



Sunrise

Friday, 21 April 2017

Rates: Side-lined ahead of French elections?

EMU and US PMI's colour today's trading, but risk ending up being irrelevant ahead of Sunday's first French presidential election round which probably keep most investors sidelined. The outcome will determine the start of next week's trading. If the tail risk (Mélenchon vs Le Pen or Fillon) manifests, markets will start discounting the "Frexit" possibility.

Currencies: EUR/USD fails to extend gains going into the French election

Yesterday, the euro gained temporary ground on hopes for a market-friendly outcome of the French election. However, the momentum couldn't be maintained. The dollar was in better shape later in the session. Today, trading in the major USD cross rates might shift in wait-and-see modus. We don't expect yesterday's pro-euro repositioning to continue.

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 strong, gaining between 0.75% and 1% as US Treasury secretary Mnuchin promised details of tax reforms very soon. Overnight, Asian stock markets record similar gains with China underperforming (flat).
- **The Trump administration will unveil a tax reform plan very soon** and expects it will be **approved by Congress this year** whether a healthcare overhaul happens or not, Treasury Secretary Steven Mnuchin said.
- The US has set the stage for a global showdown over steel, **launching a national security investigation that could lead to sweeping tariffs on steel imports** in what would be the **first significant act of economic protectionism by Trump**.
- **The Japanese manufacturing PMI rose to 52.8 from 52.4 in March**. Sub-indices measuring output, new export orders, employment, input and output prices all increased at a faster rate than the previous month.
- It would not be a bad idea for the ECB and other central banks to follow the US Federal Reserve's example and **change course away from an ultra-accommodative monetary policy**, **German Finance Minister Schaeuble** said.
- France's presidential candidates embark on their last day of campaigning on Friday before **this weekend's tight first-round election**, marked by the collapse of the mainstream political parties and rise of the far left and far right.
- **Today's eco calendar** contains EMU manufacturing and services PMI's, UK retail sales, US PMI's and US existing home sales. Fed Kashkari is scheduled to speak.

Rates

	US yield	-1d
2	1,19	0,01
5	1,76	0,03
10	2,24	0,03
30	2,89	0,02

German 10-yr yield re-breaks 0.20% level

Bund under pressure as markets hope on "positive" French election

US Treasuries under pressure due to stronger equities.

Mnuchin promises tax plan soon

Core bond lose ground; 10-yr Bund yield regains 0.2%

Global core bonds worked off overbought conditions yesterday and were hit by stronger US equities. German Bunds underperformed US Treasuries as investors scaled back safe haven bets ahead of the 1st French presidential election round, causing a technical re-break of the German 10-yr yield (0.20%). French assets were the star performers with both bonds (OAT's) and stocks (CAC40) outperforming. Yesterday's ECB survey about the malfunctioning of several money markets (as QE creates scarcity of high quality collateral) might still have been in play as well. US eco data (weekly jobless claims, Philly Fed business outlook) were marginally weaker than expected, but ignored. While Bunds hovered sideways after the first major move lower, US Treasuries suffered during the US session from stronger equities. US Treasury secretary Mnuchin said that the Trump administration is 'pretty close' to announce major tax reforms. His comments kept Treasuries near the lows of the day, but didn't trigger a stronger negative reaction.

In a daily perspective, the German yield curve bear steepened bearish with yields 1.2 bps (2-yr) to 4.1 bps (10/30-yr) higher. Changes on the US yield curve ranged between +0.8 bps (2-yr) and +2.5 bps (5-yr), the belly underperforming the wings. On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 7/8 bps with Portugal & France outperforming (French elections). Core spreads widened slightly.

