



Sunrise

Monday, 22 May 2017

Rates: Some downside correction as risk sentiment improves?

Friday, equities continued their rebound and overnight Asian equity trading suggests some continuation today. With little on the calendar, we favour technical sentiment driven trading. Core bonds might come under some mild downward pressure. No key supports seem to be in danger.

Currencies: Dollar still doesn't profit from risk-rebound

On Friday, the Trump-tensions eased further, but the improved risk-sentiment didn't help the dollar. EUR/USD jumped to the 1.12 area. Today, global sentiment will again set the tone for USD trading. Will the dollar finally get some downside protection from higher yields and rising equities?

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 with good gains** and have now about halved the losses of earlier last week when president Trump came in problems. **Asian equities** start the week on a solid footing.
- **President Trump dialed back his criticism of Islam** while basking in a slew of praise from Gulf leaders during a visit to Saudi Arabia. Defence contracts worth about \$110 billion were announced. Today, he visits Israel, where the PM is set to ask him for tougher sanctions on Iran.
- The **ECB will need to "demonstrate backbone"** when price pressures increase again, ECB Weidmann said. "At the present time, it's indisputable that an expansive monetary policy is appropriate. **However, there are diverting views on the necessary degree of monetary expansion and on the instruments that we use**".
- **EU ministers have a busy day in Brussels, trying to clinch a deal on a Greece bailout while also laying out their Brexit negotiating positions.**
- **The U.K. will quit talks on leaving the European Union** unless the bloc drops its demands for a divorce payment as high as €100B, Brexit Secretary David Davis said. Britain's negotiations would otherwise be plunged into "chaos".
- **S&P affirmed the Dutch AAA rating, stable outlook.** It anticipates small budget surpluses over 2017/20 and a further reduction of the debt ratio.
- **OPEC and other producers agreed on extending oil output cuts by nine months**, according to Saudi's energy minister. "We think we have everybody on board," Khalid Al-Falih said. Brent oil traded overnight just above \$54/barrel.
- **Brazilian real and equities rose** as traders seem less sensitive to fresh news tied to JBS plea bargain deal. The **Supreme Court will on Wednesday** decide on Temer's request to suspend the inquiry until the authenticity of the clandestine recording be definitively verified.
- **The Market calendar is light.** The Eurogroup meeting, Trump's trip and speeches of Kashkari and Harker are the only events.

Rates

Core bonds digest well strong oil and equity run

Good run of equities and oil but....

....small impact on core bonds

Peripheral spreads narrow

Risk aversion gradually disappeared Thursday . Sentiment remained constructive on Friday resulting in a good run for equities. However, this affected core bonds only modestly negative and neither did rising oil prices or in the case of US Treasuries a weakening dollar. There were no new revelations on the Trump campaign and its links to the Russia, which explains the cautious return of equity buyers and bond sellers. ECB Coeuré sounded rather hawkish, while Fed Bullard was outspoken dovish, as he usually is currently (see Friday’s Sunset for more details), but neither could really impact the market.

	US yield	-1d
2	1.29	0.01
5	1.80	0.02
10	2.25	0.01
30	2.91	0.00

In a daily perspective, US yields rose an insignificant 0.2 bps (2-yr) to 0.8 bps (5-yr) with the 30-yr yield even down 0.4 bp. The German yields increased slightly more being up between 1.4 (2-yr) and 3.2 bps (30-yr), steepening the curve. On intra-EMU bond markets, 10-yr peripheral and semi-core yield spreads versus Germany narrowed 2 to 5 bps. The Greek spread narrowed 9 bps, which is disappointing, after the Greek parliament adopted measures that should pave the way for a conclusion of the second bailout review.

