



Sunrise

Friday, 24 February 2017

Rates: Core bond sentiment remains positive

Core bond trading will remain sentiment-driven and technical in nature. End-of-month buying could come into play. The US Note future might be gearing up for a new test of 125-09+/16 resistance, especially if equity markets correct lower after the recent record run. The German 10-yr yield closes in on 0.17%/0.20% support.

Currencies: USD softens as markets ponder fiscal stimulus

Yesterday, the euro decline halted as tensions on France eased. At the same time, the dollar lost ground as US Treasury Secretary Mnuchin indicated that the implementation of fiscal reforms will take time. Today, USD softness might persist as there are no important eco data to support the dollar.

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 flat**, ignoring the dollar and US Treasuries' correction on the deflation trade. **Overnight, most Asian stock markets trade around 0.5% lower.**
- **President Donald Trump declared China the "grand champions" of currency manipulation**, just hours after his new Treasury secretary pledged a more methodical approach to analysing Beijing's foreign exchange practices.
- **RBA governor Lowe, said that the Australian economy would benefit little from cutting interest rates already at record lows**, putting the onus on the government to make fiscal reforms and find ways to stimulate demand.
- **Dallas Fed Kaplan** urged his colleagues at the US central bank to seize opportunities to raise interest rates, even as he said that **they should keep their options open ahead of a policy meeting next month.**
- **Emmanuel Macron has outlined a Nordic-style economic programme mixing fiscal discipline and public spending**, amid mounting pressure to clarify his policies two months before France's presidential election.
- Investors this year have focused on business-friendly policies they expect to come from Washington. But **Fitch has warned that a potential debt-ceiling debate may come into focus once again.**
- **UniCredit said shareholders committed to 99.8% of its €13B rights offering**, supplying it with fresh funding vital to the turnaround plan. The lender secured pledges to buy €1.6B new shares and will seek buyers for the rest from Feb. 27.
- Today's **eco calendar is uninspiring** with only national EMU confidence dat

Rates

Core bonds rally, as Mnuchin downplays expectations

Core bonds substantially higher

French tensions ease

German yield curve flattens sharply.

US shorter end outperforms

Global core bonds rallied during yesterday's US session on comments by Mnuchin. The US Treasury secretary downplayed the "phenomenal" tax plans and brought no details of fiscal policy. Mnuchin said that they want to pass ambitious tax reforms plans by August and hoped that US growth would accelerate towards 3% by late 2018. **The short end of the US Treasury curve outperformed.** Mnuchin added that they were contemplating to issue very long US bonds (eg tenor 50-yr or 100-yr).

	US yield	-1d
2	1,18	-0,04
5	1,86	-0,04
10	2,38	-0,04
30	3,02	-0,01

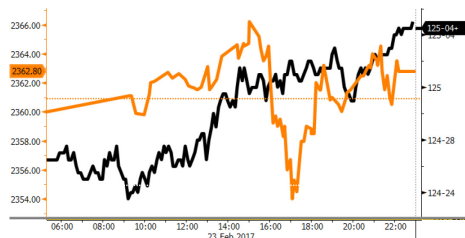
	DE yield	-1d
2	-0,91	-0,02
5	-0,56	-0,04
10	0,23	-0,05
30	1,01	-0,07

In a daily perspective, US yields fell between 1.5 bps (2-yr) and 4.6 bps (5-yr), the belly outperforming. The US Note future closes in on the 125-09+/16 resistance area. The German yield curve bull flattened with yields 2.7 bps (2-yr) to 7.3 bps (30-yr) lower. Technically, **the Bund took out 165.48 resistance (62% retracement).** On intra EMU-bond markets, 10-yr peripheral yield spread changes versus German widened up to 4/5 bps with Italy (Monday auction) and Greece (+8 bps) underperforming. The German-French 2-yr yield spread remained high (43 bps), but due to a stronger decline of the German 2-yr-yield than the French one (which also declined), as **French election fears eased.**

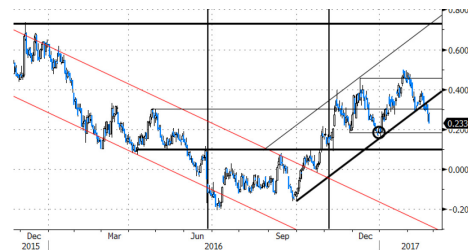
Eco data little market-moving power

Thin eco calendar, no central bank speakers or events

The **eco calendar remains thin and rather uneventful** at the end of the trading week. In the euro area, there are only some **second tier national releases** like the February French consumer confidence (stabilization), Italian December new orders and manufacturing confidence (104.6 versus 104.8) and Spanish PPI for January. In the US, the **January new home sales** are expected to be up 6.4% (571K) after a 10.4% (536K) decline in December. The monthly figures are volatile. In general, housing is still doing fine, but following steep increases the trend looks to be flattening. However, on a monthly basis we side with the market expectation of a rebound. The **final Michigan consumer sentiment** index is expected to be marginally higher at 96 compared to the preliminary figure, even as it is off the cycle highs at 98.5. It remain near the highs of the post-recession era. **All in all, we don't expect the US figures to affect markets in a strong directional way.**



