



Sunrise

Monday, 20 March 2017

Rates: More sideways trading?

Core bonds gained some ground on Friday and traded slightly higher in Asia, but in absence of Japanese traders (holiday). So, a slightly risk-off sentiment may dominate at the start of European trading. However, with the eco and event calendar nearly empty, we bet on a sideways oriented session maybe with a slight upward bias.

Currencies: Dollar still looking for a post-Fed bottom

On Friday, US consumer confidence was ok, but failed to change fortunes for the dollar. This morning, sentiment is slightly risk-off as the G-20 didn't repeated its intention to avoid all kinds of protectionism. The risk-off sentiment might continue to weigh somewhat on core yields. In context, the dollar might remain in the defensive.

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 closed Friday's session flat to marginally** lower in dull, be it volatile, trading. **Asian equities trade slower to mixed on disappointment about the G-20** inability to restate their rejection of all forms of protectionism.
- **Chinese housing prices** defied restrictions designed to cool the nation's property market. The cost of new homes gained in 56 of 70 urban areas last month, compared with 45 in January.
- The **G-20 couldn't say more about trade** in its statement than that it will "work to strengthen the contribution of trade". According to participants, US Mnuchin didn't have a mandate to negotiate new or creative wordings on trade policy.
- Moody's cut the outlook on **Turkey's Ba1 rating to negative**, citing persistent political uncertainty after last July's failed coup. **S&P raised Iceland's** rating to A from A- and **increased the Russian outlook** on its BB+ rating to positive.
- **S&P kept Portugal's BB+ rating, stable outlook** unchanged. A fragile banking system and high private/public debt are of concern, but the fiscal situation and growth improves. Only DBRS gives the country still an investment grade.
- **Trump followed his awkward meeting with Merkel** by slamming Germany on Twitter. "Germany owes vast sums of money to NATO & the US must be paid more for the powerful, and very expensive, defence it provides to Germany!"
- The **eco calendar is virtual empty today**. Only highlights are an **Eurogroup meeting** on amongst others Greece and speeches from **ECB Weidmann and Chicago Fed Evans**. Belgium holds an regular **OLO auction**.

Rates

US Treasury curve bull flattened going into the weekend

France slightly underperforms on election news

Short end Bund curve hit by Nowotny comments

Fed Kashkari explains his dissent

	US yield	-1d
2	1.31	-0.02
5	2.01	-0.03
10	2.49	-0.04
30	3.10	-0.04

	DE yield	-1d
2	-0.77	0.02
5	-0.33	-0.04
10	0.43	-0.04
30	1.17	-0.05

ECB Weidmann & Fed Evans to speak

Eurogroup on Greece Production to have rebounded

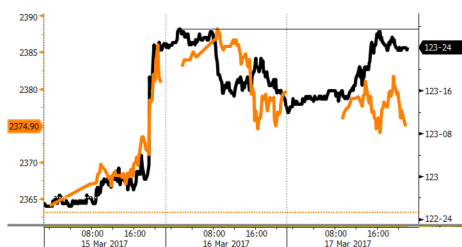
Core bonds gain ground ahead of the weekend

On Friday, global core bonds rebounded modestly after Thursday's post FOMC profit taking and ahead of the weekend. The move of the US Treasuries was partly technically, as the 5s and 10s re-tested the 2% and 2.5% yield supports (post FOMC lows), but no break occurred. There was a small temporary dip on mixed US production data and a slight acceleration higher after the Michigan consumer sentiment report. The latter showed buoyant consumer sentiment, but the market concentrated on the lower inflation sub-indices. **In a daily perspective, the US yield curve bull flattened** with yields down 1.7 bp (2-yr) to 4.1 bps (30-yr). The German yield curve flattened as yield changes ranged between +1.8 bps (2-yr) and -3.1 bps (30-yr). **On intra EMU bond markets**, 10-yr yield spreads versus Germany are nearly unchanged with France (+3 bps and Greece (+5 bps) slightly underperforming.

