



## Sunrise

Friday, 24 March 2017

### Rates: Vote on healthcare bill crucial for sentiment

We expect both eco data and Fed governors to be overshadowed by the vote on the new healthcare bill. 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, the US 10-yr yield might test 2.3% support. The reaction in case of a "yes-vote" will probably be smaller.

### Currencies: Healthcare vote to decide on next USD move

Yesterday, the dollar traded indecisively as uncertainty on the US healthcare vote weighed. An approval of the bill might trigger a relief rally of equities and of the dollar. However, we assume that more positive US news is needed to change the fortunes for the dollar in a sustainable way.

### 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 stocks closed ended flat**, as the vote on a bill to roll back Obamacare was delayed to today. Overnight, **Asian risk sentiment is more positive** as the Freedom Caucus said they would discuss an "improved" bill proposal.
- **Trump warned Republicans to pass a new healthcare bill or risk being stuck with Obamacare.** The outcome of the vote is on a knife-edge having fractured his party and turned into a test of his ability to deliver on the rest of his agenda.
- **BoJ Governor Kuroda said there is "no reason" to withdraw the bank's massive monetary stimulus now**, or raise its bond yield targets, as inflation remains far from its 2% goal.
- **Dallas Fed Kaplan** said the central bank should roll off both MBS and Treasury holdings when it begins to let its balance sheet shrink. **Kaplan also said that the median expectation for 3 rate increases in 2017 is a reasonable baseline.**
- **SF Fed Williams expects 3 or 4 times hikes this year.** He would like to see a fed-funds rate that is "half way" to its eventual resting level before **beginning to wind down the balance sheet. That will probably be late this year.**
- **Growth at Japanese manufacturers softened to a three-month low in March as output and new orders increased at a slower rate.** The preliminary PMI dropped to 52.6 last month, down from February's reading of 53.3
- **Today's eco calendar contains EMU PMI data and US durable goods orders.** Fed governors Evans, Bullard, Dudley and Williams are scheduled to speak.

# Rates

## Bond markets in wait and see modus: Vote today!!

Global core bonds hovered sideways in a tight range yesterday and closed modestly lower. The small intra-day movements of the Bund were inversely correlated with equities (EuroStoxx), which traded also in a tight range. Similarly, US Treasuries tested both the upside and the downside once, but finally stuck close to opening levels. Traders awaited the procedural vote on the repeal of Obamacare, which was delayed and will finally take place today (see below). EMU data had only a temporarily impact. The ECB's TLTRO was a big success. US initial claims (weak) and New Home sales (strong) had some temporary impact. In a daily perspective, **German yields rose by 3.2 bps** (2-yr & 30-yr) to 2.6 bps (30-yr). Changes on the US yield curve vary between +0.4 bps (2-yr) and -1.5 bps (5yr). **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany narrowed 3 to 4 bps for both peripherals and semi-core bonds, helped by a strong TLTRO bidding.

