



Sunrise

Thursday, 20 April 2017

Rates: Working off overbought conditions

Today's eco calendar contains US weekly jobless claims, Philly Fed business outlook and EMU consumer confidence. Data aren't expected to inspire trading, but a weaker Philly Fed outlook could further question the reflation trade. However, both the Bund and US Note future entered overbought conditions, suggesting that the core bond rally could lose more steam.

Currencies: dollar still going nowhere

Yesterday, the dollar stabilized against the euro and the yen. A bottoming in core yields helps to put a floor for the dollar, but there is no obvious trigger for a sustained rebound. Sterling maintains most of the impressive gains recorded after UK PM May announced early elections.

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** started the day on a strong footing, **but returned gains throughout dealings**. The Dow (-0.58%) and S&P (-0.17%) even closed with losses. **Overnight, Asian risk sentiment is better** with gains of up to 0.5%.
- **Oil prices slid** after data showed US gasoline stockpiles increased for the first time in nine weeks and as weekly US crude production hit its highest level since August 2015. **Brent crude declined from \$55/barrel to \$52.5/barrel**.
- Brussels is starting **systematically to shut out British groups from multibillion-euro contracts** and **urging companies to decamp** to one of the 27 remaining EU members as it prepares for Brexit.
- **New Zealand inflation** jumped in Q1 to 2.2% Y/Y, the fastest since 2011, putting CPI in the upper half of the RBNZ's 1-3% target range. The central bank said last month it was anticipating higher inflation. NZD/USD jumped from 0.7 to 0.704.
- **Japan's export and import growth revved up in March**, with the former marking a fourth straight month of expansion and a stronger yen helping the latter notch its fastest rise in more than three years.
- **UK PM May won formal approval from the House of Commons** to hold an early election in June, supported by an opposition Labour Party that could be facing one of its worst national defeats in decades.
- **Today's eco calendar** contains US initial jobless claims, Philly Fed business outlook and EMU consumer confidence. Spain and France tap the market. Fed governor Powell is scheduled to speak.

Rates

ECB survey highlights side-effects QE

ECB mentions side-effects QE; members differ on policy outlook

US Treasury trading calms down

German curve bear flattens

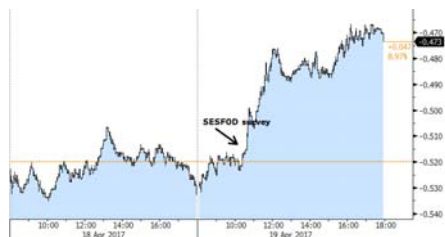
Peripheral spreads narrow sharply

Global core bonds lost some ground yesterday, working off overbought conditions. German Bunds underperformed European swap rates and US Treasuries at the front end of the curve. This Schatz/Bobl specific move occurred after the release of an ECB survey which cited scarcity of high-quality short term debt, which is used as collateral in funding markets. So far, the ECB continuously stated that money markets were properly functioning. This survey for the first time highlights side-effects from the asset purchase programme. The front end of the German curve suffered after the release. The only eco item on the agenda was the final EMU CPI, confirmed at 1.5% Y/Y and ignored by investors. Risk sentiment on stock markets deteriorated during the US session, but losses remained limited and couldn't prevent US Treasury losses. Brent crude crashed during US dealings on higher inventories (\$55/barrel to \$52.5/barrel). ECB Hansson said that the discussion on the QE exit should start soon, allowing a good preparation, even if the ECB should not rush into concrete action. **ECB Coeure** said the ECB is very, very serious about forward guidance. Risks for the outlook are balanced. **ECB Praet** still sees downside risks. **The survey and ECB comments suggest that the QE exit discussion will start in the next few months.** The **US Beige Book** was somewhat mixed, but the tone was positive on balance, suggesting modest-to-moderate expansion.

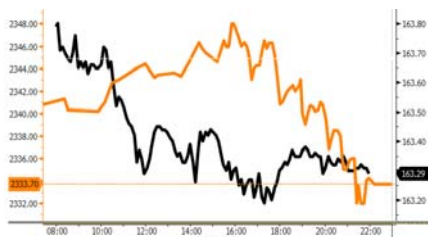
	US yield	-1d
2	1,18	0,00
5	1,73	0,00
10	2,20	0,00
30	2,86	0,00

	DE yield	-1d
2	-0,80	0,00
5	-0,47	0,00
10	0,20	0,00
30	0,92	0,00

In a daily perspective, the German yield curve bear flattened with yields 4 bps (30-yr) to 6.2 bps (5-yr) higher. Changes on the US yield curve ranged between +1.6 bps (2-yr) and +4.6 bps (10-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed 3 to 9 bps for the non-core countries. Core spreads declined by 1 to 3 bps.



