

Tuesday, 24 April 2018

Rates: Technical hurdles and ECB looming on horizon

Core bond sentiment remains negative, but the sell-off seems to be losing steam as the US 10-yr yield approaches key resistance levels slightly above the psychological 3% mark and with the ECB meeting looming on the horizon.

Currencies: USD maintains gain. EUR/USD is nearing MT range bottom

The dollar remained well bid yesterday, supported by higher yields. German IFO confidence and US consumer confidence take center stage today. However, both series probably won't change the balance between the euro and the dollar. The dollar rebound might slow at least temporary as the rise in US yields slows.

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 stock markets ended nearly unchanged** with Nasdaq slightly lower (-0.25%). **Asian equity indices are stronger this morning with China outperforming (+2%)**, anticipating policy measures to boost liquidity and improve growth.
- **Australian CPI stayed soft last quarter as core inflation (slightly higher than forecast) began a third year below the central bank's target**, cementing expectations any hike in interest rates is a long distance off. (Reuters)
- **Italian President Mattarella** asked lower house Speaker Fico to find out whether **the anti-establishment Five Star Movement could govern with the center-left Democratic Party**, in the latest attempt to break a seven-week impasse. (BB)
- Strong growth in ad sales on Google search and YouTube were not enough to offset a surge in costs at parent **Alphabet that shrank the first-quarter operating margin**, leaving shares flat after hours. (Reuters)
- **Liquidity tensions from last week will likely be eased** as RRR cut to take effect while **fiscal spending will increase this week**, according to a front-page commentary in China Securities Journal. (BB)
- **A US Senate committee endorsed Mike Pompeo to be the next secretary of state**, sending him to the full Senate for his expected confirmation, after Sen. Rand Paul reversed himself and withdrew his opposition. (WSJ)
- **Today's eco calendar** contains German Ifo business sentiment, US new home sales, consumer confidence and Richmond Fed manufacturing index. Italy, Germany, Finland and the US tap the bond market.

Rates

Technical hurdles and ECB looming on horizon

	US yield	-1d
2	2,48	0,02
5	2,81	0,02
10	2,98	0,02
30	3,13	0,00

	DE yield	-1d
2	-0,55	0,01
5	0,00	0,03
10	0,64	0,05
30	1,30	0,04

Global core bonds lost more ground during the first half of yesterday's trading session. The Bund had some catching up to do while **better than expected PMI's** inflicted more pain. The US Note future slid away as **the US 10-yr yield was lured to the psychological 3% barrier (2.99%)**. A break didn't occur, causing **technical return action higher** in core bonds. Volatility on commodity markets and risk sentiment on stock markets (mixed to marginally positive) didn't play a role of importance.

German yields increased by 1.2 bps (2-yr) to 4.6 bps (10-yr) on a daily basis. Changes on the US yield curve ranged between +2.1 bps (5-yr) and -0.1 bp (30-yr). 10-yr yield spreads vs Germany narrowed slightly with Italy (-3 bps) and Greece (-5 bps) outperforming.

Most Asian stock markets gain ground with China outperforming. The US Note future ekes out small gains. We expect a neutral opening for the Bund. **Today's eco calendar contains German Ifo business sentiment.** The Ifo is expected to send a similar signal as yesterday's EMU PMI's: a stabilization following a "natural" rolling over from peak levels since the start of the year. US eco data are probably second tier for trading. The US starts its end-of-month refinancing operation which could weigh on US Treasuries. **Overall, we believe that reigning sentiment (core bond negative, but sell-off loses steam), technical factors (in the US) and anticipation (in Europe to ECB meeting) will be the main trading elements.** **ECB President Draghi** warned that the growth cycle has peaked even if there remains sufficient momentum. Draghi also expressed more confidence in the inflation outlook. The combination of the growth and inflation comments might signal rising awareness in favor of policy normalization in order to build a war chest for future downturns. We'll be looking for clues in that direction at Thursday's ECB press conference.

Last week's core bond sell off probably has further to go in the US from a technical point of view, with investors lured by key resistance in the 10-yr (3.05%/3.07%) and 30-yr yield (3.22%). The German 10-yr yield bounced off key support levels (0.46%/0.48%), consolidating since the end of March. Last week's move suggests the start of a new upleg, but the approaching ECB meeting could be a hampering factor short term.



German 10-yr yield: exit from April consolidation range. We target 0.8% again.



US 10-yr yield sets new 2018 high. Key resistance stands at 3.05%/3.07%

Currencies

EUR/USD 1.2155 support coming with reach?

R2	1,2598	-1d
R1	1,2555	
EUR/USD	1,2209	-0,0079
S1	1,2165	
S2	1,2055	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8758	-0,0018
S1	0,8627	
S2	0,8541	

The USD rebound continued yesterday. It was supported by a gradual further rise in US yields with the 10-y yield nearing the 3% barrier. The EMU April PMI's were slightly above consensus. However, they were not really able to remove the feeling that the EMU growth momentum might be over its peak. Markets apparently assume that the assessment at Thursday's ECB meeting might remain rather soft. EUR/USD drifted below intermediate support at 1.2215 (close at 1.2209). USD/JPY also succeeded a nice break higher and closed the session at 108.71.