T-Note future (black) & S&P future (orange) (intraday): Rally core bonds as Mnuchin downplays fiscal easing, but equities show once more resilience



German-10-year yield dropped sharply in past days, approaching key 0.17/20% support (neckline triple top)

Plain vanilla 7-yr Note auction

R2	168,93	-1d
R1	166,84	
BUND	165,7	0,71
S1	163,13	
S2	161,31	

The US Treasury ended its end-of-month refinancing operation with a plain vanilla \$28 7-yr Note auction. The auction stopped very close to the 1:00 PM bid side with a near average bid cover (2.49). Bidding details showed average indirect and dealer bids while the direct bid slightly disappointed. The auction followed a strong 2-yr Note, a mixed 2-yr FRN and a little disappointing 5-yr Note auction.

Wary of next week's Trump speech?

Overnight, most Asian stock markets correct around 0.5% lower. The US Note future remains near yesterday's closing levels and approaches 125-09/16+ resistance. Brent crude stabilizes around \$56.5/barrel.

Today's eco calendar only contains second tier eco data, suggesting that core bond trading will remain sentiment-driven and technical in nature. End-of-month extension buying could come into play. The Bund broke above 164.90 & 165.48 resistance levels, suggesting full retracement if the break is confirmed by a drop of the German 10-yr yield below 0.17/20% support (currently 0.23%). Yesterday's US Treasury Secretary Mnuchin's comments made some investors wary of next week's Trump speech. Will the US president be able to deliver his fiscal promised fiscal stimulus plans? The US Note future might be gearing up for a new test of 125-09/16+ resistance, especially if equity markets correct lower after the recent record run.

On EMU bond markets, recent developments suggest that the impact of Greek/French worries could diminish short term.



German Bund: EMU worries push Bund above 164.90 and 165.48 resistance. In yield terms, 0.20% is key support



US Note future: Heading back towards 125-09/16+ resistance area despite strong US eco data and hawkish Fed talk

Currencies

Euro sell-off slows, at least temporary.

Dollar softness persists

Mnuchin comment ease expectations on fiscal stimulus

Asian equities modestly lower

USD stabilizes after yesterday's setback

Market uncertainty on France eased yesterday. Still, core bond yields again lost a few more basis points even, as risk sentiment was not negative. The slide of core (US & European) yields weighed on the dollar. The USD decline accelerated, as US Treasury secretary Mnuchin said it would take time to implement tax reforms and to see their impact on growth. EUR/USD closed the session at 1.0582 (from 1.0558). USD/JPY finished the day at 112.61 (from 113.31).

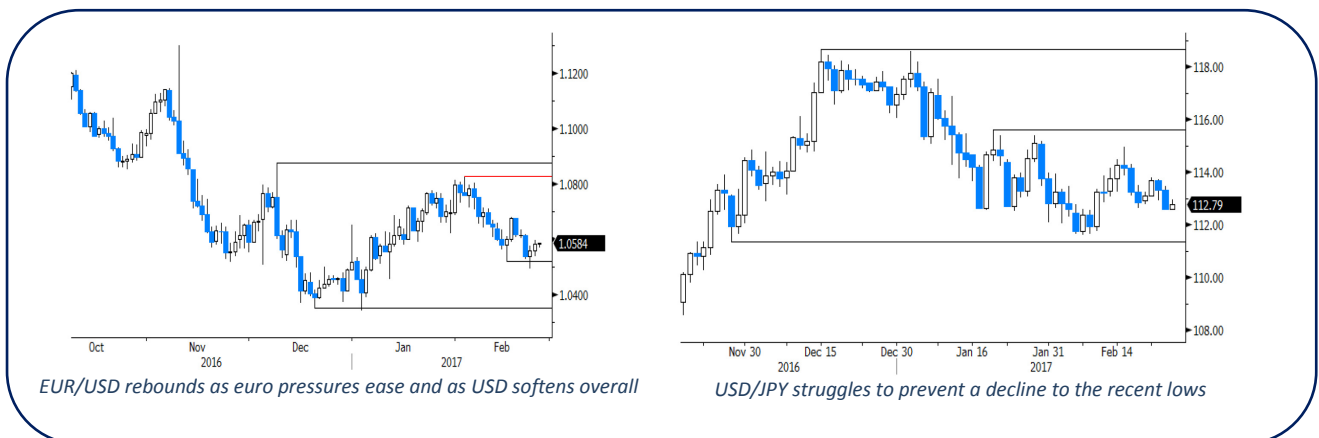
Overnight, Asian equity markets trade with modest losses. The global deflation is losing some momentum after yesterday's comments of US Treasury secretary Mnuchin. **The dollar is stabilizing just above yesterday's intraday lows. USD/JPY is trading in the 112.80 area. EUR/USD is changing hands in the 1.0580/85 area.** Commodities are also in a soft spot with iron ore taking the lead in the correction. However, the correction in (some) commodities has little impact on the likes of the Aussie dollar. AUD/USD is holding in the 0.77 area, near the recent highs.