Thin calendar at the start of the trading

Empty calendar today

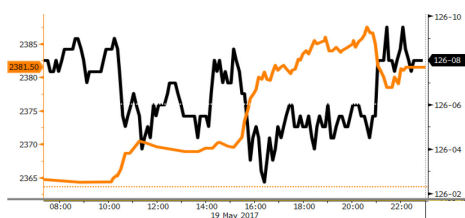
Light weekly eco calendar too

PMI's on Tuesday highlight

Lots of Central Bank speakers, but unlikely to move markets much

Only the Chicago National Activity index (no market mover) and speeches of Fed governors Harker and Kashkari figure on the markets calendar. The speeches cover no market-sensitive issues though. The Eurogroup meeting will discuss the progress Greece has made and whether the second review may be closed. Later this week, attention will focus on PMI business sentiment in US & EMU (Tuesday). The market expects EMU confidence to remain stable at lofty levels, while a modest improvement is expected for US confidence after some months of declining confidence. For the EMU, there is little else of key economic releases further out this week. In the US, the number of market movers is modest too. Some volatile housing data on Tuesday and Wednesday, the trade balance on Thursday and on Friday the revision of Q1 growth (outdated) besides the durable orders and Michigan consumer confidence. Regarding central bankers there are public appearances of ECB Draghi, Praet, Coeuré and Constancio. As the June 8 ECB meeting nears, it isn’t excluded that they start managing market expectations, but it looks to us that the debate inside the ECB on the outlook of that key meeting isn’t yet finished and thus they may disappoint. Plenty of Fed speakers this week, but aside of Brainard, the speakers are all regional governors and they most often speak about non-monetary policy items (including Brainard who speaks on inclusion). Therefore, the market may be mainly sentiment and event driven. The FOMC minutes on Wednesday may be interesting and shall be previewed on Wednesday.

	DE yield	-1d
2	-0.68	0.01
5	-0.35	0.02
10	0.39	0.05
30	1.21	0.04



T-Note future (black) and S&P future (orange) intraday: Equities had good run even if they closed off the intra-day highs. T-Note moves sideways in tight range



Brent oil continued its rebound on information the production cut extension is broadly supported by most OPEC member

Some correction lower on improved risk sentiment?

R2	163.99	-1d
R1	162.49	
BUND	161.23	-0.23
S1	158.73	
S2	158.28	

Overnight, the sentiment is risk-on. Asian equities are higher, following WS on Friday. Oil (and many other commodities) is higher as an OPEC production cut extension by 9 months seems in the pocket. Trump’s visit started without hiccups in Saudi Arabia. The T-note future drops modestly and gold is little changed.

Today’s market calendar is uneventful for major markets. Unless Trump rocks the boat, there is little to drive markets. Both Fed speakers probably won’t surprise during their speeches. The **Eurogroup** meets and will discuss the progress Greece has made in fulfilling the conditions needed to conclude successful the second review of its third bailout programme (see also higher). The Greek parliament last week voted a number of laws in this respect. **A green light from the Eurogroup would be positive for Greek bonds**, as the second tranche of the bailout loan could be paid out and **talks about debt sustainability measure** may make progress. The latter is still the point of contention between creditors to get the deal done.

Given this thin market calendar, **risk sentiment and technicals will remain key for trading.** That looks to be positive (see higher), which should put core bonds under some pressure. We expect the Bund to stay in a range we define between 160 (recent sell-off low) and 162.15/49 (recent highs/gap) with risks for a test of the downside.

The US Note future tested the contract high (126-20) last week (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 and sentiment is again on the mend.



German Bund: Range-trading in 160-to-162.15/49 band, but with downward risks



US Note future: Failed test of 126-20 resistance, suggests some space to decline with first support area at 125/124-23 Time to enter new short positions?

Currencies

Dollar remains in the defensive

R2	1.13	-1d
R1	1.1172	
EUR/USD	1.1194	0.0082
S1	1.0778	
S2	1.0341	

Dollar still hardly profits as risk sentiment improves further

Eco calendar is almost empty

Will dollar finally receive some support as global calm returns?.

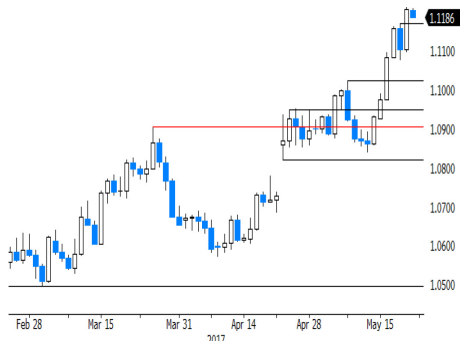
USD still struggles even as risk sentiment improves

On Friday, dollar weakness still dominated FX markets. Remarkably, the decline of the dollar occurred as the Trump crisis eased and as risk sentiment improved. Still, EUR/USD and EUR/JPY remained in the driver's seat. EUR/USD regained the 1.12 barrier and close the session at 1.1206. Interest rate differentials narrowed slightly in favour of the euro. The gains of USD/JPY were non-existent given improved US/global risk sentiment. The pair close the session at 111.26 (from 111.49).

