



## Sunrise

**Tuesday, 21 March 2017**

### Rates: More consolidation ahead?

In a data-poor session, US Treasuries rallied, confirmed recent positive sentiment. We suspect that technicals are at play since the FOMC cleared the way with a rate hike. Today, the calendar is nearly empty. So, we expect more consolidation of core bonds. Macron's good performance in the election debate may result in an outperformance French bonds.

### Currencies: Dollar still looking for a solid bottom

Yesterday, the post-Fed decline of the dollar slowed, but there was sustained rebound yet. This morning, the picture of the dollar remains mixed as the euro rebounds on a good performance of Macron in the French election debate. More USD consolidation might be on the cards. Sterling traders will keep an eye on the UK price data.

### 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 yesterday's listless session narrowly mixed. **The NASDAQ** tried to break all-time highs but this attempt failed. **Asian equities trade constructive.**
- **RBA, Australia's central bank, is becoming more concerned with the state of the national property market**, amid a leap in investment borrowing and strong price growth in the nation's most populous cities (Minutes). Aussie dollar lost marginal ground.
- **Greek bailout talks made progress in Brussels.** Discussion will continue to resolve outstanding issues, Mr. Dijsselbloem said. Greece's FM Tsakalotos said negotiators will stay in Belgium for a few days to try and wrap up an agreement
- **Emmanuel Macron fared best in the five-way French presidential debate**, according to an early poll. The 39-year-old attacked anti-euro, anti-immigration candidate Marine Le Pen for her lack of ethics and lifelong presence in politics. The euro trades a bit stronger overnight.
- **FBI Director Comey dealt Trump a stinging rebuke** before the House Committee. He confirmed that Russia's interference in the presidential election is being investigated and said there is no evidence to back the president's charge his predecessor had wiretapped him. Markets shrugged off these comments.
- **Metals led declines in commodities**, with copper falling for a second day and gold retreating from a two-week high, amid 'dollar strength'.
- **Today, the eco calendar only contains UK data:** CPI, PPI, public finance figures and CBI orders. Fed governors Dudley, Mester and George speak. The Ecofin will meet in Brussels.

# Rates

US Treasury curve bull flattened slightly

US yields drop moderately, while German yields end narrowly mixed

Good Belgian bond auction

Calm trading in the peripherals

	US yield	-1d
2	1.29	-0.02
5	2.00	-0.01
10	2.48	-0.01
30	3.09	-0.01

	DE yield	-1d
2	-0.78	0.00
5	-0.33	0.00
10	0.44	0.02
30	1.19	0.02

UK inflation of minor importance

Dove Dudley and hawks Mester & George speak

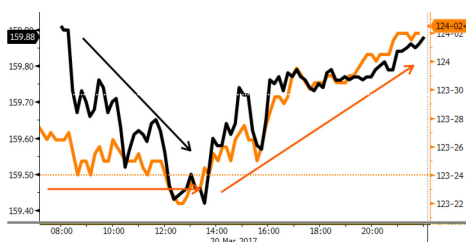
## Core bonds part ways in technical-driven session.

In a thinly traded, data-poor and sentiment-driven session, German bonds were sold in the European morning session, but recouped these when US Treasuries slowly rallied higher throughout the US session after holding near flat in the European trading. That left German yields narrowly mixed and US Treasuries moderately higher for the day. US yields at various tenors broke through post FOMC lows (support) giving the price action a technical ground in the absence of economic reports. Oil prices initially declined, but fought back in early US dealings, but it didn't stop the core bond rally during the US session. Similarly, equities traded somewhat volatile, but closed little changed. The dollar was initially under pressure, but bounced back in the US session. It all had little impact on Treasury trading. Fed governors Evans, Kashkari and Harker were on the wires, but hadn't anything particular to tell that could move the market. We note though that both Evans and Harker, two 2017 FOMC voters, included three rate hikes in 2017 in their March projections.

In a daily perspective, US yields declined by 2.7 (2-yr) to 4 (10-yr) bps, while German yields were narrowly mixed with yields ranging from -0.5 bp (2-yr) to +1.5 bp (30-yr). The outperformance versus the US was outspoken. On intra EMU bond markets, 10-yr yield spreads versus Germany range between +2 bps (Belgium, auction) and -5 bps (Portugal, S&P confirms rating) and underperformance of Greece (+8 bps due to upcoming euro group?).

## Empty eco calendar, but more US Fed speakers today

The euro area and US eco calendars are completely empty, but the UK February consumer and producer inflation will be reported. Both the UK CPI and the PPI are expected higher. Of course, the inflation situation in the UK differs from the euro area and the US, as the sharp decline of sterling plays a role. On top of it, the US and EMU CPI readings for February are already released. So in case of an upward surprise of UK inflation it might temporarily, but modestly, affect core bond trading. Fed speakers on duty are NY Fed Dudley, Cleveland Fed Mester and Kansas city Fed George. Dudley is the most influential, as he is close to Yellen and e.g. prepared markets on the March move. It is probably too early to expect already new signals from the key policymakers. Fed governors George and Mester (no 2017 voters) are part of the hawkish side in the FOMC. Mester probably sees 4 rate hikes in 2017 and George was maybe the most outspoken hawk who pencilling in 6 rate hikes in 2017 (March projections). This faraway rate dot might have also been from Richmond Fed Lacker though, in which case we put George on the same level as Mester in the FOMC dot plot. So, their comments are interesting, but have no real market moving power.