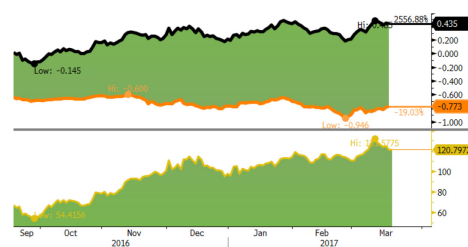
The short end of the German yield curve underperformed Friday on Thursday's eve comments of **ECB Nowotny** who said "the ECB could hike (deposit) rates before the end of QE". Minneapolis **Fed Kashkari** explained why he dissented at last week's Fed meeting. He wants policymakers to release a detailed balance sheet reduction plan before the next rate hike. **He fears that markets will react in a hawkish way on such plan, which could trigger tighter conditions and be a substitute for a rate hike.** The central bank is still missing its 2% inflation target and may not have reached full employment, suggesting a somewhat accommodative policy would still be appropriate, he added.

Thin calendar to start the trading week

The **eco calendar** is completely empty. Regarding events, the Belgian debt agency auctions two OLO lines (see below) and the **Eurogroup meets on Greece, pension systems, the budgetary plans and the implementation of the Stability and Growth path.** On Friday, Greece FM Tsakalotos held a teleconference with its creditors to narrow differences ahead of the Eurogroup meeting. He expects to reach a holistic deal by April 7 Eurogroup meeting. It could open the road for inclusion in the ECB's QE programme. The problem is complicated though by signals the US is critical about IMF participation. **ECB Weidmann** speaks, as does **Chicago Fed Evans.** Evans comments are interesting as, besides Yellen, he is the second Fed president to speak since the FOMC meeting. Evans (voter) has an dovish profile and we put him by the three members whose rate projection for 2017 are below the median 1.375% projection. More specific, we think he put 2 rate hikes for 2017, while governors Kashkari and Bullard are still a bit more dovish with one hike each (which has materialized).



T-Note future (black) & S&P future (orange) (3 days, intraday): T-Note rebounds Friday after profit taking Thursday, but cannot break through post FOMC high.



German 2-yr- and 10-yr yields and spread: Spread narrowing as 2-yr yield rises, partly on fears of earlier than expected rate hike

R2	164.40	-1d
R1	163.12	
BUND	159.95	0.59
S1	158.28	
S2	157.28	

Neutral Belgian OLO auction?

The Belgian debt agency taps on the run 10-yr OLO 80 (2.6% Jun2027), on the run 20-yr OLO 76 (1.9% Jun2038) and off the run OLO 60 (4.25% Mar2041) for a combined €2.7-3.2B. Year-to-date, the debt agency already completed more than 1/3rd of its stated OLO funding plan (€35B) thanks to three new syndicated benchmark deals. The bonds on offer cheapened slightly in ASW spread terms going into the auction. The Jun2027 OLO is rather cheap on the Belgian curve, while the other two bonds trade normal. From a relative point of view, Belgian debt is the most expensive from the “semi-core” (France, Ireland, Slovakia) and considered a close proxy for France. With French elections approaching, we expect neutral demand. **Slovakia sells 1.375% 2027 and 0% 2023 bonds today.**

Consolidation in absence of key eco releases or events?

Overnight, Asian equities (excl. Japan) open the week weaker to mixed but without any firm intra-day direction. US Treasuries are slightly higher in thin conditions, while the dollar is somewhat weaker. The G-20 meeting is the risk-off driver, as several FM left the meeting frustrated over Trump’s rejection of the long-held trade doctrine. The statement dropped a pledge to avoid all forms of protectionism.

Today’s, calendar contains no economic reports of importance. ECB Weidmann and Chicago Fed Evans speak. Their comments are interesting, but unlikely to be market moving. The calendar sets the stage for a thinly-traded, sentiment driven bond session. The negative sentiment coming from the G-20 may favour core bonds, but we are sceptical it will be a lasting dominant theme in the bond markets today. Later this week, the calendar remains is thin, but central bank speakers are plentiful. Technically, US yields failed to break key resistance levels in the run-up to the Fed-meeting and suffered a setback afterwards. **We expect the US 10-yr yield to trade in the 2.3%-2.64% range, perhaps even until after the French presidential elections. In the near-term, the US Note future probably has more upward potential. Our scenario remains for 4 rate hikes in 2017.**

Last’s ECB meeting and Bund sell-off comforted our call that another “calibration” of the ECB’s QE programme will happen in H2 2017. Therefore, we have a long term bearish view on Bunds as well. Technically, the German 10-yr yield moved at a rapid pace from the 0.2% lower bound of the sideways range towards the 0.5% upper bound, but a break didn’t occur. **Like in the US, we expect range trading ahead of the French elections.**



German Bund: Sideways range trading till the French presidential elections?