Attention for EMU (and US) PMI business sentiment

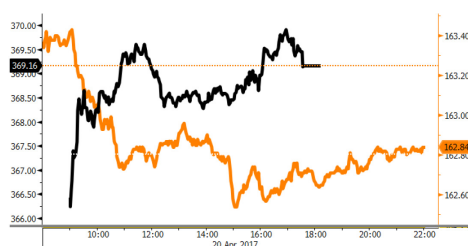
Today's focus is on the business sentiment in the US and the EMU for April. In March, EMU composite business sentiment climbed to 56.4 from 56 previously. Both manufacturing (56.) and services (56) contributed to the improvement. The omens are good for yet another (slight) increase of the headline index in April, which would bring the index to a 6-yr high. The ZEW and Sentix indices, albeit investors' and no business sentiment indicators, went up in April. New orders and future output indices improved in the March reports, which are often pointers for the next month's outcome. The consensus expect a stabilization, but we see risks on the upside. The US Markit PMI is less of a market mover as ISM business confidence. US PMI is expected to have risen slightly in April for both manufacturing and services following a 3 months decline. Regional surveys (Philly Fed and NY) fell sharply in April. This suggest that risks are on the downside of consen

Upside risk EMU PMI

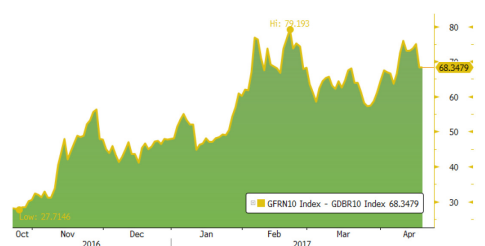
Downside risks US Markit PMI

Existing home sales slightly higher in March?

Fed Kashkari speaks



Bund (orange) & EuroStoxx (black): Bund hit for second day while equities do better than recently



French-German 10-yr yield spread narrows ahead of French elections as investors trim OAT short positions, hoping on a market friendly outcome

Side-lined ahead of French elections?

R2	164,40	-1d
R1	163,99	
BUND	162,86	-0,49
S1	161,88	
S2	158,28	

Overnight, most Asian stock markets gain ground, lifted by WS's bullish sentiment, with China underperforming (flat). Trump's intention to launch import tariffs on steel leaves no traces on Chinese steel manufacturers though. The US Note future and Brent crude stabilize, suggesting a neutral opening for the Bund.

Today's eco calendar heats up with EMU and US PMI's. We expect a mixed signal with stronger European data and weaker US ones. In that case, German Bunds could prolong this week's underperformance vs US Treasuries. **However, we expect many investors to remain side-lined ahead of the 1st round of French presidential elections.** The outcome will determine the start of next week's dealings. If the tail risk manifests (Le Pen-Mélenchon or Fillon-Mélenchon), markets will start discounting a "Frexit" risk (ie risk aversion with stronger Bund, weaker OAT's, weaker euro). Any other outcome could send a relief rally through markets with Bunds selling off further and the German 10-yr yield trading back higher in the 0.2%-0.5% range.

Technically: Last week's risk aversion pushed the US 5- and 10-yr yield below key support levels (respectively 1.8% and 2.3%), but a sustained break below 0.2% support in the German 10-yr yield didn't occur. The Bund and US Note future are no longer overbought. **We expect consolidation today around current levels. Our medium term strategy remains that US yields will recapture lost support levels and afterwards turn higher in the old trading bands** as the Fed prepares another rate hike in June and will start to run-off its balance sheet before the end of the year.



German Bund: No longer overbought. French election outcome will determine on next move



US Note future: risk aversion boosted core bonds with yields below key levels

Currencies

EUR/USD fails to extend rebound going into the French elections

USD/JPY gains slightly ground

R2	1,1145	-1d
R1	1,0906	
EUR/USD	1,0715	-0,0012
S1	1,0341	
S2	1,0000	

EMU and US PMI key releases

Major dollar cross rates to shift into wait-and-see modus ahead of the French election

EUR/USD rebound slows ahead of French election

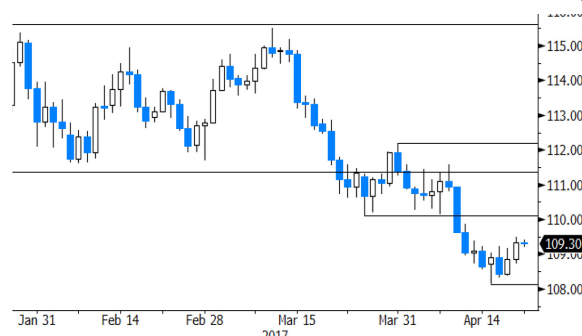
On Thursday, the euro initially rebounded as euro area yields recovered from recent lows and interest rate differentials narrowed in favour of the euro. However, the rally petered out later in the session. A good equity performance and US Treasury secretary Mnuchin confirming that the government will propose tax reform plans soon, helped the return the dollar. The headlines on the terrorist attack in Paris had little impact. At that time, EUR/USD had already reversed the intraday gains. The pair closed the session at 1.0717. USD/JPY finished the day at 109.32 (from 108.86 on Wednesday). Even so, the gain remained modest given the rise in core yields and the positive equity sentiment.

