



Friday, 27 April 2018

Exceptionally, there will be no KBC Sunrise on Monday the 30th of April and Tuesday the 1st of May 2018. . Next KBC Sunrise will be published on Wednesday the 2nd of May 2018.

Rates: Side-lined ahead of next week's key US eco data

The ECB wants to spend time finding out whether the recent setback in EMU eco data is temporary. It suggests that markets will be more sensitive to eco numbers as well. Draghi's overall message shouldn't have a permanent impact though. We expect a neutral session today, with especially US investors side-lined ahead of next week's key data and Fed meeting.

Currencies: Will US data be strong enough to confirm EUR/USD 1.2155 break?

EUR/USD dropped below the 1.2155 range bottom yesterday. Draghi kept a wait-and-see approach. Combined with underlying USD strength, this was apparently enough for some stale euro longs to throw the towel. From here, the focus returns the US side of the story. Will upcoming US data be strong enough to support a further rise in US yields and the USD?

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 eked out gains of 1% with Nasdaq outperforming (+1.64%)** following strong tech earnings (eg Facebook, Amazon, Microsoft). **Asian equity indices gain less ground** with China again underperforming.
- **The BoJ left its stimulus program unchanged, while removing language from its statement declaring that it would reach 2% inflation around fiscal 2019.** The Japanese yen remains remarkably strong. (BB)
- **North Korean leader Kim Jun Un met with South Korean President Moon Jae-in.** Their meeting is set to determine the future of relations on the Korean Peninsula and lay the groundwork for the US/North Korean Summit. (WSJ)
- **China is open to negotiating with the US to resolve trade tensions,** Premier Li Keqiang was quoted as saying by state media, noting that the countries should manage their conflicts through dialogue. (Reuters)
- Both headline (0.5% Y/Y) and core (0.6% Y/Y) **Tokyo CPI printed significantly below consensus** in April. **March retail sales (-0.7% M/M) fell short of forecast** as well, while **industrial production (1.2% M/M) did manage to beat the bar.**
- **Profit growth at Chinese industrial firms slowed to its weakest pace in over a year** in March, in a sign of increasing headwinds for the Chinese economy as policy makers navigate debt risks and a heated trade row with the US. (Reuters)
- **Today's eco calendar** contains German labour market data, EZ economic confidence and **Q1 GDP readings in the UK and the US.** **BoE Carney** is scheduled to speak. Italy sells bonds.

Rates

Side-lined ahead of next week's key US eco data

Global core bonds managed to eke out gains yesterday following six straight trading days suffering losses. The main move occurred in the run-up to and after the ECB meeting. The ECB kept its monetary policy and forward guidance as expected unchanged. The tone of Draghi's **press conference reflected recent comments made in a speech**. The central bank admitted that recent data point to some moderation, coming off exceptionally high levels, but now wants to see whether this setback is temporary or permanent. Draghi said that monetary policy wasn't discussed which might imply that changes to the forward guidance could only occur in July rather than in June. It was perhaps a slightly dovish element in an otherwise rather neutral statement. [Click HERE for a full review of the ECB meeting](#). Strong US equity markets put an intraday cap on core bonds during US dealings.

German yields eventually declined by 1.2 bps (2-yr) to 4.1 bps (10-yr). The US yield curve shifted 0.6 bps (2-yr) to 4.5 bps (10-yr) lower with the 10-yr yield dropping back below the psychological 3% mark. 10-yr yield spread changes vs Germany widened 1 bp.

Asian stock markets trade less positive than WS yesterday with China underperforming. The BoJ removed language about the timing of hitting the 2% inflation target, but markets neglect it. The US Note future trades a tad higher and that could be reflected in the opening of the Bund as well.

Today's eco calendar contains EMU confidence data, the German labour market report and Q1 US GDP. Markets will be more sensitive to EMU data after yesterday's ECB meeting with Draghi and co monitoring them very closely to see whether the setback is temporary or permanent. Other April confidence data confirm the expected stabilization around 112. Q1 US GDP is forecast at 2% Q/Q annualized, but this slowdown should be discounted given Q1 figures. The onus for US markets is on next week's eco data (ISM's, ADP, payrolls) and Fed meeting which could result in a **more neutral trading today**.