*US Treasuries and Bunds modestly lower*

*German Bunds underperform US Treasuries*

*Peripheral bond spreads narrow on strong TLTRO*

	US yield	-1d
2	1,27	0,02
5	1,97	0,02
10	2,43	0,03
30	3,04	0,02

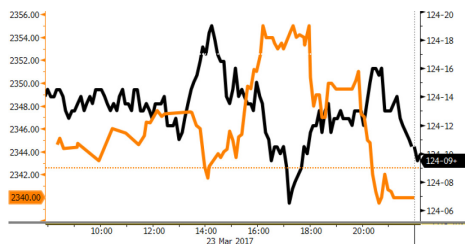
*Downside risk EMU PMI*

	DE yield	-1d
2	-0,74	0,03
5	-0,30	0,03
10	0,43	0,02
30	1,17	0,03

## EMU business confidence and US durables in focus

The eco calendar contains two interesting reports. In EMU, **PMI business confidence is expected to have slightly eased** to 55.8 in March from 56 in February, with both the manufacturing and service sectors contributing to the minor decline. After the French and Belgian national business sentiment data showed slightly more easing, we put **risks for EMU PMI's on the downside of expectations**. However, the level should stay high and the quarterly average will show an improvement versus Q4 2016, which suggests a likely acceleration of growth in Q1 2017. The **US durable orders** are expected to have risen 1.3% M/M in February, following a 2% M/M rise in January. Excluding the volatile transportation orders, a rise by 0.6% m/m is expected following a flat figure for January. **We support the consensus view** and have no arguments to deviate. The report is very volatile in nature and thus surprises are possible.

**Fed speakers on duty** are Evans (opening remarks at Community event), Bullard (on economy), Dudley and Williams. We don't expect these speakers to affect markets due to the subject of the speech (Evans/Dudley/Williams) or due to the outspoken (dovish) profile (Bullard). **The vote on the repeal of the Obamacare in the House will overshadow Fed talk and US eco data.**



*T-Note future (black) & S&P future (orange) (intraday): US Treasuries little changed on the day, as vote on Obamacare looms*



*US 10-yr yield: Failure to pass the vote in the House may push yields towards bottom sideways range. Otherwise, yields may rise a bit.*

### Vote on healthcare bill crucial for sentiment

R2	164,40	-1d
R1	163,12	
<b>BUND</b>	<b>160,03</b>	<b>-0,17</b>
S1	158,28	
S2	157,28	

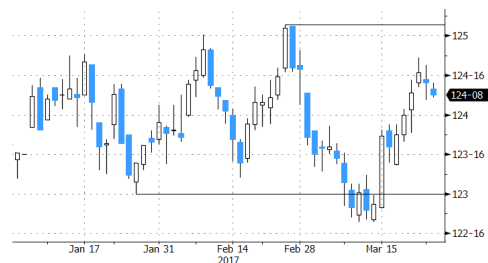
**Overnight, Asian risk sentiment improved** as comments of the chairman of the House Freedom Caucus, Meadows, suggest that the House Republicans will after all agree to the new bill to replace Obamacare. The dollar, US yields and Asian stocks trade higher. We expect a slightly softer opening for the Bund.

**Today's calendar** contains EMU PMI data (downside risks) and US durable goods orders. Several Fed speakers (see above) hold public appearances. We expect both eco data and Fed governors to be overshadowed by **the vote on the new healthcare bill (expected in the US morning session). That could keep investors in wait-and-see mode. 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 with higher US Treasuries and a test of 2.3% support in the US 10-yr yield. The market reaction in case of a "no-vote" will probably be bigger than the relief rally (lower US Treasuries) in case of a "yes-vote".

Technically, **we expect the US 10-yr yield to trade in the 2.3%-2.64% range. 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.** 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

## Healthcare vote to decide on next USD move

*Dollar remained in the defensive yesterday as persisted.*

On Thursday, USD indecisiveness prevailed as markets waited whether the Trump administration would be able to pass a first vote to repeal Obamacare. USD/JPY traded with a slight negative bias and closed the session at 110.94 (from 111.16). EUR/USD finished the session at 1.0783 (from 1.0797). So, the dollar continued to hold up better against the euro than against the yen, with EUR/USD staying away from the key 1.0829/1.0874 resistance.

*USD rebounds as chances increase that the US health care bill passes*

**Overnight**, markets see a rising chance that the changes to the healthcare Bill will get enough support from the House Freedom Caucus to pass the House vote. This supports risky assets (equities) in Asia.. USD/JPY is off yesterday's lows and trades again round 111.50. EUR/USD (1.0765/70 area) is also drifting cautiously south. The dollar rebound is supported a slight rise of US yields. Of course, the Trump-care is no done thing yet.

