



Sunrise

Friday, 19 May 2017

Rates: Cautiousness remains warranted, but 2.16% should hold

Risk sentiment will remain key for trading. Ahead of the weekend, cautiousness could be warranted (positive core bonds) with investors waiting on new developments in the Trump affaire. The US Note future tested the contract high (126-20) yesterday (2.16% support for US 10-yr yield), but a break higher didn't occur. Time to enter new short positions?

Currencies: Dollar decline slows, but no sustained rebound yet

The USD decline slowed yesterday as US tensions became less intense. The equity performance will probably guide USD trading short-term. Some ST consolidation might be on the cards. Cable failed to sustain north of 1.30 after strong UK retail sales, suggesting some underlying sterling softness.

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 stocks recovered from opening weakness** to end around 0.3% higher with Nasdaq outperforming (+0.75%). **Overnight**, most Asian stock markets eke out small gains in subdued trading.
- **President Trump said that the “witch hunt” should be quickly brought to a close**, but the appointment of a special counsel and recent grand jury subpoenas suggest a federal probe is expanding to other suspicious activity and countries.
- **The ECB should use its June meeting to start building the case for unwinding its monetary stimulus** before making an announcement in the fall, according to Governing Council member **Vasiliauskas**.
- **Cleveland Fed Mester** said that financial-market volatility has not affected her economic outlook and the **US central bank prefers to look through short-term swings in markets as it guides monetary policy**.
- **Greece’s Parliament approved a raft of fresh austerity measures and economic reforms** that the country must implement in the next four years to unlock a much-needed cash payment to meet upcoming debt obligations.
- **Mexico’s central bank defied most market expectations and lifted its key lending rate by 0.25 point to 6.75%**, after inflation surged past its target range last month. The increase is the sixth in a row and the eighth since February 2016
- **Today’s eco calendar** only contains EMU consumer confidence. ECB Praet, ECB Constancio, Fed Bullard and Fed Williams are scheduled to speak.

Rates

	US yield	-1d
2	1,28	0,01
5	1,78	0,01
10	2,24	0,00
30	2,91	-0,02

German curve flattens slightly

US yields modestly higher

Peripheral spreads calm

	DE yield	-1d
2	-0,70	0,00
5	-0,37	-0,02
10	0,34	-0,03
30	1,17	-0,03

EMU consumer confidence only eco release

ECB & Fed speakers wildcards for trading

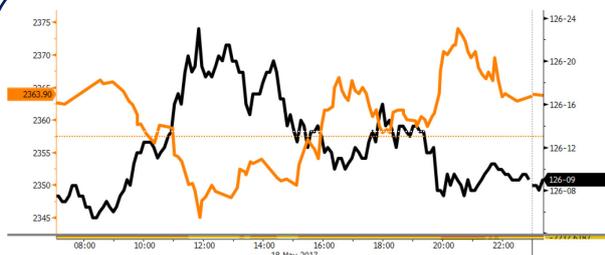
Bond rally aborted, as equities find their composure

Global core bonds continued to profit from risk aversion during yesterday's European session. A Reuters report said that Trump's campaign had 18 contacts with the Russians and might have been the driver. Sources also said that these contacts didn't contain a smoking gun though (unlawful behaviour). **The trading context turned bond negative in the US session and, helped by very strong US initial claims and a Philly Fed manufacturing survey. There was some bottom fishing in the equity markets too. Core bonds slid lower during the remainder of the day as equities grinded modestly higher.** The US curve flattened on higher rate hike expectations with yield changes ranging between +3.6 bps (2-yr) and -2 bps (30-yr). German bonds had still some catching up to do. Yields fell between 1 bp and 3 bps, flattening the curve. **On intra-EMU bond markets, 10-yr yield spread changes versus Germany widened by 2 to 4 bps, with Greece underperforming (+11bps). Conclusion of the day: markets await further developments and are not ready to front-run on future political developments.**

ECB and Fed governors wildcard for trading

The eco calendar is paper-thin to end the trading week with only EMU consumer sentiment. A slight further improvement is expected. As market turmoil cannot yet be included in the survey results, we side with consensus. More important might be **speeches by ECB Praet and Constancio and Fed governors Bullard and Williams.** However, in times of market turmoil, central bankers normally avoid themes like the exit policy (ECB) or rate hikes/balance sheet tapering (Fed). Nevertheless **Cleveland Fed Mester** yesterday said that financial market volatility has not affected her economic outlook so far. The Fed should look through the current market turmoil. She stands with her rate projections that include a June hike and a start of the tapering. **We agree that the June hike is a done thing unless a big event happens, but what about the Fed's next steps? These could be affected if political upheaval still increases and affects the economic outlook. We listen closely to especially Fed Williams, whose policy stance is often close to Yellen's. Especially on the balance tapering, he might be influential.**

While Praet and Constancio are heavyweights inside the ECB, it looks like the debate about the direction of policy is still open and will take place at the June meeting. **ECB Vasiliauskas** said the ECB should use the June meeting to start building the case for an unwinding of stimulus before making an announcement in September. Once more, we agree with the Lithuanian central banker.



