



## Sunrise

Thursday, 23 March 2017

### Rates: Outcome healthcare bill vote reflection of prospects fiscal stimulus plans?

Today's eco calendar heats up, but investors could turn to wait-and-see mode. If US President Trump manages to push through the new healthcare bill, it bodes well for pursuing his economic agenda and supports the reflation trade. Failure to do so might bring more of Tuesday's risk off scenes to markets.

### Currencies: Dollar still struggles to stay above key support levels.

Yesterday, the dollar remained in the defensive even as the equity correction eased. EUR/USD and USD/JPY are still within reach of key technical levels. Global sentiment on risk and the first votes on the replacement of Obamacare might decide to which side the USD domino will fall. Sterling lost only temporary ground on the terrorist attack in London.

### 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 between flat (Dow) and +0.5% (Nasdaq)**, recovering from Tuesday's sudden sell-off. **Overnight, Asian stock markets trade mostly positive as well.**
- A suspected Islamist terrorist mowed down pedestrians on a crowded bridge before crashing his car near the gates of Parliament and stabbing a policeman, **leaving 4 dead in an attack that struck at the heart of British democracy.**
- **US President Trump and House leaders pushed for votes for their plan to overhaul Obamacare** and said they were making progress in their efforts to win over conservative Republicans. A vote on the bill is possible as soon as today
- **The RBNZ kept its policy rate unchanged at 1.75%.** Governor Wheeler said that while NZD had weakened by 4% since February, partly thanks to softer dairy prices, *"further depreciation is needed to achieve more balanced growth."*
- **A study** to be presented at the Brookings Papers conference this week **by two Federal Reserve Board economists finds that rates could hit zero as much as 40% of the time** – far more often than predicted by other studies.
- **Fitch downgraded Saudi Arabia by one notch to A+ (stable outlook)** from AA- (negative outlook). It said that that while the leadership was strongly committed to diversifying the economy beyond oil, that intention might not be enough.
- **Today's eco calendar heats up** with UK retail sales, US weekly jobless claims & new home sales and EMU consumer confidence. The ECB announces the results of its final TLTRO and publishes its economic bulletin. Fed Yellen, Fed Kashkari, ECB Lautenschlaeger and ECB Nouy speak.

# Rates

*US Treasuries find their composure*

*German Bunds catch up with US Treasuries*

*German curve bull steepened*

*Peripheral bonds trade very stable versus Bunds*

	US yield	-1d
2	1,25	0,00
5	1,94	0,00
10	2,41	0,00
30	3,02	-0,01

	DE yield	-1d
2	-0,77	-0,03
5	-0,33	-0,03
10	0,41	-0,05
30	1,14	-0,04

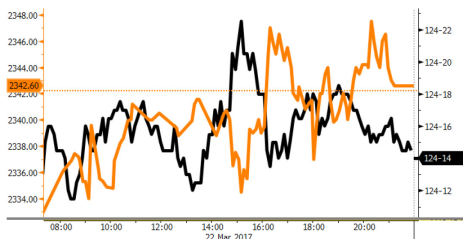
*Upside risk New Home sales*

## US Treasuries stabilize, as equities find their composure

The core bond buying in the face of diving equities slowed sharply yesterday as US equities found their composure. German Bunds outperformed US Treasuries in a catch-up move. US Existing Home sales had no impact and even the London terrorist attack didn't left traces. The outperformance of German Bunds occurred just after the European open. They held their gains when US Treasuries reversed a temporary spike higher in early US dealings. US equities tried the downside in the first hour of trading, but reversed to Tuesday's closing levels fairly fast and hovered sideways further on to close slightly (S&P) to modestly (NASDAQ) higher. **We wouldn't draw too many conclusions from the equity/US Treasury price action yet. On Tuesday when stocks nose-dived, the VIX remained at low levels, suggesting that investors aren't panicking.** Oil markets remained nervous, with a first test of the \$50/barrel mark Brent), before closing little changed at \$50.68/barrel. **In a daily perspective,** the German yield curve bull flattened with yields 2.5 bps (2-yr) to 5.3 bps (30-yr) lower, catching up with US Treasuries as the spreads had narrowed (too) fast recently. **Changes on the US yield curve are negligible** and range between -1.2 bps and -1.7 bps. Key support in US yield terms stands at 1.13% (2-yr), 1.8% (5-yr), 2.3% (10-yr) and 2.9% (30-yr) and was threatened. **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany ended unchanged with Spain (-3 bps) the lonely outperformer.