The recent core bond sell-off lifted US yields towards key resistance in the 10-yr (3.05%/3.07%) and 30-yr yield (3.22%). Next week's US data might decide on a test/break with markets especially sensitive to price indicators. The German 10-yr yield bounced off key support levels (0.46%/0.48%), suggesting the start of a new upleg towards 0.8%. Yesterday's ECB meeting shouldn't be a structurally hampering factor.

	US yield	-1d
2	2,48	-0,01
5	2,81	-0,02
10	2,98	-0,04
30	3,16	-0,04

	DE yield	-1d
2	-0,56	-0,01
5	-0,02	-0,03
10	0,59	-0,04
30	1,26	-0,04



German 10-yr yield corrects lower yesterday ahead and after ECB. We don't expect Draghi's message to have a permanent impact



US 10-yr yield hovers near 3% ahead of next week's key US eco releases

Currencies

US data strong enough to confirm 1.2155 break?

R2	1,2598	-1d
R1	1,2555	
EUR/USD	1,2103	-0,0058
S1	1,2055	
S2	1,1916	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8695	-0,0035
S1	0,8627	
S2	0,8541	

The rise of core/US yields and of the dollar slowed yesterday ahead of the ECB's policy decision. The ECB left policy unchanged and Draghi didn't give new info on a future change in policy. First tests of 1.2155 support before and during the press conference failed. Later, the break finally succeeded. **The constructive underlying USD momentum was the main driver. The lack of new guidance on ECB normalization probably discouraged euro longs.** EUR/USD was already on a down trajectory. The topside in the likes of EUR/GBP and EUR/JPY was blocked. **More euro longs finally threw the towel.** EUR/USD closed the session at 1.2103. USD/JPY finished the day little changed at 109.30. EUR/JPY finished at 132.30 (from 133.07).

Asian equities mostly show modest gains overnight supported by good results from several technology bellwethers, including Amazon. The underperformance of Chinese stocks is again striking. The BOJ maintains its policy stimulation, as expected, but changed its language on inflation. It removed the assessment for inflation to reach 2% around fiscal year 2019. For now, the impact on the yen is close to non-existent. USD/JPY trades in the 109.15 area. EUR/USD hovers in the low 1.21 area.

The eco calendar heats up today with the EC confidence data, Q1 growth figures in France, Spain and Belgium and German labour data. The key data feature is the US advance Q1 GDP report. A modest 2.0% Q/Qa is expected. So, the bar of consensus is not that high. We keep also a close eye at the price series of the report. The core PCE deflator is expected to rise from 1.9% to 2.5%! Quarterly growth data are always a bit backward looking. In this respect, **we assume that next week's US early month data are more important for the fate of the dollar.** However, a constructive report might support further USD gains. **From a technical point of view,** we look for confirmation of yesterday's break below 1.2155. If confirmed, next support comes in at 1.2055 (50% retracement) and the 1.1936/16 area (62% retracement/jan 2018 low).

EUR/GBP dropped from the mid 0.87 area to fill bids north of 0.8680 yesterday. We see the move mainly as euro softness. UK Q1 GDP is expected at a soft 0.3% Q/Q and 1.4% Y/Y today. BoE Carney and Haldane speak. We don't expect any high profile news for sterling. However, market expectations are already low. Further euro (EUR/USD) weakness might still filter through in the EUR/GBP momentum.



EUR/USD drops below 1.2155 range bottom. 1.19 area is next big support area.



