



Sunrise

Monday, 27 February 2017

Rates: Red alert in German and US 10-yr yield

The German and US 10-yr yields reached key support levels around 0.17% and 2.3% respectively. From a technical point of view, these levels are necklines of a triple top formation. US President Trump's speech on Tuesday night will need to be fiscally dovish to prevent a break lower in the US. In Germany, collateral scarcity might be interfering with reality.

Currencies: Dollar mixed ahead of Trump. USD/JPY nearing key support

On Friday, USD traders received mixed signals from other markets. USD/JPY is drifting toward the range bottom as markets await clear signal from Trump on fiscal policy. EUR/GBP rebounded again north of the 0.8450 reference. Sterling (Cable and EUR/GBP) still shows no clear trend.

Calendar

Headlines

- **US equities** erased losses thanks to a last hour surge which left the three main indices with marginal gains and **new all-time closing highs (S&P/Dow)**. **Asian equities trade modestly down with Japan underperforming (-0.9%)**.
- **US Treasury Secretary Mnuchin** said Trump's upcoming budget won't touch entitlements, and will focus on ways to produce LT growth by reducing taxes. The tax-reform plan and regulatory relief will lead to a sharp increase in GDP.
- **Moody's confirmed Germany's Aaa rating** (stable). **DBRS** confirmed the Irish rating at A (high, stable trend) and the **Belgian rating at AA (high, stable trend)**. S&P affirmed **Hungary's BBB- rating (stable)** after a Sept.16 upgrade.
- **Fitch confirmed Greece's rating at CCC**. The government's compliance with the ESM programme conditions is one reason why **Fitch believes Greece's European creditors would be prepared to proceed and disburse funds without IMF involvement**. Another reason is the desire to avoid a Greek political crisis during an already congested European election year
- Two polls gave Macron 25% support of the French electorate in the first round of the presidential election, 2%-points behind Le Pen and 5%-points more than Fillon. **Both surveys show Le Pen losing to either man in the second round**.
- Sterling fell against all its major peers this morning after a report said UK Prime Minister May's team was **preparing for Scotland to potentially call for an independence referendum in March**.
- **Today, US durables and EMU confidence** data are the main eco releases, together with an **Italian BTP auction**. Further out this week, Trump's speech on Tuesday night and Yellen's speech on Friday are the focal points for trading

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	↘

Rates

Core bonds profit from “risk-off” and other factors

Core bonds rally goes on unabated

French tensions ease further

yield curves flattens, but also short yields sharply lower

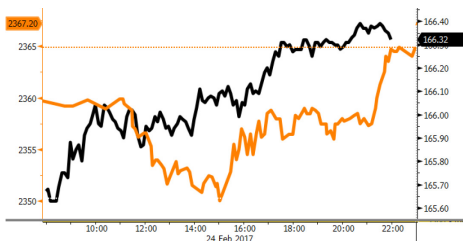
On Friday, the global core bond rally continued unabatedly with US yields 4 to 6.1 bps lower and German yields 3.7 to 6.6 bps lower. In both cases, the curves bull flattened. The rally lasted from start to finish. A European equity correction supported the initial rise, but also when equities rebounded, bonds continued their march higher. The “usual” correlation between equities and core bonds is currently very weak. US equities are at record highs, while the US 10-yr yield shed 20 bps in the past 6 sessions. Technical short covering and early month-end extension buying probably added to Friday’s gains.

	US yield	-1d
2	1,15	-0,03
5	1,82	-0,04
10	2,33	-0,04
30	2,97	-0,05

	DE yield	-1d
2	-0,95	-0,04
5	-0,59	-0,03
10	0,19	-0,05
30	0,94	-0,07

From a technical point of view, both the Bund and the T-Note future broke through key resistances. The 10-yr US and German yields are testing key yield support at respectively 2.29/2.31% and 0.17/0.20%. Breaks would paint triple tops on the charts suggesting that a further decline is possible/likely. At the short end, the German 2-yr yield is falling off a cliff and currently traded at -0.95%, partly on PSPP-related buying and collateral shortage. The US 2-yr yield decline is still modest and technically irrelevant even as 1.13% yield support looms. The US 2-yr yield dropped about 10 bps in the past three days, but the probability of a March rate hike has nevertheless risen to 40% from 34%. Core bonds outperformed swaps in past days suggesting that the safe haven motive linked to a busy European election calendar is in play. That’s in line with yen strength versus dollar and an upward bias in the gold price, but in contradiction with recent strong eco and inflation data. However, that’s not visible in US equities and despite yesterday weakness neither really yet in European equities, nor in past days in peripheral bonds.