Overnight, Asian equities join Friday's US rebound. A further rebound in the oil price is supporting oil- and commodity related assets. The focus on the US political scene turned away from the links of the Trump campaign with Russia to the visit of the President to the Middle East. The constructive risk sentiment still doesn't help the dollar much. **EUR/USD is trading just below 1.12, still within reach of Friday's top. USD/JPY dropped temporary below 111 overnight, but rebounded to the 111.50 area. Even so, the USD gains remain very modest.**

Today, the eco calendars in EMU and the US are uneventful. Fed's Harker and Kashkari are scheduled to speak, but we don't expect them to change the markets' assessment on the Fed in a profound way. **So, USD trading will again be driven by global sentiment.** The headlines of president's Trump visit to Israel are a wildcard.

At the end of last week, we assumed that an easing of the Trump-crisis could slow the decline of the dollar. **For now, core yields and the dollar hardly profited from the rebound of equities.** The EUR/USD rebound was probably partially inspired by euro strength going into the June 08 ECB meeting. However, the mediocre performance of USD/JPY also suggests USD softness. **We think that the USD correction has gone far enough, but it remains dangerous to row against the EUR/USD rally as long as interest rate differentials move (slightly) in favour of the euro.** Investors are also cautious to be short euro going into the ECB meeting.



EUR/USD: euro rally continues even as Trump-tensions ease .



USD/JPY hardly profits from rebound of risky assets

In a longer term perspective, the recent turmoil maybe makes it more difficult for US equities to extend the record rally. 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 much interest rate support anymore. **In this context, we think that a sustained rebound of USD/JPY has become more difficult.**

A cautious sell-on-upticks approach is preferred. We remain also sceptic on the safe haven characteristics of the euro if sentiment would turn really risk-off. In that context, EUR/JPY and EUR/USD might decline in lockstep. However, for now this scenario isn't in play

Technical picture.

The USD/JPY rebound ran into resistance twee weeks ago. 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.

Earlier this month, it looked that EUR/USD could revisit the 1.0821/1.0778 support (gap). However, poor US data and political upheaval finally propelled EUR/USD north the 1.1023 range top. **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. A return below 1.1023 would indicate that the upside momentum has eased.**