T-Note future (black) and S&P future (orange) intraday: Calm returns during US session



10-yr Inflation expectations: Are US expectations rolling over?

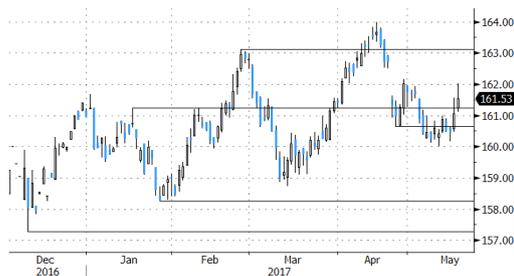
R2	163,99	-1d
R1	162,49	
BUND	161,46	0,22
S1	158,73	
S2	158,28	

Cautiousness remains warranted, but 2.16% should hold

Overnight, trading calmed as WS managed to recover a small part of Wednesday's losses. There are no new breaks in the investigation into Trump's campaign's ties with Russia. Main Asian bourses gain around 0.2%. The US Note future steadies, suggesting a neutral opening for the Bund. Greek parliament approved additional reform measures, necessary to unlock the next aid tranche and positive for Greek bonds in a daily perspective.

Today's eco calendar contains only EMU consumer confidence which won't impact trading. ECB and Fed speakers are wildcards as we look for clues going into a potentially key June policy meetings. A rift between ECB members is opening up on whether or not the central bank should give markets a heads up on the sensitive issue of its exit policy. US central bankers could give the go ahead for a June rate hike despite recent market turmoil (eg Mester, see above).

Given this thin eco calendar, **risk sentiment will remain key for trading.** Ahead of the weekend, cautiousness could be warranted (positive core bonds) with investors waiting on new developments in the Trump affaire. The US stock market correction has further to go from a technical point of view (S&P: 2325). **The US Note future tested the contract high (126-20) yesterday (2.16% support for US 10-yr yield), but a break higher didn't occur. Once the dust settles, we would use those levels to enter new short position, given that we're on the brink of another Fed rate hike (June 14).**



German Bund: Waiting on new impetus ahead of ECB meeting



US Note future: Trump affaire gets grip on trading, lifting US Treasuries short term with a test of 126-20 resistance. Time to enter new short positions?

Currencies

Dollar rebounds as Trump sell-off slows

Dollar stays off the recent lows, but struggles to make further headway.

Eco calendar is almost empty

ECB/Fed speakers remain a wildcard.

Will Trump move temporarily to the background?

R2	1,13	-1d
R1	1,1172	
EUR/USD	1,1112	-0,0029
S1	1,0778	
S2	1,0341	

USD decline slows

On Thursday, European markets initially stayed in modest in risk-off modus, but the risk-off trade had no additional negative impact on the dollar. Interest rate differentials turned slightly in favour of USD. The US eco data were also better than expected. Later in the session, US equities even recouped a small part of Wednesday's losses, squeezing the dollar higher. EUR/USD closed the session at 1.1103 (from 1.1159). USD/JPY finished the session at 111.49 (from 110.83).

Overnight, Asian equities are trading slightly higher, reversing earlier losses. The immediate stress from the Trump crisis is easing. For now, the fall-out from the Brazil crisis on other Emerging markets looks contained. **The cautious risk-rebound is no big help for the dollar.** USD/JPY is going nowhere and trades currently in 111.40 area. EUR/USD is holding a tight range in the low 111 area. Markets look for new impetus.

Today, there are no US data and only second tier ones in the EMU. Markets will keep an eye at the speeches from ECB' Praet and Constancio and Fed governors Williams and Bullard. We expect the ECB speakers to take a guarded approach as the internal debate on the communication at the June ECB meeting is still ongoing. The Fed speakers won't question the case for a June rate hike. Remarks on the tapering of the balance sheet remain interesting, but the impact on USD trading will be limited. **The dynamics of equities will probably remain the key driver for FX trading.**

In an daily perspective, some further consolidation might be on the cards, both for equities and for the dollar. Markets haven't made up their mind on the LT impact of the recent developments.

In a longer term perspective, we maintain the working hypothesis that recent turmoil makes it more difficult for US equities to extend the record rally. Maybe, we entered a sell-on-upticks market. At the same time, a June Fed rate hike is not in question and US yields are near important support levels. So, the dollar shouldn't lose that much interest rate support, even if sentiment on risk turns less buoyant. **In this context, we assume that a sustained rebound of USD/JPY has become tough short term.** A cautious sell-on-upticks approach is preferred. There is maybe more room for a ST rebound of the dollar against the euro. We remain sceptic on the safe haven characteristics of the euro if sentiment on risk would turn really risk-off.



EUR/USD: euro breaks topside of the ST range but the rally is slowing.



USD/JPY: Trump-decline slows, but technical picture remains fragile

Technical picture.

The USD/JPY rebound ran into resistance last week. Initially, it was no more than a correction, but Wednesday's sell-off/re-break below the 112.20 previous top aborted the uptrend and made the short-term picture negative. Return action lower in the 108.13/114.37 range is possible.