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0763	-0,0037
S1	1,0341	
S2	1,0000	

The eco calendar contains two interesting reports. In EMU, **PMI business confidence is expected slightly softer** (55.8 in March from 56. After recent regional sentiment data, we put **the risks for the EMU PMI on the downside of expectations**. However, confidence remains at a healthy level. The **US durable orders** are expected to have risen 1.3% M/M, following a 2% M/M rise in January. **We support the consensus view** and have no arguments to deviate, but the report is very volatile in nature.

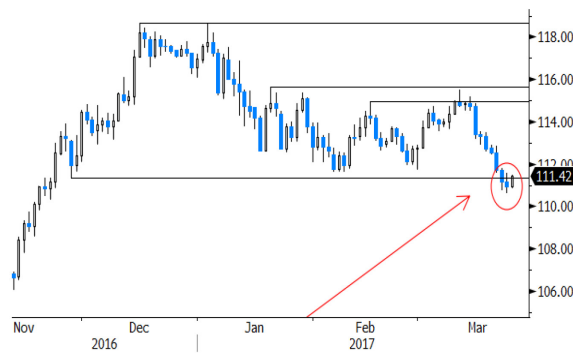
*Eco calendar contains EMU PMI and US durable orders.*

**In a day-to-day perspective**, the eco data (potentially softer EMU PMI and decent US durables) might be intrinsically USD supportive. **However, the focus will be on the vote on Trump-care. An approval** (most 'likely' scenario?) **might trigger a short-term relief rally in equities and the dollar**. However, this rebound likely won't go far. The bumpy road ahead of the vote suggests more difficulties when other key issues (taxes etc) will be brought to Congress. **So, more other USD positive news is needed to really call an end to the recent period of USD softness**. A failure to pass the bill is USD negative with probably a confirmation of the downside break in USD/JPY. In that scenario, EUR/USD might go for a test of the 1.0829/74 area. A break is possible, but far from sure. We still doubt that the EUR/USD has really big upside potential if sentiment on risk were to turn outright negative.

*A positive healthcare vote might provide a (ST) floor for the dollar*



EUR/USD: topside blocked if Trump-care is to be approved?



USD/JPY: test 111.36/60 support continues

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.

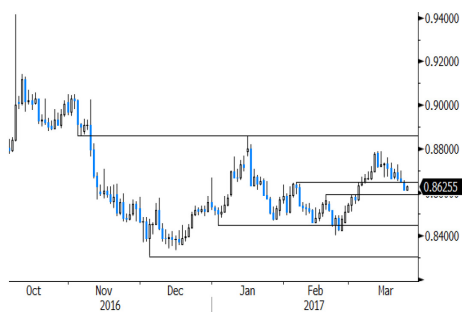
R2	0,8881	-1d
R1	0,8854	
EUR/GBP	0,8626	-0,0008
S1	0,8592	
S2	0,8304	

### Sterling extends gradual comeback, for now

Sterling remained well bid yesterday and EUR/GBP traded with a slightly negative bias going into the publication of the UK retail sales. The ONS February retail sales (1.4% M/M and 3.7% Y/Y) were stronger than expected. Sterling rallied further and EUR/GBP dropped to the low 0.86 area. Cable jumped to the 1.25+ area.

However, the sterling rally ran into resistance even as the CBI retail data (published at noon) also suggested decent retail activity in March. Sterling is currently apparently more sensitive to (better than expected) price data, rather than activity data. EUR/GBP closed the session at 0.8612. Cable finished the day at 1.2521.

Overnight, BoE Vlieghe in a press article said that higher inflation didn't mean a rate increase. He wants evidence on strong wage growth before considering voting for a rate hike. Sterling is losing a few ticks this morning. Later today, only the BBA loans for Home Purchases are scheduled for release. Last week, sterling found a better bid after the early March decline. 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. We are not convinced that the BoE will raise rates anytime soon, even not after this months' higher inflation data.



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



GBP/USD: rally to slow as USD shows tentative signs of bottoming out?