German 2-yr yield rises sharply as ECB report mention negative side-effects of QE for the first time.



Bund future (black) & S&P future (orange). Core bonds hit and unable to recoup losses when equities slid lower

Slightly more interesting eco calendar

Philly Fed survey reality check for health US businesses

EMU consumer confidence to stay high

Fed Powell speaks

France and Spain tap the market

Today, market attention will go to the EMU consumer sentiment and the Philly Fed business outlook, both for April. Less important are the initial claims. US sentiment data sky-rocketed after Trump's election. The latest NFIB small business and the Michigan consumer sentiment survey showed that sentiment held close to record highs. However, NY business sentiment plunged in April, suggesting that firms might get second thoughts about Trump's ability to deliver on tax cuts and infrastructure spending. **The Philly Fed business sentiment fell already in March, but is still at very high level (32.8). A slowing to 25.5 is expected in April. A sharper decline won't go unnoticed. EMU consumer confidence** is expected to be marginally stronger at -4.8 (from -5), a high level for this indicator. The market reaction to the latter is often very modest.

Spain and France tap market

R2	164,40	-1d
R1	163,99	
BUND	163,35	0,00
S1	161,88	
S2	158,28	

The French treasury taps the on the run 3-yr BTAN (0% Feb2020) and 5-yr BTAN (0% May2022) for a combined €4.5-5.5B. The bonds cheapened in ASW spread terms going into the auction and ahead of the French elections. That event risk could hamper demand, even if the amount on offer is relatively low for French standards. Additionally, the French Treasury sells three inflation-linked bond for a combined €0.75-1.25B. **The Spanish debt agency** taps the on the run 5-yr Bono (0.4% Apr2022), 10-yr Obligacion (1.5% Apr2027), 30-yr Obligacion (2.9% Oct2046) and off the run Obligacion (6% Jan2029) for a combined €4.5-5.5B. The bonds also cheapened in the run-up to the taps. The off the run bond (Jan2029) trades cheap on the Spanish curve, while the on the runs are a tad expensive. We expect plain vanilla demand.

Little downside Bund ahead of French elections

Overnight, Asian risk sentiment improved with gains of up to 0.5%. The US Note future and Brent crude stabilise, suggesting a neutral opening for the Bund. **Today's eco calendar** contains US weekly jobless claims, Philly Fed business outlook and EMU consumer confidence. Data aren't expected to inspire trading, but a weaker Philly Fed outlook could further question the reflation trade and marginally support US Treasuries.

Last week's risk aversion pushed the US 5- and 10-yr yield below key support levels (respectively 1.8% and 2.3%). The German 10-yr yield lost 0.2% support earlier this week. Geopolitical concerns (North Korea & Syria), doubt about the implementation of Trump's pro-growth agenda and French presidential elections (1st round on April 23) probably prevent return action (higher yields) this week as the eco calendar is irrelevant for trading apart from Friday's euro area PMI's. **However, both the Bund and US Note future entered overbought conditions, suggesting that the core bond rally could lose some steam (eg. yesterday' trading). We expect consolidation 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 run-off its balance sheet before the end of the year.



German Bund: New contract high. German Bund starts shrugging off overbought conditions



US Note future: risk aversion dominates, boosting core bonds with yields below key levels

Currencies

Dollar in wait-and-see modus. No rebound yet

Dollar slide halted, but no clear sign of a sustained rebound

On Wednesday, there were only second tier eco data releases. Core bond yields rebounded after the recent decline and put a floor under EUR/JPY and USD/JPY. The broader picture for the dollar remained indecisive. The trade-weighted dollar held within reach of the recent correction low, while EUR/USD hovered in the 1.0725 area, near this week's high. So, there was no consistent indication across markets that the US reflation trade would resume and that a sustained dollar rebound is around the corner.