EUR/GBP eases in line with EUR/USD slide

Calendar

Friday, 27 April		Consensus	Previous
US			
14:30	Employment Cost Index (1Q)	0.7%	0.6%
14:30	GDP Annualized QoQ (1Q A)	2.0%	2.9%
14:30	Personal Consumption (1Q A)	1.1%	4.0%
14:30	GDP Price Index (1Q A)	2.2%	2.3%
14:30	Core PCE QoQ (1Q A)	2.5%	1.9%
Japan			
	BOJ 10-Yr Yield Target	A:0.000%	0.000%
	BOJ Policy Balance Rate	A:-0.100%	-0.100%
01:30	Job-To-Applicant Ratio (Mar)	A: 1.59	1.58
01:30	Jobless Rate (Mar)	A: 2.5%	2.5%
01:30	Tokyo CPI YoY (Apr)	A: 0.6%	1.0%
01:30	Tokyo CPI Ex-Fresh Food YoY (Apr)	A: 0.5%	0.8%
01:50	Retail Sales MoM / Trade YoY (Mar P)	A: -0.7%/1.0%	0.5%/1.7%
01:50	Industrial Production MoM / YoY (Mar P)	A: 1.2%/2.2%	2.0%/1.6%
China			
03:30	Industrial Profits YoY (Mar)	A: 3.1%	10.8%
UK			
01:01	GfK Consumer Confidence (Apr)	A: -9	-7
10:30	Index of Services MoM & 3M/3M (Feb)	0.1%/0.6%	0.2%/0.6%
10:30	GDP QoQ / YoY (1Q A)	0.3%/1.4%	0.4%/1.4%
EMU			
11:00	Economic Confidence (Apr)	112.0	112.6
11:00	Business Climate Indicator (Apr)	1.28	1.34
11:00	Industrial Confidence (Apr)	5.8	6.4
11:00	Services Confidence (Apr)	15.9	16.3
11:00	Consumer Confidence (Apr F)	-0.1	--
Germany			
08:00	Import Price Index MoM / YoY (Mar)	0.1%/0.0%	-0.6%/-0.6%
09:55	Unemployment Change (000's) (Apr)	-15k	-19k
09:55	Unemployment Claims Rate SA (Apr)	5.3%	5.3%
France			
07:30	GDP QoQ / YoY (1Q A)	0.4%/2.3%	0.7%/2.5%
08:45	PPI MoM / YoY (Mar)	--/--	0.1%/1.5%
08:45	CPI EU Harmonized MoM / YoY (Apr P)	0.1%/2.7%	1.1%/1.7%
Belgium			
	CPI MoM / YoY (Apr)	--/--	0.14%/1.39%
15:00	GDP SA QoQ / YoY (1Q P)	--/--	0.5%/1.9%
Spain			
09:00	GDP QoQ / YoY (1Q P)	0.7%/3.0%	0.7%/3.1%
09:00	Retail Sales SA YoY (Mar)	1.3%	1.9%
09:00	CPI EU Harmonised MoM / YoY (Apr P)	0.8%/1.2%	1.2%/1.3%
Events			
Q1 Earnings	Sanofi (07:30), Daimler (07:30), Chevron, Exxon (14:00),...		
07:45 & 08:45	ECB Mersch & Lautenschlaeger Speak in Sofia		
10:00	ECB Survey of Professional Forecasters		
11:00	Italy to Sell Bonds (0.95% 2023, 2% 2028 and FRN 2025)		
16:00	BoE Carney Speaks in London		
16:15	BoE's Haldane Chairs Panel in London		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,98	-0,04	US	2,48	-0,01	DOW	24322,34	238,51	
DE	0,59	-0,04	DE	-0,56	-0,01	NASDAQ	7118,677	114,94	
BE	0,85	-0,03	BE	-0,48	-0,01	NIKKEI	22467,87	148,26	
UK	1,50	-0,04	UK	0,89	0,00	DAX	12500,47	78,17	
JP	0,06	-0,01	JP	-0,13	-0,01	DJ euro-50	3506,03	20,20	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,05	2,84	1,26	Eonia	-0,3670	-0,0010	Libor-1	1,8999	0,0000
5y	0,42	2,92	1,43	Euribor-1	-0,3720	-0,0010	Libor-3	2,3656	0,0000
10y	1,02	3,01	1,63	Euribor-3	-0,3280	0,0000	Libor-6	2,5193	0,0000
				Euribor-6	-0,2690	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2103	-0,0058	EUR/JPY	132,3	-0,77	CRB	201,22	0,53	
USD/JPY	109,3	-0,13	EUR/GBP	0,8695	-0,0035	Gold	1317,90	-4,90	
GBP/USD	1,3919	-0,0013	EUR/CHF	1,1972	0,0015	Brent	74,74	0,74	
AUD/USD	0,7554	-0,0011	EUR/SEK	10,4865	0,0710				
USD/CAD	1,287	0,0026	EUR/NOK	9,6753	-0,0201				

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Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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