US Note future: Despite rate hike, the T-Note future couldn’t sustain below 123 (2.64% 10 yr yield) setting the stage for more return action in the range.

Currencies

USD correction continues

USD still look for a bottom

Dollar holding near the march lows against the euro and the yen

Cautious risk-off weighs on the dollar

R2	1.1145	-1d
R1	1.0874	
EUR/USD	1.0771	-0.0008
S1	1.0341	
S2	1.0000	

Eco calendar is almost empty

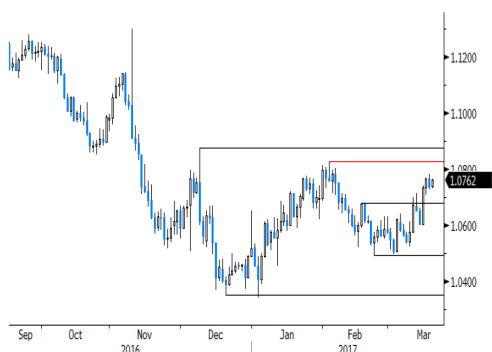
Dollar on the defensive as risk-sentiment turns slightly risk-off

On Friday, US eco data, including the Michigan consumer confidence were OK, but not strong enough to change USD sentiment for the better. Interest rate differentials were still marginally supportive for the euro. Post-Fed USD softness persisted. EUR/USD finished the session at 1.0738 from 1.0766 on Thursday. USD/JPY closed at 112.70 (from 113.31).

Overnight, Asian equities are trading with a slight risk-off bias. This is due to the G20 disappointment. The communiqué doesn't say anymore that the G-20 will intend to avoid all forms of protectionism, mirroring the US shift to more protectionism. Japanese markets are closed today. Even so, **USD/JPY remains under pressure from ongoing overall USD weakness**. USD/JPY trades around 112.60, near the lowest level this month. EUR/USD is trading around 1.0765. So, the post-Fed top (1.0782) remains also within reach. After a pause in the second half of last week, the oil price is again under pressure as supply concerns remain present.

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Last week, USD yields and the dollar drifted south even as the Fed hiked its rates. At the same time, the euro was well bid as markets pondered the chances of an early change in the ECB policy after hawkish comments from ECB's Nowotny. In a longer term perspective, policy divergence between the Fed and the ECB will probably remain big enough to support further USD gains. Yellen suggested that, considering the eco developments, the Fed policy might be relatively close to the 'dot-path'. **The day-to-day USD momentum remains soft though. A cautious risk-off sentiment and a further decline of oil might keep the dollar on the defensive short-term as there are no important US eco data/events to turn momentum in favour of the dollar. So, short-term are in no hurry to the jump in to add to USD long exposure. We wait for strong enough US data that might put a floor on the current USD correction.**



EUR/USD holding near ST top as dollar softness persists



USD/JPY: USD momentum remains fragile post-Fed

Global context. EUR/USD 1.0874 resistance remains the line in the sand with intermediate resistance at 1.0829. We maintain the view that a sustained break of EUR/USD above this area will be difficult. The US/German (EMU) interest rate differential remains at an absolute high level. Especially at the short end of the curve, the differential might even re-widen. **The fundamentals/ interest rate differentials are also supportive for USD/JPY, but of late the momentum/technical picture is not really convincing. We maintain the working hypothesis that the 111.60 range bottom should hold.**

Political uncertainty to cap GBP rebound?