R2	1,1145	-1d
R1	1,0906	
EUR/USD	1,0727	0,0000
S1	1,0341	
S2	1,0000	

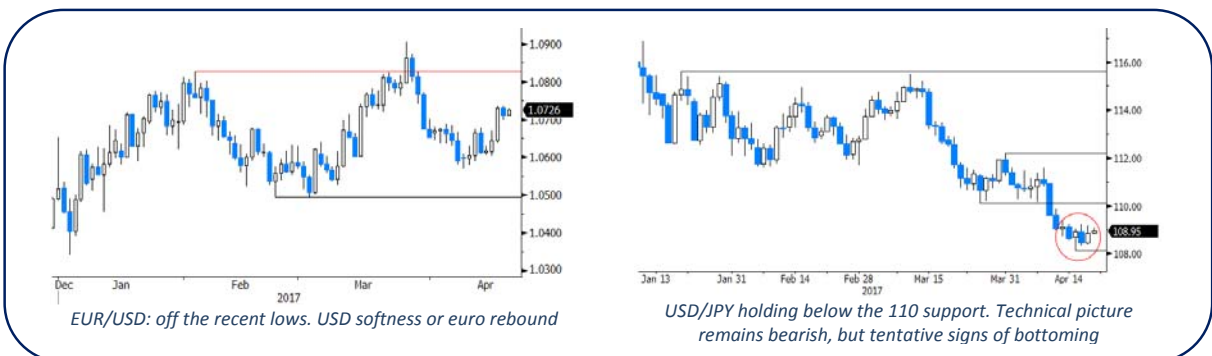
Overnight, Asian equities opened soft after a disappointing performance in the US, but found a better bid as the session proceeded. Japanese March foreign trade data were stronger than expected and suggest a decent global economic context supports regional sentiment. However, the equity rebound has hardly any impact on the dollar. USD/JPY hovers little changed near the 109 level. EUR/USD also maintains its tight range in the low 1.07 area. Commodity currencies remain in the defensive after yesterday's sharp decline of the oil price. AUD/USD is trading in the 0.75 area. USD/CAD jumped to the high 1.34 area.

Eco calendar slightly better filled

USD to stay in wait-and-see modus

Today, market attention will go to the EMU consumer sentiment, the Philly Fed business outlook and the US initial claims. The latest NFIB small business confidence and the Michigan consumer sentiment held close to record highs, but the NY business sentiment plunged in April, suggesting that firms might have second thoughts about Trump's ability to deliver on tax cuts and infrastructure spending. **The Philly Fed business sentiment fell already in March, but is still at very high level. For April a slowing to 25.5 is expected. A sharper decline wouldn't go unnoticed.** EMU consumer confidence is expected marginally stronger at -4.8 (from -5), a high level for this indicator.

Of late, by default dollar softness dominated FX trading. The move was reinforced by a sustained decline in US yields. Initially, USD softness was mainly visible in USD/JPY, but of late EUR/USD also rebounded north of 1.07. part of this move, however, might have been a euro rebound/short squeeze rather than USD weakness. **We look out whether this week's tentative US bottoming out 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 on the US bond markets has gone far enough. However for now there is no trigger for U-turn. So, it is still too early to position for a rebound of the dollar. In a day-to-day perspective, there is maybe even room for some further unwinding of euro shorts ahead of the French election.



Thursday, 20 April 2017

From a technical point of view, USD/JPY broke through the 110 key support, after having failed to regain the 111.36/60 previous range bottom. 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, as the dollar traded weakish of late. The picture is turning more neutral as the pair returns 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.

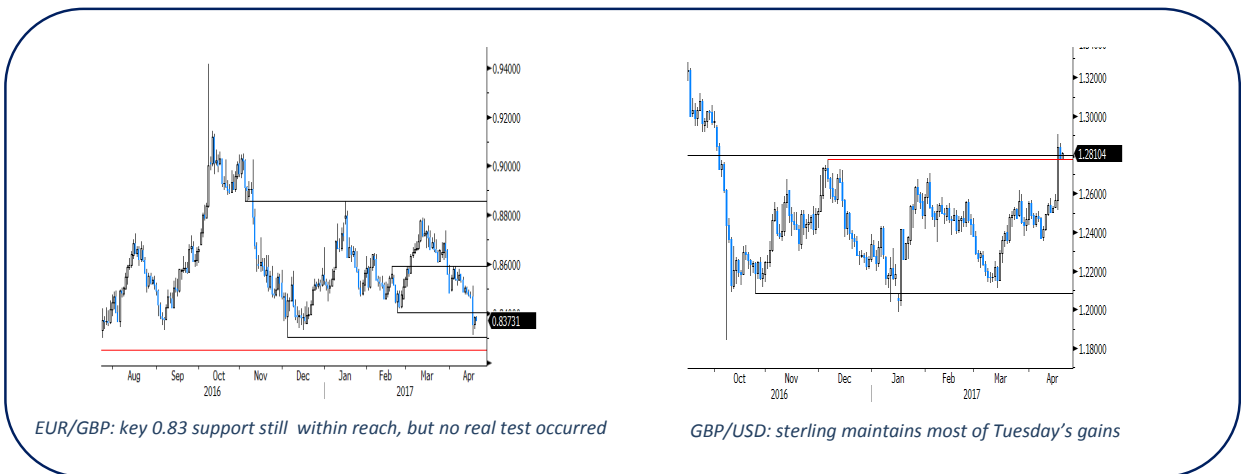
R2	0,8881	-1d
R1	0,8854	
EUR/GBP	0,8372	0,0000
S1	0,8314	
S2	0,8304	