Today, the **eco calendar is again uneventful. In the euro area**, there are only **second tier national releases. In the US**, the **January New home sales** are expected to be up a 6.4% (571K) after a 10.4% (536K) decline in December. In general, housing is still doing fine. On a monthly basis we side with the market expectation of a rebound. **Final Michigan consumer sentiment** is expected to be marginally higher at 96 compared to the preliminary figure of 95.7. It remains near the highs of the post-recession era. We doubt that the US data will have a lasting impact on USD trading. **Early this week**, French election worries fuelled uncertainty on Europe and weighed on the euro. The political uncertainty on France eased after centrist Bayrou joined forces with Macron. EUR/USD rebounded yesterday and the rebound accelerated as the dollar suffered from soft comments of US treasury Secretary Mnuchin on the tax reform. **We don't expect the EUR/USD rebound to go far. Even so, the day-to-day USD momentum is softening and this might persist ahead of Trump's appearance before Congress next Tuesday. As long as there is no clarity on the fiscal stimulus package, any further USD gains will have to come from strong US data.** We maintain a cautious on the dollar in a daily perspective. Especially USD/JPY looks vulnerable.

Eco calendar uneventful

Dollar bulls waiting for clarity on fiscal stimulus and/or strong US data.

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0589	0,0033
S1	1,0341	
S2	1,0000	



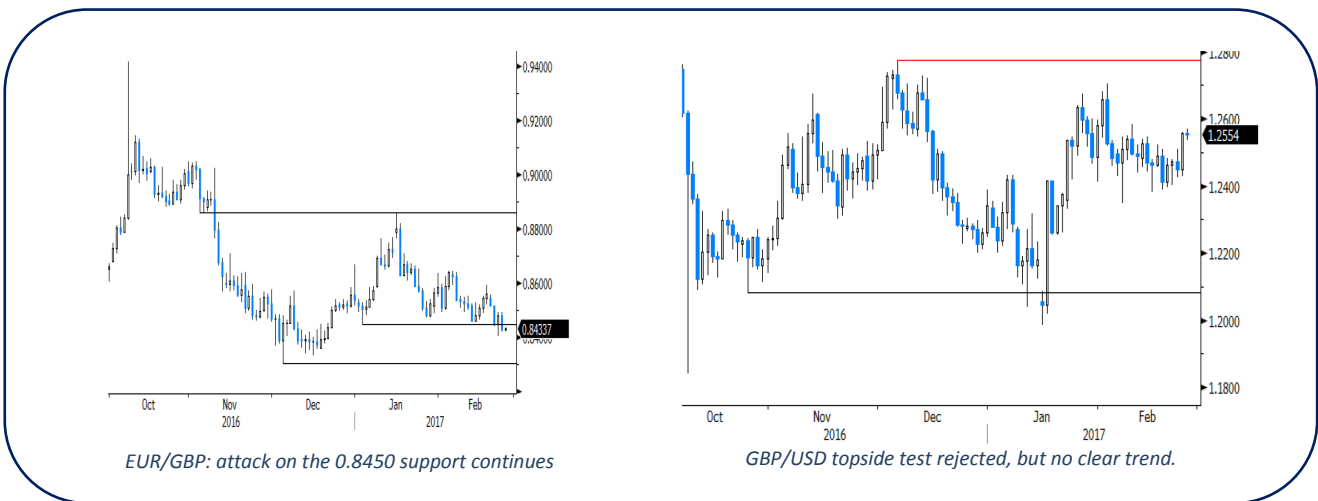
Global context. The dollar corrected lower since the start of January as the Trump reflation trade slowed down. **Two weeks ago, the dollar bottomed out, supported by Trump’s tax promise. Underlying** euro weakness due to political uncertainty in the area is a factor too. **We see 1.0874 as solid resistance and favour a sell EUR/USD on upticks approach. The downside test of USD/JPY was rejected.** USD/JPY 111.16 (38% retracement of the 99.02/118.66 rally) remains a key support. The comments of Yellen before Congress (and of other Fed members) were USD supportive, but had little lasting impact on yields. We keep a USD positive bias longer term, but remain more cautious on the upside potential of USD/JPY compared to USD/EUR.