Overnight, Asian equities are also trading with modest to moderate gains. Japanese equities are supported by **comments from BOJ's Kuroda** that the bank intends to keep monetary policy very accommodative. The BOJ governor acknowledged that the Japanese economy is doing better but inflation remains low. Kuroda also mentioned that a rise in the yen could delay Japan reaching the 2% inflation target. **USD/JPY hovers in in the 109.20 area this morning**, maintaining most of yesterday's gain. EUR/USD stabilizes in the low 1.07 area as investors ponder the impact of the terrorist attack in France yesterday evening, just days before the first round of the presidential election.

Today the April business sentiment in the US and the EMU will be released . In March, EMU composite PMI climbed to 56.4 from 56. The omens are good for yet another (slight) increase of the headline index in April, which would bring the index to a 6-yr high. **The consensus expect a stabilization, but we see risks on the upside.** US Markit PMI is expected to have risen slightly for both manufacturing and services. Regional surveys (Philly Fed and NY) fell sharply in April, suggesting that risks for the US PMI might be on the downside of consensus. **So, the data might be slightly supportive for EUR/USD.** The French election will remain an important factor for FX trading. Yesterday, markets adapted positions for a market friendly outcome of the first round on Sunday. This temporary supported the euro. **Today, we assume a more neutral market bias after yesterday's attack in Paris.** The euro probably won't get additional interest rate support. **We expect the euro to return to wait-and-see modus.** However, the downside of EUR/USD might be well protected as a market friendly outcome of the election is still a likely.



EUR/USD: pre-French election has no strong legs



USD/JPY holding below the 110 support. Technical picture remains bearish, but tentative signs of bottoming

Friday, 21 April 2017

Of late, by default dollar softness dominated FX trading. This week, the dollar (trade-weighted) showed cautious signs of bottoming out. **We look out whether this process is confirmed. For the overall USD performance we continue to keep a close eye on the US bond markets.** We maintain the view that the correction higher on the US bond markets has gone far enough. However, for now there is no trigger for a U-turn and the French election remains a factor of uncertainty. A constructive outcome of the French election might be supportive for both EUR/USD and USD/JPY.

From a technical point of view, USD/JPY broke through the 110 key support. We downgraded our USD/JPY assessment to bearish, as long as the pair doesn't regain 112.20 (neckline ST double bottom). Next key support (62% retracement) comes in at 107.18. **EUR/USD extensively tested the topside of the MT range (1.0874/1.0906 area) late March, but the test was rejected. EUR/USD returned lower in the 1.0875/1.05. The move met support in the 1.06 area. The picture turned more neutral as the pair returned to the middle of the ST range. We slightly prefer to sell EUR/USD on upticks in case of a return higher in the range as we see room for a broader USD comeback.**

Sterling holds near the recent highs

Sterling trading was mostly driven by global moves and technical considerations yesterday. EUR/GBP was supported by the overall euro rebound. **EUR/GBP temporary moved to the 0.84 area, but the gains were reversed as the euro returned intraday gains later in the session. EUR/GBP closed the session at 0.8364 (from 0.8383). EUR/GBP 0.83 support holds for now. Cable basically drifted sideways in the 1.28 area**

The UK retail sales data might bring some animus for sterling trading today. March sales are expected to decline 0.5% M/M after a strong performance in February. We don't have strong reasons to take a different view from the consensus. A substantial negative surprise is probably needed to trigger a meaningful sterling correction given current momentum. If the EUR/USD rally slows, it will probably be difficult for EUR/GBP to break north of the 0.83/0.84 corridor. In a longer term perspective, the sterling rally is probably overdone. However, short-term we still see no obvious trigger for a sustained sterling correction.

