.02		US	1.25	-0.02	DOW	20981.33	6.24
DE	0.30	-0.06		DE	-0.74	-0.05	NASDAQ	6048.937	23.71
BE	0.77	-0.06		BE	-0.56	-0.06	NIKKEI	19196.74	-55.13
UK	1.06	-0.02		UK	0.07	-0.02	DAX	12443.79	-29.01
JP	0.02	0.00		JP	-0.20	0.00	DJ euro-50	3563.29	-15.42

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0.05	1.71	0.62	Eonia	-0.3620	0.0010			
5y	0.19	1.93	0.78	Euribor-1	-0.3730	0.0000	Libor-1	0.9928	0.0006
10y	0.78	2.26	1.13	Euribor-3	-0.3290	0.0000	Libor-3	1.1718	0.0014
				Euribor-6	-0.2480	0.0000	Libor-6	1.4311	0.0075

Currencies	td	-1d	Currencies	td	-1d	Commodities	td	-1d
EUR/USD	1.0865	-0.0037	EUR/JPY	120.8	-0.48	CRB	180.49	-1.22
USD/JPY	111.18	-0.07	EUR/GBP	0.8419	-0.0052	Gold	1266.30	-2.10
GBP/USD	1.2905	0.0036	EUR/CHF	1.0811	-0.0023	Brent	51.97	0.34
AUD/USD	0.7474	-0.0011	EUR/SEK	9.6063	0.0480			
USD/CAD	1.3641	0.0090	EUR/NOK	9.3098	-0.0467			

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