Sterling trades with a positive bias

R2	0,8645	-1d
R1	0,8592	
EUR/GBP	0,8433	-0,0056
S1	0,8304	
S2	0,8117	

Yesterday, sterling trading was order-driven and technical in nature. The UK currency regained some ground after a disappointing performance on Wednesday. EUR/GBP traded in the high 0.84 area in Asia after Wednesday’s euro short squeeze, but drifted back to mid-0.84 area, despite the intraday rise of EUR/USD. **The CBI retail sales data improved, slightly helping to maintain the sterling positive momentum. EUR/GBP closed the session at 0.8428 (from 0.8481). Cable jumped higher to close at 1.2556, supported by USD weakness.**

Today, the UK eco calendar contains only the BBA loans for home purchases. A monthly decline is expected. Brexit might re-appear in the headlines, as markets look forward to the debate in the House of Lords early next week. **EUR/GBP recently hovered in a tight range near the 0.8450 support. The BoE suggested that a rate hike is still not on the horizon, but for now it doesn’t hurt sterling. Earlier this week, the** (temporary) acceleration of the euro sell-off pushed EUR/GBP to the 0.84 area. Yesterday, EUR/GBP didn’t profit from the EUR/USD rebound, suggesting some ST sterling resilience. **Longer term, we have a sterling negative view, as the Brexit will negatively impact the UK economy.** However, this is no issue at this stage. A sustained break below **0.8450 opens the way for a return to the EUR/GBP 0.8304 correction low, the next key support. We maintain a neutral bias on sterling short-term. Both EUR/GBP and cable show no clear trend.**



Calendar

Friday, 24 February		Consensus	Previous
US			
16:00	New Home Sales / MoM (Jan)	571k/6.4%	536k/-10.4%
16:00	U. of Mich. Sentiment (Feb F)	96.0	95.7
16:00	U. of Mich. Current Conditions (Feb F)	--	111.2
16:00	U. of Mich. Expectations (Feb F)	--	85.7
16:00	U. of Mich. 1 Yr Inflation (Feb F)	--	2.8%
16:00	U. of Mich. 5-10 Yr Inflation (Feb F)	--	2.5%
UK			
10:30	BBA Loans for House Purchase (Jan)	42600	43228
Germany			
24FEB-28FEB	Import Price Index MoM / YoY (Jan)	0.5%/5.6%	1.9%/3.5%
France			
08:45	Consumer Confidence (Feb)	100	100
18:00	Total Jobseekers (Jan)	3446K	3473.1k
18:00	Jobseekers Net Change (Jan)	-10K	26.1
Italy			
10:00	Industrial Orders MoM / NSA YoY (Dec)	--/-0.8%	1.5%/0.1%
11:00	Economic Sentiment (Feb)	--	102.5
11:00	Manufacturing confidence (Feb)	104.6	104.8
11:00	Consumer confidence (Feb)	108.8	108.8
Spain			
09:00	PPI MoM / YoY (Jan)	--/--	1.5%/2.8%
Sweden			
09:00	Consumer Confidence (Feb)	104.1--	104.6
09:00	Manufacturing confidence (Feb)	117.8	119.1

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,38	-0,04		US	1,18	-0,04		DOW	20810,32	34,72
DE	0,23	-0,05		DE	-0,91	-0,02		NASDAQ	5835,507	-25,12
BE	0,77	-0,02		BE	-0,54	-0,01		NIKKEI	19283,54	-87,92
UK	1,15	-0,05		UK	0,08	-0,01		DAX	11947,83	-50,76
JP	0,06	-0,02		JP	-0,26	0,00		DJ euro-50	3333,96	-5,31
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	-0,07	1,73	0,68	Eonia	-0,3560	0,0040		Libor-1	0,7794	0,0000
5y	0,11	1,98	0,84	Euribor-1	-0,3710	0,0000		Libor-3	1,0540	0,0006
10y	0,71	2,35	1,23	Euribor-3	-0,3290	0,0010		Libor-6	1,3629	0,0006
				Euribor-6	-0,2380	0,0010				
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>		Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1,0589	0,0033		EUR/JPY	119,46	-0,10		CRB	191,63	0,41
USD/JPY	112,81	-0,45		EUR/GBP	0,8433	-0,0056		Gold	1254,20	17,00
GBP/USD	1,2558	0,0121		EUR/CHF	1,0652	-0,0015		Brent	56,44	0,10
AUD/USD	0,7714	0,0021		EUR/SEK	9,5199	0,0428				
USD/CAD	1,3097	-0,0052		EUR/NOK	8,8288	-0,0026				

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