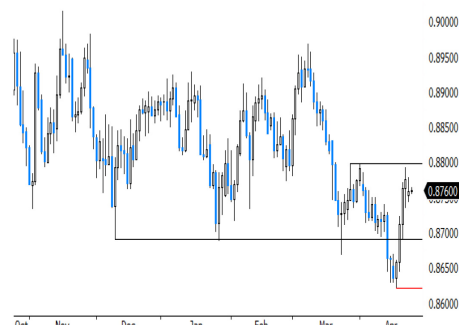
Overnight, Asian equities mostly show good gains with Taiwan and Korea underperforming. China outperforms as markets expect the Chinese authorities to keep a rather easy policy in place. The dollar maintains yesterday's gains, but for now there is no follow-through. EUR/USD is holding in the low 1.22 area. USD/JPY hovers in the 108.75 area. Australian CPI inflation was close to expectations. Headline inflation was unchanged at 1.9% Y/Y (2.0% expected). AUD/USD slipped temporary to the 0.7580 area, but soon returned to the 0.76 area.

Today, in Europe several **national confidence indices** (including the IFO) will be published. IFO confidence is expected to rebound from 103.2 to 104.7. **In the US,** housing data, the Richmond manufacturing index and **consumer confidence** will be published. The latter is probably most important for markets. The headline confidence is expected to ease slightly from a multi-year peak. Over the previous days, the dollar finally profited from higher US yields with the 2-yr USD /German spread widening above 300 bp. Markets keep a close eye whether US 10-y yield might rise above 3%. The test is ongoing, but maybe there won't be trigger for a break anytime soon. **If so, this might slow the USD rise with markets awaiting Thursday's ECB meeting. A soft ECB assessment might be needed to push EUR/USD below the 1.2155 support.**

Yesterday, EUR/GBP basically held a consolidation pattern in the mid 0.87 area as the post-Carney correction slowed. **There was also again plenty of noise on Brexit** as the political debate inside the UK is heating up. **Today,** CBI business optimism and trends orders will be published. We expect these data to be only of intraday significance. The sterling decline slowed with EUR/GBP holding below the 0.88 resistance. Some consolidation might be on the cards. Friday's UK Q1 GDP data are a potential next reference. Brexit noise remains a wildcard.



EUR/USD: nearing/testing first support area at 1.2215/1.2155



EUR/GBP: post-Carney correction of sterling slows

Calendar

Tuesday, 24 April		Consensus	Previous
US			
15:00	FHFA House Price Index MoM (Feb)	0.6%	0.8%
15:00	S&P CoreLogic CS 20-City MoM SA / YoY NSA (Feb)	0.68%/6.35%	0.75%/6.4%
16:00	New Home Sales / MoM (Mar)	630k/1.9%	618k/-0.6%
16:00	Richmond Fed Manufact. Index (Apr)	16	15
16:00	Conf. Board Consumer Confidence (Apr)	126.0	127.7
16:00	Conf. Board Present Situation (Apr)	--	159.9
16:00	Conf. Board Expectations (Apr)	--	106.2
Japan			
01:50	PPI Services YoY (Mar)	A: 0.5%	0.7%
UK			
10:30	Public Finances (PSNCR) (Mar)	--	18.6b
12:00	CBI Trends Total Orders (Apr)	4	4
12:00	CBI Trends Selling Prices (Apr)	--	18
12:00	CBI Business Optimism (Apr)	--	13
Germany			
10:00	IFO Business Climate (Apr)	102.8	103.2
10:00	IFO Expectations (Apr)	99.5	100.1
10:00	IFO Current Assessment (Apr)	106.0	106.5
France			
08:45	Business Confidence (Apr)	108	109
Italy			
10:00	Manufacturing Confidence (Apr)	108.8	109.1
10:00	Consumer Confidence Index (Apr)	116.9	117.5
10:00	Economic Sentiment (Apr)	--	106.0
Belgium			
15:00	Business Confidence (Apr)	-0.5	0.1
Sweden			
09:30	Unemployment Rate SA (Mar)	6.1%	5.9%
Events			
Q1 Earnings	3M (13:30), Verizon (13:30), Caterpillar (13:30),...		
11:00	Italy holds zero-coupon and inflation-linked auction		
11:30	Germany to Sell €4bn 0% 2020 Bonds		
11:30	ECB's Villeroy Speaks in London		
12:00	Finland to Sell 0.5% 2027 Bonds		
19:00	US To Sell \$32bn 2-yr Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,98	0,02	US	2,48	0,02	DOW	24448,69	-14,25	
DE	0,64	0,05	DE	-0,55	0,01	NASDAQ	7128,602	-17,52	
BE	0,88	0,04	BE	-0,48	0,01	NIKKEI	22278,12	190,08	
UK	1,54	0,06	UK	0,87	0,04	DAX	12572,39	31,89	
JP	0,06	-0,01	JP	-0,14	-0,01	DJ euro-50	3513,06	18,86	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,06	2,85	1,24	Eonia	-0,3680	0,0000	Libor-1	1,8970	0,0000
5y	0,42	2,93	1,42	Euribor-1	-0,3720	0,0000	Libor-3	2,3592	0,0000
10y	1,04	3,00	1,65	Euribor-3	-0,3280	0,0000	Libor-6	2,5113	0,0000
				Euribor-6	-0,2700	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2209	-0,0079	EUR/JPY	132,71	0,43	CRB	200,73	-1,19	
USD/JPY	108,71	1,05	EUR/GBP	0,8758	-0,0018	Gold	1324,00	-14,30	
GBP/USD	1,394	-0,0060	EUR/CHF	1,1943	-0,0038	Brent	74,71	0,65	
AUD/USD	0,7605	-0,0067	EUR/SEK	10,4008	0,0223				
USD/CAD	1,2849	0,0088	EUR/NOK	9,6294	0,0165				

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