Sterling holding strong, but no further gains

Yesterday, sterling maintained most of Tuesday's impressive gains after UK PM May called for an early election on June 8. It is another reason for LT sterling shorts to reduce positions. However, there was only a very modest correction on Tuesday's GBP rally. EUR/GBP closed the session at 0.8383 (from 0.8356). Cable finished the day at 1.2777 (from 1.2841)

Today, there are again no UK eco data. BoE governor Carney speaks in Washington, but we don't expect him to make bold statements on high profile policy issues (or regarding the eco outlook). We assume that the BOE will keep a low profile as the election campaign has started. We don't row against the sterling positive tide. In a longer term perspective, the sterling rally is probably overdone.

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.



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

GBP/USD: sterling maintains most of Tuesday's gains

Calendar

Thursday, 20 April		Consensus	Previous
US			
-14:30	Initial Jobless Claims	240K	234K
-14:30	Continuing Claims	2024K	2028K
-14:30	Philadelphia Fed Business Outlook (Apr)	25.5	32.8
Japan			
-01:50	Trade Balance Adjusted (Mar)	A¥172.2b	¥680.3b
-01:50	Exports YoY (Mar)	A-12%	11.3%
-01:50	Imports YoY (Mar)	A-15.8%	1.2%
-07:30	Nationwide Dept. Sales YoY (Mar)	A-0.9%	-1.7%
EMU			
-11:00	Construction Output MoM / YoY (Feb)	--	-2.3% / -6.2%
-16:00	Consumer Confidence (Apr-A)	-4.8	-5.0
Germany			
-08:00	PPI MoM / YoY (Mar)	0.2% / 3.2%	0.2% / 3.1%
Belgium			
-15:00	Consumer Confidence Index (Apr)	--	0
Events			
-Q1 earnings	Unilever, Visa (Aft-mkt)		
-14:00	Fed Powell speaks on economic growth and capital markets		
-10:30	Spain to sell 0.4% 2022, 1.5% 2027, 6% 2029 and 2.9% 2046 Bonds		
-10:50	France to Sell Bond (0% 2020, 0% 2022, 0.1% IL 2025, 0.1% IL 2021)		

10-year	td	-1d		2-year	td	-1d	Stocks	td	-1d
US	2,20	0,00		US	1,18	0,00	DOW	20404,49	0,00
DE	0,20	0,00		DE	-0,80	0,00	NASDAQ	5863,034	0,00
BE	0,76	0,00		BE	-0,51	0,00	NIKKEI	18430,49	0,00
UK	1,07	0,00		UK	0,13	0,00	DAX	12016,45	0,00
JP	0,02	0,00		JP	-0,22	0,00	DJ euro-50	3420,99	0,00
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,07	1,63	0,61	Eonia	-0,3590	0,0000	Libor-1	0,9928	0,0000
5y	0,12	1,84	0,76	Euribor-1	-0,3710	0,0000	Libor-3	1,1562	0,0000
10y	0,68	2,16	1,09	Euribor-3	-0,3320	0,0000	Libor-6	1,3977	0,0000
				Euribor-6	-0,2510	0,0000			
Currencies	td	-1d		Currencies	td	-1d	Commodities	td	-1d
EUR/USD	1,0727	0,0000		EUR/JPY	116,8	0,00	CRB	183,92	0,00
USD/JPY	108,89	0,00		EUR/GBP	0,8372	0,0000	Gold	1281,50	0,00
GBP/USD	1,2812	0,0000		EUR/CHF	1,0697	0,0000	Brent	53,13	0,00
AUD/USD	0,7508	0,0000		EUR/SEK	9,6163	0,0000			
USD/CAD	1,3476	0,0000		EUR/NOK	9,206	0,0000			

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