On intra EMU-bond markets, 10-yr yield spread changes versus Germany narrowed for non-German core bonds and France, while widening marginally for Italy (2bps) and Spain (6 bps)



Bund future (black) & S&P future (orange) (intraday): Rally core bonds continues, also when equities rebound.



US 10-yr yield tests key support area around 2.30% (neckline triple top)

US durables and EMU economic sentiment main data

Positive EU confidence and US durables, but market impact modest?

Consensus expects a sixth straight rise in EC economic sentiment in February (108.1 from 107.9). Given the strength of the PMI, with which there is a good correlation, risks might be on the upside of consensus, but a caveat needs to be taken into consideration: consumer confidence, which accounts for 20% of the overall figure, has already been released and declined to -6.2 versus -4.8 in January. January US durable orders should rebound strongly after a 0.5% M/M drop in December, but it should be largely the result of very strong (but volatile)

aircraft orders (Boeing). Core orders that exclude transportation are expected to be up 0.5% M/M. They improved steadily in H2 of 2016, but can they stick to that pace? **Neither indicator is a strong market mover.**

Italian BTP auction: pricing cheap enough to offset risks?

The Italian debt agency launches a new 5-yr BTP (€3.5-4B 1.2% Apr2022) and taps the off the run BTP (€0.5-1B 1.6% Jun2026) and on the run 10-yr BTP (€1.5-2B 2.2% Jun2027). Grey trading suggests that the new 5-yr BTP will be priced with an impressive 18.4 bps pick-up in ASW spread terms compared to the previous 5-yr benchmark (0.35% Nov2021). That corresponds with a 21 bps pick-up in yield terms. The other two BTP's on offer cheapened in the run-up to the auction and trade normal on the Italian curve. **We expect a plain vanilla auction with market participants weighing the cheap pricing against jitters in the Italian financial sector and the scattered political scene.** Apart from the regular BTP's, the treasury also taps two floating rate CCTeu's (Dec2022 & Feb2024) for a combined €2.5-3B. Later this week, Germany, Spain and France tap the market.

R2	168,93	-1d
R1	166,84	
BUND	166,14	0,44
S1	163,13	
S2	161,31	

Red alert for US and German 10-yr yields

Overnight, most Asian stock markets correct lower with Japan underperforming (-1%). The US Note future has a tiny downward bias and Brent crude gains ground. However, we still expect a neutral Bund opening.

Today's eco calendar contains EMU economic confidence and US durable goods orders. Risks are on the upside of expectations, but the negative impact on core bonds will probably be minor given current sentiment. **The US 10-yr yield approaches key 2.3% support after US Treasury Secretary Mnuchin's comments made some investors wary of Trump's speech (Tuesday night).** Will the US president be able to deliver his promised fiscal stimulus plans? **Fiscally dovish comments will be necessary to avoid a sustained break below 2.3%. The German 10-yr yield reached similar support around 0.17%. Sentiment on stock markets and EMU bond markets could be crucial to decide on the test.** Equity markets are prone for correction (eg last Friday) while tensions on EMU bond markets are easing following the outcome of last week's Eurogroup meeting on Greece and as French election polls suggest stronger support for Macron. **We won't fight the current trend on German yield markets as collateral scarcity and other technical factors might be at play as well and interfere with positive underlying growth and inflation dynamics.**



German Bund: EMU worries push Bund above 164.90 and 165.48 resistance. In yield terms, 0.17%/0.20% is key support



US Note future: Testing 125-09/16+ resistance area ahead of Trump's speech

Currencies

Dollar soft ahead of Trump testimony

Dollar shows mixed picture

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0568	-0,0021
S1	1,0341	
S2	1,0000	

Asian equities modestly lower

EUR/JPY and USD/JPY within reach of recent lows

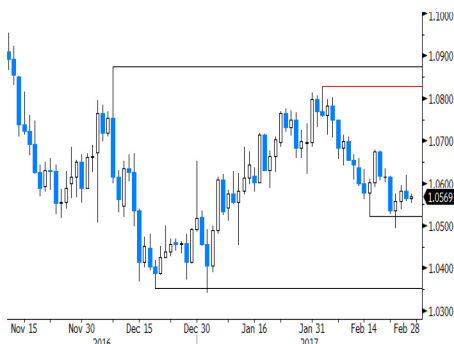
Eco calendar uneventful

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

On Friday, European markets shifted to risk-off modus. Soft comments of US Treasury Secretary Mnuchin on Thursday caused investor caution ahead of Trump's declaration on Tuesday night. European equities and core bond yields declined. The dollar traded also with a slightly negative bias, but the losses were modest. Equities rebounded in the US, but dollar regained hardly any ground. Especially USD/JPY didn't profit, probably as US bond yields held near the ST lows. USD/JPY ended the day at 112.13 (from 112.61). EUR/USD finished at 1.0563 (from 1.0582).