## Calendar heats slightly up, but still no market movers

The eco calendar is better filled today, but it still misses a real market mover. In **EMU consumer confidence and Belgian business confidence** are expected to have slightly improved in March, while **French business confidence** is expected to have stabilized in March. Upward surprises may still affect expectations for tomorrow's more important euro area PMI business confidence. The latter is expected to have marginally eased at high levels. **In the US, initial claims** are expected virtually unchanged at 240K and **New Home sales** are expected to be up 1.8% M/M in February to an annual pace of 565k. Given the easing of sales the last couple of months of 2017 and the low inventory of existing homes for sale, we expect New Home sales to increase after January also in February. The series is volatile though, which means that markets often don't react to the outcome, just like was the case for the Existing Home sales yesterday.



T-Note future (black) & S&P future (orange) (intraday): US Treasuries little changed on the day, as equities find their composure.



Brent oil: First test of crucial \$50/barrel level failed, but risks aren't over yet. .

### Healthcare bill mirror for future fiscal stimulus?

R2	164,40	-1d
R1	163,12	
<b>BUND</b>	160,2	0,42
S1	158,28	
S2	157,28	

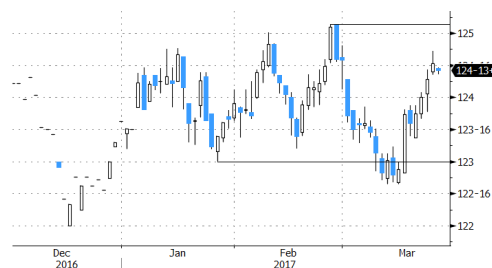
**Overnight**, most Asian stock markets gain up to 0.5% in line with WS yesterday evening. China marginally underperforms (flat). The US Note future and Brent crude stabilize, suggesting a neutral opening for the Bund.

**Today's, calendar** contains EMU consumer confidence, US weekly jobless claims and US new home sales. Topics of speeches by Fed Yellen (community development), Kashkari (US education outcomes), ECB Nouy (supervision) and ECB Lautenschlaeger (credit risk) suggest that they won't touch on monetary policy. **We expect markets to remain in wait-and-see mode as US President Trump prepares a vote on his new healthcare bill as soon as today.** Any delay could be sufficient to trigger more correction higher in core bonds. **Failure to push the bill through could signal problems ahead for his economic agenda and might falter markets' faith in the reflation trade.** In that case, we expect more of Tuesday's risk off scenes.

Technically, **we expect the US 10-yr yield to trade in the 2.3%-2.64% range. In the near-term, the US Treasuries probably have more upward potential (ahead of healthcare bill vote; test of 2.3% support?). Longer term, we maintain our scenario of 4 rate hikes in 2017 and higher long term yields.** The German 10-yr yield moved at a rapid pace from the 0.2% lower bound of the sideways range towards the 0.5% upper bound, but a break didn't occur. **Like in the US, we expect range trading ahead of the French elections. Short term, the correction lower on stock and oil markets is positive for Bunds.** Comments on the central bank's exit strategy could still influence the front end of the European yield curve. **The March ECB meeting and recent talk by ECB comforted our call that another "calibration" of the ECB's QE programme will happen in H2 2017.**



German Bund: Short term positive momentum via safe haven flows?



US Note future: Heading towards 125-04+ resistance (2.3% support US 10-yr yield) as markets' faith in the reflation trade falters?