# Calendar

Friday, 24 March		Consensus	Previous
<b>US</b>			
13:30	Durable Goods Orders (Feb P)	1.3%	2.0%
13:30	Durables Ex Transportation (Feb P)	0.6%	0.0%
13:30	Cap Goods Orders Nondef Ex Air (Feb P)	0.5%	-0.1%
13:30	Cap Goods Ship Nondef Ex Air (Feb P)	0.3%	-0.4%
14:45	Markit US Manufacturing PMI (Mar P)	54.7	54.2
<b>Japan</b>			
01:30	Nikkei Japan PMI Mfg (Mar P)	A 52.6	53.3
06:00	Leading Index CI (Jan F)	A 104.9	105.5
06:00	Coincident Index (Jan F)	A 115.1	114.9
<b>UK</b>			
10:30	BBA Loans for House Purchase (Feb)	44900--	44657
<b>EMU</b>			
<b>10:00</b>	<b>Markit Eurozone Manufacturing PMI (Mar P)</b>	<b>55.3</b>	<b>55.4</b>
<b>10:00</b>	<b>Markit Eurozone Services PMI (Mar P)</b>	<b>55.3</b>	<b>55.5</b>
10:00	Markit Eurozone Composite PMI (Mar P)	55.8	56.0
<b>Germany</b>			
09:30	Markit/BME Germany Manufacturing PMI (Mar P)	56.5	56.8
09:30	Markit Germany Services PMI (Mar P)	54.5	54.4
09:30	Markit/BME Germany Composite PMI (Mar P)	56.0	56.1
24MAR-28MAR	Import Price Index MoM / YoY (Feb)	0.4%/7.1%	0.9%/6.0%
<b>France</b>			
08:45	GDP QoQ / YoY (4Q F)	0.4%/1.2%	0.4%/1.2%
09:00	Markit France Manufacturing PMI (Mar P)	52.4	52.2
09:00	Markit France Services PMI (Mar P)	56.1	56.4
09:00	Markit France Composite PMI (Mar P)	55.8	55.9
<b>Events</b>			
00:00	Dallas Fed's Kaplan Speaks on Economy in Chicago		
13:00	Fed's Evans Speaks at Community Development Event		
14:05	Fed's Bullard to Speak to Economic Club of Memphis		
<b>15:00</b>	<b>Fed Dudley speaks in NY to students and business</b>		
18:30	Fed's Williams holds Q&A		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,43	0,03		US	1,27	0,02		DOW	20656,58	-4,72
DE	0,43	0,02		DE	-0,74	0,03		NASDAQ	5817,693	-3,95
BE	0,92	-0,02		BE	-0,47	0,00		NIKKEI	19262,53	177,22
UK	1,23	0,05		UK	0,16	0,04		DAX	12039,68	135,56
JP	0,06	0,01		JP	-0,26	0,01		DJ euro-50	3452,18	31,48
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	0,03	1,83	0,75	Eonia	-0,3570	0,0000		Libor-1	0,9839	0,0067
5y	0,27	2,08	0,93	Euribor-1	-0,3730	0,0000		Libor-3	1,1568	0,0006
10y	0,84	2,41	1,28	Euribor-3	-0,3300	0,0000		Libor-6	1,4313	-0,0025
				Euribor-6	-0,2420	0,0000				
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>		Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1,0763	-0,0037		EUR/JPY	119,82	-0,34		CRB	183,64	-0,21
USD/JPY	111,33	0,07		EUR/GBP	0,8626	-0,0008		Gold	1245,40	-5,10
GBP/USD	1,2477	-0,0030		EUR/CHF	1,0716	0,0008		Brent	50,61	-0,32
AUD/USD	0,7617	-0,0045		EUR/SEK	9,5224	0,0269				
USD/CAD	1,3368	0,0047		EUR/NOK	9,159	0,0165				

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