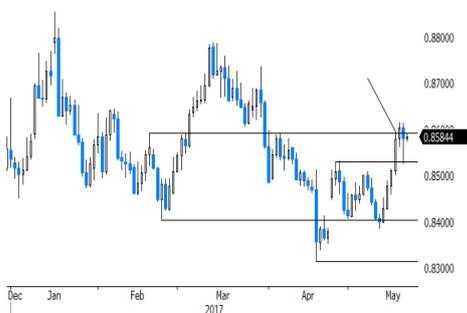
Last week, it looked that EUR/USD could revisit the 1.0821/1.0778 support (gap). However, Friday's US data and political upheaval finally propelled EUR/USD north the 1.1023 range top, improving the technical picture. **The correction tops at 1.1300/1.1366 is the next resistance. We think that USD sentiment will have to be extremely negative to clear this hurdle short-term. Further ST EUR/USD gains might become tougher. Yesterday's top at 1.1172 is a first reference. A return below 1.1023 would indicate that the upside momentum has eased.**

Cable fails to sustain gains north of 1.30

Yesterday, sterling showed two faces. Initially, sterling rebounded after very strong UK April retail sales. **The report eased recent fears that a decline in real income due to higher inflation could weigh on domestic spending.** EUR/GBP dropped from the 0.86 area to fill bids around 0.8525. Cable finally cleared the 1.30 barrier and came close to the 1.3050 area. However, sterling couldn't maintain the positive momentum. Especially cable was hit hard by a USD up-tick during the US trading session. **We don't see high profile UK news to explain the manifest underperformance of sterling.** The pair dropped to the 1.29 area and closed the session at 1.2938. EUR/GBP finished the session at 0.8580.

Today, the CBI trends orders are expected stable at 4. The impact of the report will only be of intraday significance for sterling trading. Sterling might be slightly more sensitive to a weak report rather than to a strong one. **Of late, the positive sterling sentiment eased and euro strength prevailed in EUR/GBP trading.** The pair bottomed out with 0.84/0.8330 as a solid bottom. The breach of 0.8509/31 (previous ST tops) improved the technical picture. For now, we stick to the EUR/GBP uptrend **even as the euro rebound might slow short-term.** Longer term, Brexit remains potentially negative for sterling.

R2	0,8881	-1d
R1	0,8854	
EUR/GBP	0,8580	-0,0020
S1	0,8314	
S2	0,8304	



EUR/GBP: jumps north of ST range top



GBP/USD jumps temporary north of 1.30, but gains prove difficult to sustain

Calendar

Friday, 19 May		Consensus	Previous
Canada			
14:30	Retail Sales MoM (Mar)	0.3%/	-0.6%
14:30	CPI NSA MoM / YoY (Apr)	0.5%/1.7%	0.2%/1.6%
UK			
12:00	CBI Trends Total Orders (May)	4	4
12:00	CBI Trends Selling Prices (May)	29	29
EMU			
10:00	ECB Current Account SA (Mar)	--	37.9b
16:00	Consumer Confidence (May A)	-3.0	-3.6
Germany			
08:00	PPI MoM / YoY (Apr)	0.2%/3.2%	0.0%/3.1%
Belgium			
15:00	Consumer Confidence Index (May)	--	0
Events			
11:00	ECB's Praet Moderates Panel at Conference in Brussels		
14:00	ECB's Constancio Speaks at Conference in Brussels		
15:15	Fed's Bullard to Speak about U.S. Economy and Monetary Policy		
19:40	Fed Williams Speaks to High School in San Francisco		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,24	0,00		US	1,28	0,01		DOW	20663,02	56,09
DE	0,34	-0,03		DE	-0,70	0,00		NASDAQ	6055,13	43,89
BE	0,75	-0,04		BE	-0,52	-0,01		NIKKEI	19590,76	36,90
UK	1,06	-0,01		UK	0,11	-0,01		DAX	12590,06	-41,55
JP	0,04	-0,01		JP	-0,16	0,00		DJ euro-50	3562,22	-22,61
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	-0,05	1,64	0,62	Eonia	-0,3620	-0,0030		Libor-1	1,0036	0,0044
5y	0,19	1,85	0,77	Euribor-1	-0,3710	0,0000		Libor-3	1,1784	-0,0028
10y	0,79	2,17	1,13	Euribor-3	-0,3310	0,0000		Libor-6	1,4141	-0,0064
				Euribor-6	-0,2510	0,0000				
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>		Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1,1112	-0,0029		EUR/JPY	123,74	-0,17		CRB	182,51	-0,74
USD/JPY	111,35	0,12		EUR/GBP	0,8580	-0,0020		Gold	1248,70	-11,00
GBP/USD	1,2951	-0,0003		EUR/CHF	1,0895	-0,0029		Brent	52,91	0,85
AUD/USD	0,7426	-0,0037		EUR/SEK	9,7763	0,0366				
USD/CAD	1,3594	-0,0022		EUR/NOK	9,4044	0,0142				

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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