# Currencies

*Dollar close to key support levels against the euro and the yen.*

*No sustained break occurred for now*

*USD trading off yesterday's lows, but gains remain very modest*

*Kiwi dollar little changed as RBNZ keeps neutral bias.*

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0800	-0,0013
S1	1,0341	
S2	1,0000	

*Eco calendar remains only mostly interesting.*

*Sentiment on risk and US health care bill wildcards for USD trading*

## USD holding near key technical levels

On Wednesday, investors tried to find out what could be next after Tuesday's risk-off correction. Risk sentiment remained fragile and core yields declined further. This weighed on the dollar, with USD/JPY (temporary) sliding below the 111 big figure. However, the decline in core bond yields and in the dollar halted as there were no sustained follow-through losses of US equities. USD/JPY closed the session at 111.16 (from 111.71). EUR/USD finished the day at 1.0797 (from 1.0811).

Overnight, Asian equities are trade slightly stronger, while the gains of both equities and the dollar are modest. Amongst others, global investors are awaiting a first vote in US house of representatives to repeal Obamacare. It is seen as a condition to pass other fiscal legislation. USD/JPY is trading in the 111.35 area. EUR/USD is trading a narrow range close to, slightly below 1.08. The Reserve Bank of New Zealand kept its policy rate unchanged at 1.75%, as expected, and maintained a neutral bias. The domestic economy performs solidly, but the bank sees many risk outside the country. The RBNZ still sees a need for a weaker kiwi dollar. NZD /USD trades currently slightly softer in the mid 0.70 area.

The calendar is better filled today, but still misses a real market mover. In EMU, several confidence data will be published. They are a precursor for tomorrow's more important PMI confidence. In the US, the initial claims are expected little changed at 240K and New Home sales are expected up 1.8% M/M in February. Given the recent easing of sales and the low inventory of existing homes for sale, we expect sales to have increased in February. Fed Yellen and Kaskhari speak but on non-policy issues (community development & education). ECB Lautenschlaeger, a hawk, speaks too, but she often shies away from the policy outlook. Markets will keep a close eye whether a replacement for Obamacare can pass Parliament. In case of an agreement, sentiment on risk might again improve, which might help to put a floor for the dollar. With only second tier eco data on the agenda, sentiment on risk and the political developments in the US (healthcare bill) will set the tone for USD trading. The jury is still out, but yesterday's price action was not too bad as there were no follow-through losses on Tuesday's equity correction. However, a clear signal of an USD bottoming out process is needed. Especially USD/JPY remains vulnerable as the pair still struggles not to fall below the 111.36/60 support.



EUR/USD holding near the key 1.0829/74 resistance



USD/JPY: still struggles no to fall below key 111.36/60 support.

The picture for EUR/USD remains slightly different. Of late, the narrowing of the US-German 2- and 10-year yield spread weighed on the dollar, but this narrowing halted yesterday and capped the topside of EUR/USD. The jury is still out whether or not interest rate differentials will narrow further, but for now, the 1.0829/74 resistance remains intact. **A test of the 1.0829/74 resistance is very well possible, but the EUR/USD rebound might further slow. Even so, it is still too early to row against the USD downtrend/ EUR/USD rebound. In a longer term perspective,** we don't change our USD-constructive bias based on the eco fundamentals. However, this doesn't tell anything on the short-term momentum dynamics.

### UK retail sales in focus for sterling trading

**Yesterday,** no data or other high profile UK specific news events was scheduled. Sterling tried to establish some follow-through gains on Tuesday's post-CPI rally. However, the focus was on the global factors. EUR/USD and cable broadly followed a similar trading pattern till the headlines on the London terrorist attack hit the screens. This triggered some temporary sterling selling with EUR/GBP jumping to the 0.87 barrier. EUR/GBP closed the session at 0.8649 (from 0.8663). Cable finished the session also marginally stronger at 1.2485.