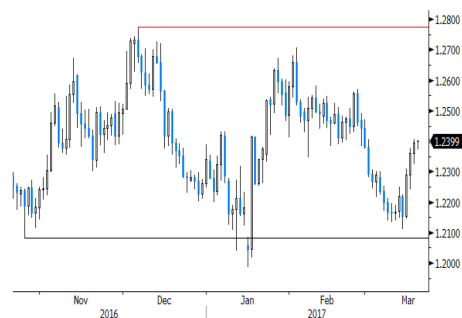
R2	0.8881	-1d
R1	0.8854	
EUR/GBP	0.8675	-0.0041
S1	0.8592	
S2	0.8304	

On Friday, there were no eco data in the UK. Trading in sterling was order-driven and technical in nature. Cable showed some erratic swings in the mid/high 1.23 big figure . The pair closed the session at 1.2396, near the intraday high. The rise in cable was at least partially due to USD softness. EUR/GBP reversed Tuesday’s late session rebound (Nowotny). So, from this point of view, sterling still maintained a cautious bid in the wake of Thursday’s (more hawkish) BoE policy statement. EUR/GBP finished the session at 0.8663 (from 0.8733 on Thursday).

Overnight, the **Rightmove House price measure** rose 1.3% M/M to be up 2.3% Y/Y. However, the improvement doesn’t help sterling. During the weekend, the debate on a **Scottish independence referendum** continues. A clash between London and Edinburgh highlights the higher number of institutional issues that could complicate the Brexit procedure. Sterling is reversing a (small) part of Friday’s rebound this morning. The cautious risk-off sentiment might be a slightly negative for sterling. There are no other important UK eco data today. So, political headlines (Scotland/Brexit) will remain in focus. **At the end of last week, both sterling and the euro were in good shape.** Some EUR/GBP consolidation might be on the cards. Despite Thursday’s somewhat more hawkish BoE approach, we don’t see a real risk for BOE tightening anytime soon. So, any rebound of sterling shouldn’t go too far.



EUR/GBP: post-BoE sterling rebound to slow as political uncertainty grows?



GBP/USD: rebounds on sterling strength and USD softness

Last week, the sterling decline took a breather. Some time ago, EUR/GBP **cleared the 0.8592 resistance, improving the MT technical EUR/GBP picture.** We don’t expect a sustained EUR/USD rebound, but a combination of temporary euro consolidation and ongoing sterling softness as the Brexit negotiations are nearing, might trigger some more ST EUR/GBP gains. The 0.8854 correction top is the next key resistance. The nervous swings over the previous days suggest that a clear break beyond 0.8854 will be difficult without important (UK negative) news.

Calendar

Monday, 20 March		Consensus	Previous
UK			
01:01	Rightmove House Prices MoM / YoY (Mar)	--/--	2.0%/2.3%
EMU			
11:00	Labour Costs YoY (4Q)	--	1.5%
Germany			
08:00	PPI MoM / YoY (Feb)	0.3%/3.2%	0.7%/2.4%
Events			
11:30	Belgium to sell 0.8% 2027, 1.9% 2038 & 4.25% 2041 bonds		
15:00	Eurogroup meeting on Greece		
17:45	Bundesbank President Weidmann speaks in Loerrach, Germany		
18:10	Fed's Evans Speaks on Economy and Policy in New York		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>	Stocks	<u>td</u>	<u>-1d</u>
US	2.49	-0.04		US	1.31	-0.02	DOW	20914.62	-19.93
DE	0.43	-0.04		DE	-0.77	0.02	NASDAQ	5900.997	0.24
BE	0.91	-0.03		BE	-0.47	0.00	NIKKEI	19521.59	0.00
UK	1.24	-0.01		UK	0.09	0.01	DAX	12095.24	12.06
JP	0.08	0.00		JP	-0.26	0.00	DJ euro-50	3448.41	8.45
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	0.02	1.84	0.73	Eonia	-0.3530	0.0010			
5y	0.27	2.12	0.93	Euribor-1	-0.3710	0.0000	Libor-1	0.9761	0.0333
10y	0.84	2.46	1.27	Euribor-3	-0.3290	0.0000	Libor-3	1.1518	0.0036
				Euribor-6	-0.2410	0.0000	Libor-6	1.4316	-0.0067
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>	Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1.0771	-0.0008		EUR/JPY	121.35	-0.81	CRB	184.48	0.44
USD/JPY	112.66	-0.66		EUR/GBP	0.8675	-0.0041	Gold	1233.80	6.40
GBP/USD	1.2416	0.0048		EUR/CHF	1.0730	-0.0010	Brent	51.53	-0.20
AUD/USD	0.7728	0.0038		EUR/SEK	9.4841	-0.0156			
USD/CAD	1.3314	-0.0002		EUR/NOK	9.0948	-0.0623			

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