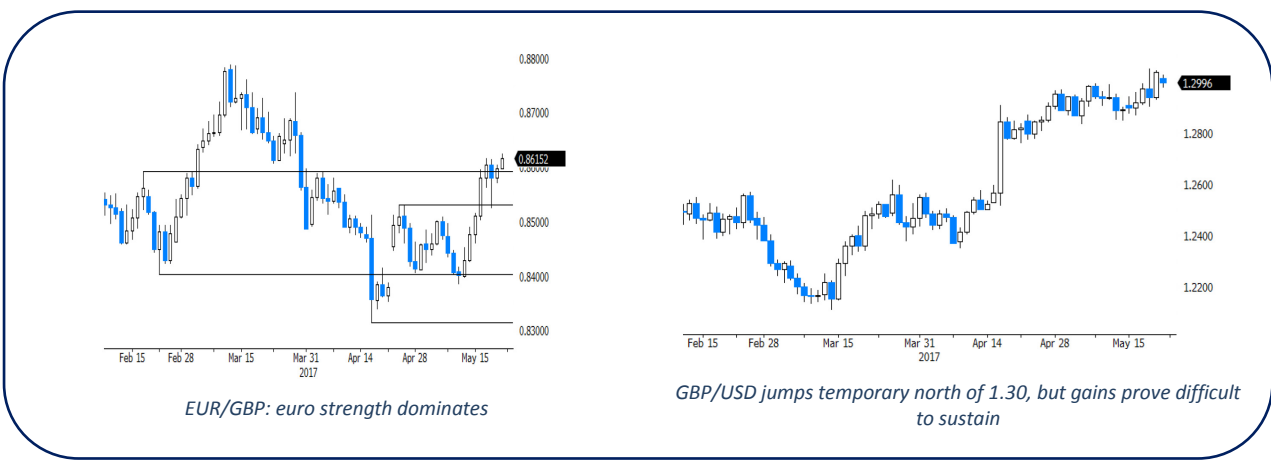
EUR/GBP tests 0.86 on euro strength

On Friday, sterling trading was primarily driven by the broader moves in the dollar and the euro. EUR/GBP held a very tight sideways range in the high 0.85 area and closed at 0.8596 as EUR/USD rebound well bid. **The swings in cable were more pronounced.** The pair copied the intraday gains of EUR/USD and returned north of 1.30, to close the day at 1.3036. **The CBI order data were better than expected, but the price component of the report was slightly softer than expected.**

Overnight, the Rightmove house prices were stronger than expected at 1.2% M/M and 3.0% Y/Y. The data don't help sterling. There are no other UK eco data today, but there might be quite some Brexit related noise. The UK election campaign continues and might yields some hard comments on the Brexit issue. The euro group discussing the starting position of the EU for the negotiations might also be quite tough. **We don't expect a big negative reaction of sterling. However, this context probably won't help to change fortunes in favour of sterling.**

Of late, the positive sterling sentiment faded 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	0.8610	0.0030
S1	0.8314	
S2	0.8304	



EUR/GBP: euro strength dominates

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

Calendar

Monday, 22 May		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Apr)	0.10	0.08
Japan			
01:50	Trade Balance Adjusted (Apr)	A ¥97.6b	¥106.4b
01:50	Exports YoY / Imports YoY (Apr)	A 7.5%/15.1%	12.0%/15.8%
09:00	Convenience Store Sales YoY (Apr)	--	0.0%
UK			
01:01	Rightmove House Prices MoM / YoY (May)	A 1.2%/3%	1.1%/2.2%
Events			
	Eurogroup meeting in Brussels		
	Trump on first foreign visiting tour		
16:00	Fed's Harker Speaks in Philadelphia (on link between physical & economic well-being)		
16:30	Fed's Kashkari at Minneapolis Fed Conference (opportunity & inclusive growth)		

10-year	<u>td</u>	<u>-1d</u>	2-year	<u>td</u>	<u>-1d</u>	Stocks	<u>td</u>	<u>-1d</u>	
US	2.25	0.01	US	1.29	0.01	DOW	20804.84	141.82	
DE	0.39	0.05	DE	-0.68	0.01	NASDAQ	6083.703	28.57	
BE	0.76	0.01	BE	-0.50	0.01	NIKKEI	19678.28	87.52	
UK	1.09	0.03	UK	0.12	0.01	DAX	12638.69	48.63	
JP	0.05	0.01	JP	-0.15	0.00	DJ euro-50	3587.01	24.79	
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	-0.03	1.67	0.63	Eonia	-0.3600	0.0020			
5y	0.20	1.88	0.80	Euribor-1	-0.3740	-0.0030	Libor-1	1.0171	0.0136
10y	0.80	2.20	1.15	Euribor-3	-0.3310	0.0000	Libor-3	1.1864	0.0080
				Euribor-6	-0.2510	0.0000	Libor-6	1.4152	0.0011
Currencies	<u>td</u>	<u>-1d</u>	Currencies	<u>td</u>	<u>-1d</u>	Commodities	<u>td</u>	<u>-1d</u>	
EUR/USD	1.1194	0.0082	EUR/JPY	124.79	1.05	CRB	185.08	2.57	
USD/JPY	111.48	0.13	EUR/GBP	0.8610	0.0030	Gold	1253.30	4.60	
GBP/USD	1.3002	0.0051	EUR/CHF	1.0911	0.0016	Brent	54.00	1.09	
AUD/USD	0.7444	0.0018	EUR/SEK	9.7738	-0.0025				
USD/CAD	1.3526	-0.0068	EUR/NOK	9.372	-0.0324				

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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