Overnight, Asian equities don't join the rebound in the US on Friday, but the losses are contained. Investors stay in wait-and-see modus ahead of key speech of US president Donald Trump and Fed's chairwoman Yellen later this week. The yen is holding near its short-term highs. USD/JPY is changing hands in the low 112 area, with the 111.60 range bottom within reach. EUR/JPY hovers just north of the correction low (118.25 area). EUR/USD shows no clear trend and is changing hands in the 1.0565 area.

Today, the EMU economic confidence (EC) is expected to rise for a sixth straight month (108.1 from 107.9). **January US durable orders might rebound strongly**, but it should be largely due to very strong (but volatile) aircraft orders. Core orders excluding transportation are expected up 0.5% M/M. They improved steadily in H2 of 2016, but can they maintain that pace? The impact on USD trading should be of intraday relevance, at best. **Early last week**, French election worries weighed on the euro, but these eased mid week. **Even so, they were the clear driver for USD trading as other markets showed a diffuse, incoherent picture.** Core bond yields continue to decline, despite strong eco data. The global equity rally slowed, but US equities are holding at record highs. For EUR/USD, euro softness prevails even as uncertainty on Europe eased last week. The focus of global investors now turns to the speech of US president Trump (Tuesday) and of Fed's Yellen (late on Friday). **We start the week with a neutral bias on EUR/USD.** We expect USD/JPY to hold north of the 111.60 range bottom ahead of Trump's speech. However, the US president has to deliver on fiscal stimulus to support the dollar.



EUR/USD looking for clear guidance as markets await Trump and Yellen.



USD/JPY struggles to prevent a decline to the recent lows

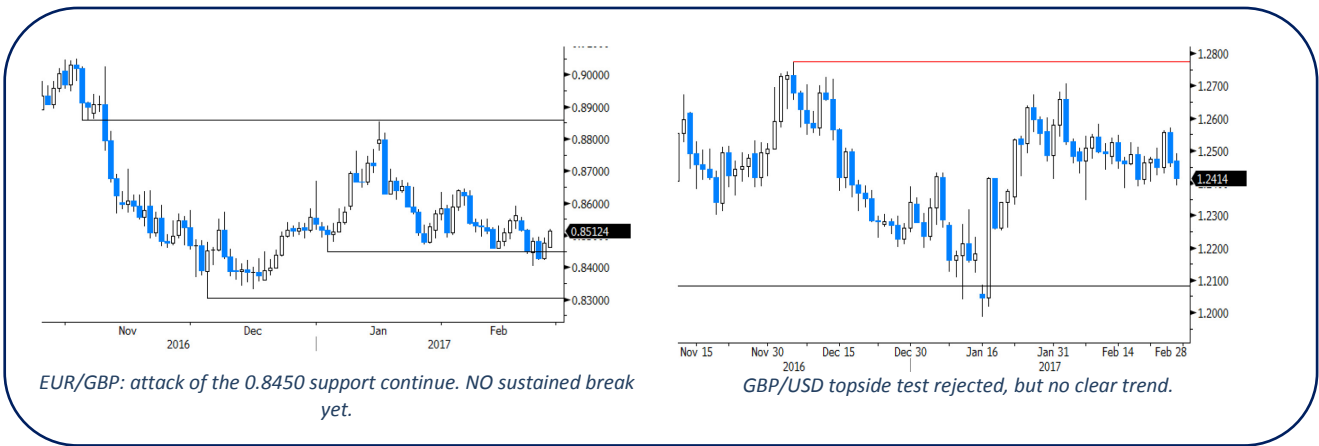
Global context. The dollar corrected lower since the start of January as the Trump reflation trade slowed down. **Two weeks ago, the dollar bottomed out, supported by Trump’s tax promise.** However, **underlying euro weakness due to political uncertainty** in the area is a factor too. **We see 1.0874 as solid resistance and favour a sell EUR/USD on upticks approach. The downside test of USD/JPY was rejected.** USD/JPY 111.60/111.16 (Range bottom/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 no 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.