**Today,** the UK calendar is better filled with both the **February retail sales** and the **CBI March distributive sales**. Official retail sales are expected to have rebounded (0.4% M/M and 2.6% Y/Y) after a setback December and January. After last week's BoE statement, price data have again become more important for sterling trading rather than activity data. Even so, a positive surprise might make markets pondering the probability of a BoE rate hike further down the road. At the same time, the euro also remains well bid, slowing any potential decline of EUR/GBP. Last week, the sterling decline took a breather. Some time ago, EUR/GBP **cleared 0.8592 resistance, improving the MT technical picture.** However, this week's (substantially) higher than expected UK inflation probably put a decent floor for sterling short-term. **We changed our short-term bias on EUR/GBP from positive to neutral.** Some further consolidation in the 0.85/0.88 area might be on the cards. **Longer term,** Brexit complications remain a potential negative for sterling, but this issue isn't in the spotlights right now.

R2	0,8881	-1d
R1	0,8854	
<b>EUR/GBP</b>	0,8634	-0,0020
S1	0,8592	
S2	0,8304	



EUR/GBP: sterling remains well bid after higher UK inflation earlier this week



GBP/USD: rebound resumes on sterling strength and USD weakness

# Calendar

Thursday, 23 March		Consensus	Previous
<b>US</b>			
13:30	<b>Initial Jobless Claims</b>	240K	241k
13:30	Continuing Claims	2040	2030k
15:00	<b>New Home Sales (Feb)</b>	565k	555k
15:00	<b>New Home Sales MoM (Feb)</b>	1.8%	3.7%
<b>UK</b>			
10:30	<b>Retail Sales Ex Auto Fuel MoM / YoY (Feb)</b>	0.3%/3.2%	-0.2%/2.6%
10:30	Retail Sales Inc Auto Fuel MoM / YoY (Feb)	0.4%/2.6%	-0.3%/1.5%
12:00	CBI Retailing Reported Sales (Mar)	4	9
12:00	CBI Total Dist. Reported Sales (Mar)	20	25
<b>EMU</b>			
	<b>ECB Targeted LTRO Total Amount</b>	110B	62.16B
16:00	<b>Consumer Confidence (Mar A)</b>	-5.9	-6.2
<b>Germany</b>			
08:00	GfK Consumer Confidence (Apr)	10.0	10.0
<b>France</b>			
08:45	Business Confidence (Mar)	104	104
08:45	Manufacturing Confidence (Mar)	107	107
08:45	Production Outlook Indicator (Mar)	7	5
<b>Belgium</b>			
15:00	Business Confidence (Mar)	-0.5	-1.1
<b>Events</b>			
10:00	ECB Publishes Economic Bulletin		
13:00	Fed's Yellen Speaks at Community Development Conference		
15:45	<b>ECB's Lautenschlaeger Speaks at Vienna Conference</b>		
17:30	Fed's Kashkari Speaks on U.S. Education Outcomes in D.C.		
18:00	US to sell \$11B 10-yr TIPS reopening		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,41	0,00		US	1,25	0,00		DOW	20661,3	-6,71
DE	0,41	-0,05		DE	-0,77	-0,03		NASDAQ	5821,641	27,82
BE	0,93	-0,05		BE	-0,47	-0,03		NIKKEI	19085,31	43,93
UK	1,18	-0,08		UK	0,12	-0,03		DAX	11904,12	-58,01
JP	0,06	0,01		JP	-0,27	-0,01		DJ euro-50	3420,7	-8,92
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	0,02	1,80	0,73	Eonia	-0,3570	-0,0100		Libor-1	0,9772	0,0000
5y	0,27	2,05	0,89	Euribor-1	-0,3730	0,0010		Libor-3	1,1562	0,0000
10y	0,84	2,38	1,23	Euribor-3	-0,3300	-0,0010		Libor-6	1,4338	-0,0011
				Euribor-6	-0,2420	-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	1,0800	-0,0013		EUR/JPY	120,16	-0,30		CRB	183,85	-0,43
USD/JPY	111,26	-0,14		EUR/GBP	0,8634	-0,0020		Gold	1250,50	2,70
GBP/USD	1,2507	0,0012		EUR/CHF	1,0708	-0,0028		Brent	50,93	0,26
AUD/USD	0,7662	-0,0008		EUR/SEK	9,4955	-0,0205				
USD/CAD	1,3321	-0,0042		EUR/NOK	9,1425	-0,0171				

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