We had a neutral short-term bias on EUR/GBP. On Tuesday, sterling dropped below the bottom of the EUR/GBP 0.84 support, improving the picture for sterling. The pair came with reach of the key 0.8305 support (Dec low). We look whether this level holds. A break below would be highly significant from a technical point of view. Longer term, Brexit-complications remain a potential negative for sterling. However, this is not the focus of sterling trading at this stage.

R2	0,8881	-1d
R1	0,8854	
EUR/GBP	0,8364	-0,0009
S1	0,8314	
S2	0,8304	



EUR/GBP: key 0.83 support still within reach, but no real test occurred



GBP/USD: sterling maintains Tuesday's gain

Calendar

Friday, 21 April		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Apr P)	53.8	53.3
15:45	Markit US Services PMI (Apr P)	53.2	52.8
15:45	Markit US Composite PMI (Apr P)	--	53.0
16:00	Existing Home Sales / MoM (Mar)	5.60m/2.2%	5.48m/-3.7%
Canada			
14:30	CPI NSA MoM / YoY (Mar)	--/--	0.2%/2.0%
Japan			
02:30	Nikkei Japan PMI Mfg (Apr P)	A 52.8-	52.4
06:30	Tertiary Index (Apr)	A 0.2%	0%
UK			
10:30	Retail Sales Ex Auto Fuel MoM / YoY (Mar)	-0.5%/-3.89%	1.3%/4.1%
10:30	Retail Sales Inc Auto Fuel MoM (Mar)	-0.5%/3.3%	1.4%/3.7%
EMU			
10:00	Markit Eurozone Manufacturing PMI (Apr P)	56	56.2
10:00	Markit Eurozone Services PMI (Apr P)	55.9	56.0
10:00	Markit Eurozone Composite PMI (Apr P)	56.4	56.4
10:00	ECB Current Account SA (Feb)	--	24.1b
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Apr P)	58	58.3
09:30	Markit Germany Services PMI (Apr P)	55.5	55.6
09:30	Markit/BME Germany Composite PMI (Apr P)	56.8	57.1
France			
09:00	Markit France Manufacturing PMI (Apr P)	53.1	53.3
09:00	Markit France Services PMI (Apr P)	57.0	57.5
09:00	Markit France Composite PMI (Apr P)	56.2	56.8
Italy			
10:00	Industrial Sales MoM / WDA YoY (Feb)	--/--	-3.5%/1.5%
Events			
Q4 earnings	GE (Bef-mkt), Schlumberger (13:00)		
15:30	Fed's Kashkari Participates in Q&A in St. Paul, MN		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,24	0,03		US	1,19	0,01		DOW	20578,71	174,22
DE	0,24	0,04		DE	-0,79	0,01		NASDAQ	5916,777	53,74
BE	0,80	0,04		BE	-0,50	0,01		NIKKEI	18620,75	190,26
UK	1,07	0,00		UK	0,13	-0,01		DAX	12027,32	10,87
JP	0,02	0,00		JP	-0,22	0,00		DJ euro-50	3440,03	19,04
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	-0,05	1,67	0,62	Eonia	-0,3580	0,0010				
5y	0,14	1,89	0,77	Euribor-1	-0,3720	-0,0010		Libor-1	0,9911	-0,0017
10y	0,71	2,20	1,09	Euribor-3	-0,3320	0,0000		Libor-3	1,1557	-0,0006
				Euribor-6	-0,2490	0,0020		Libor-6	1,3907	-0,0070
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0715	-0,0012		EUR/JPY	117,13	0,33		CRB	183,04	-0,88
USD/JPY	109,32	0,43		EUR/GBP	0,8364	-0,0009		Gold	1281,80	0,30
GBP/USD	1,2811	-0,0001		EUR/CHF	1,0704	0,0007		Brent	53,01	-0,12
AUD/USD	0,7534	0,0026		EUR/SEK	9,632	0,0157				
USD/CAD	1,3468	-0,0008		EUR/NOK	9,2336	0,0276				

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