R2	0,8645	-1d
R1	0,8592	
EUR/GBP	0,8513	0,0081
S1	0,8304	
S2	0,8117	

EUR/GBP and cable don’t find a clear trend

Friday’s risk-off correction was slightly negative for sterling. However, both EUR/GBP and cable held in well-known territory. UK loans for home purchases unexpectedly recovered further (44657 vs 42600 expected), but were ignored as was the case for the Brexit-story. In the afternoon, EUR/USD slightly outperformed cable, providing a cautious support for EUR/GBP. The pair finished at 0.8477 (from 0.8427). Cable finished the session at 1.2462 (from 1.2556).

During the weekend, The Times reported that the UK was preparing for a new Scottish independence vote which might coincide with the triggering of Article 50. Sterling trades slightly softer in Asia this morning. There are no important eco data in the UK today. The House of Lords starts a detailed review of the Article 50 bill. Markets will keep an eye on any headwinds for the PM May’s Brexit strategy. For now, we assume that the impact on sterling should be limited. **Earlier last week,** the (temporary) acceleration of the euro sell-off pushed EUR/GBP to the 0.84 area. However, a sustained break lower didn’t occur. As is the case for EUR/USD (and for several other markets), there is currently no clear driver for sterling trading. **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 0.8304 correction low. We maintain a neutral bias on sterling short-term.**



Calendar

Monday, 27 February		Consensus	Previous
US			
14:30	Durable Goods Orders (Jan P)	1.7%	-0.5%
14:30	Durables Ex Transportation (Jan P)	0.5%	0.5%
14:30	Cap Goods Orders Nondef Ex Air (Jan P)	0.5%	0.7%
14:30	Cap Goods Ship Nondef Ex Air (Jan P)	0.2%	1.0%
16:00	Pending Home Sales MoM / NSA YoY (Jan)	1%/--	1.6%/-2.0%
EMU			
10:00	M3 Money Supply YoY (Jan)	4.8%	5.0%
11:00	Economic Confidence (Feb)	108.1	107.9
11:00	Business Climate Indicator (Feb)	0.79	0.77
11:00	Industrial Confidence (Feb)	1.0	0.8
11:00	Services Confidence (Feb)	13.3	12.9
11:00	Consumer Confidence (Feb F)	-6.2	-6.2
Belgium			
	CPI MoM / YoY (Feb)	--/--	0.71%/2.6%
Spain			
09:00	CPI EU Harmonised MoM/YoY (Feb P)	--/--	-1.0%/2.9%
Norway			
08:00	Manufacturing Wage Index QoQ (4Q)	--	0.9%
Sweden			
09:30	Household Lending YoY (Jan)	7.1%	7.2%
Events			
11:00	Italian BTP auction (1.2% Apr2022, 1.6% Jun2026 & 2.2% Jun2027, €7B)		
17:00	Fed's Kaplan Speaks in Oklahoma		

10-year	td	-1d		2-year	td	-1d	Stocks	td	-1d
US	2,33	-0,04		US	1,15	-0,03	DOW	20821,76	11,44
DE	0,19	-0,05		DE	-0,95	-0,04	NASDAQ	5845,306	9,80
BE	0,72	-0,04		BE	-0,56	-0,03	NIKKEI	19107,47	-176,07
UK	1,08	-0,08		UK	0,08	0,00	DAX	11804,03	-143,80
JP	0,05	-0,01		JP	-0,27	0,00	DJ euro-50	3304,09	-29,87
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,10	1,71	0,64	Eonia	-0,3590	-0,0030			
5y	0,09	1,96	0,79	Euribor-1	-0,3710	0,0000	Libor-1	0,7806	0,0011
10y	0,69	2,31	1,17	Euribor-3	-0,3290	0,0000	Libor-3	1,0540	0,0000
				Euribor-6	-0,2380	0,0000	Libor-6	1,3607	-0,0022
Currencies	td	-1d		Currencies	td	-1d	Commodities	td	-1d
EUR/USD	1,0568	-0,0021		EUR/JPY	118,49	-0,97	CRB	190,93	-0,70
USD/JPY	112,12	-0,69		EUR/GBP	0,8513	0,0081	Gold	1257,90	3,70
GBP/USD	1,2413	-0,0145		EUR/CHF	1,0649	-0,0003	Brent	56,37	-0,07
AUD/USD	0,7693	-0,0021		EUR/SEK	9,5436	0,0237			
USD/CAD	1,3099	0,0002		EUR/NOK	8,8468	0,0180			

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