T-Note future (orange) & Bund future (black) (intraday): T-Note steadies in European session when Bunds are sold, but rebounds in data-poor US session dragging the Bund out of initial losses.



Nasdaq tested all-time highs, but the absence of data or events made the move difficult and no break occurred.

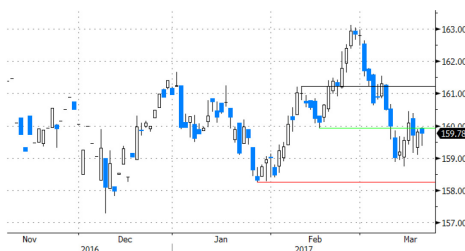
## Consolidation to continue?

R2	164.40	-1d
R1	163.12	
<b>BUND</b>	159.56	-0.39
S1	158.28	
S2	157.28	

**Overnight, Asian equities trade constructive.** The news flow is again very thin. The FBI director rebuked President Trump on his accusation he was wiretapped by president Obama and confirmed that an investigation in the link between the Trump campaign and the Russians is ongoing. However, the markets didn't react in a risk-off way. US Treasuries are nearly flat and oil is marginal higher. The dollar is a tad softer.

**Today's, calendar** contains again no US or EMU economic reports. **UK inflation data** may have an marginal intra-day impact. According to an early poll, **Macron won the presidential TV debate**. That's a modest risk-on event and may especially profit French bonds and impact the Bund modestly negative. Yesterday's price action again showed that **sentiment in the US Treasury market post FOMC is better than Bund sentiment that still seems a bit impacted by various comments on the exit policy**. Yesterday **ECB Visco** suggested that the time between the end of QE and the increase of rates may be shorter (than previously expected). These comments are not constructive for the bond sentiment, we think. Fed speakers probably won't have much impact. Their views (hawkish for Mester/George, dovish for Dudley) are well known. Technically, US yields failed to break key resistance levels in the run-up to the Fed-meeting and suffered a setback afterwards. **We expect the US 10-yr yield to trade in the 2.3%-2.64% range, perhaps even until after the French presidential elections. In the near-term, the US Note future probably has more upward potential. Longer term, our scenario remains for 4 rate hikes in 2017.**

**Last's ECB meeting and Bund sell-off comforted our call that another "calibration" of the ECB's QE programme will happen in H2 2017.** Therefore, we have a long term bearish view on Bunds as well. Technically, 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.**



German Bund: still in sideways range with testing first (minor) resistance at 159.94



US Note future: Inability to sustain below 123 after FOMC rate hike led to short covering and an improvement of the general sentiment. Back in range, we expect range-trading for the next days/weeks?

# Currencies

## USD still looking for a solid bottom

*Post-Fed USD decline peters out*

On Monday, in technical trading deprived of any important news, the post-Fed decline of US yields continued. Interest rate differentials between the dollar and the euro narrowed further. However, these moves had only a limited impact on USD trading. The setback of the dollar petered out. EUR/USD closed the session at 1.0739 hardly changed from Friday. USD/JPY finished day at 112.55 (from 112.70).

*USD still shows mixed picture in Asia*

*Both EUR/USD and USD/JPY rebound*

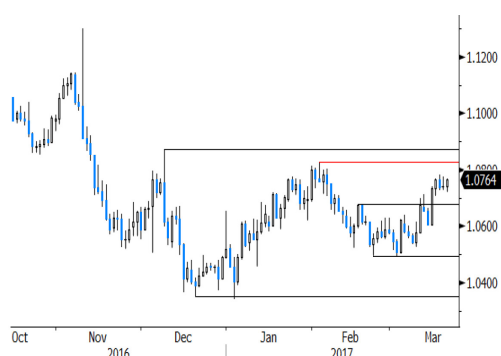
R2	1.1145	-1d
R1	1.0874	
EUR/USD	1.0775	0.0004
S1	1.0341	
S2	1.0000	

*Eco calendar is again empty*

*Dollar correction looking for a bottom.*

**Overnight**, Asian equities (ex Japan) are trading constructively. The moderate global reaction to last week's Fed decision (including a soft dollar) is supporting regional markets (ex Japan). The dollar continues to trade mixed. Comments from Fed members didn't change investor perception that the Fed normalisation will be gradual. USD/JPY reversed an early session dip, trading in the 112.80 area. The pattern of EUR/USD is slightly different. The euro regained ground as Macron solidified his lead over Le Pen after a first French election debate. The Minutes of the RBA warns on the rise of house prices in some regions and on rising household debt. At the same time, the RBA still sees spare capacity in the economy. AUD/USD is drifting lower to the 0.77 area.

**Today**, **eco calendar** in EMU and the US are empty, but several Fed members are scheduled to speak (**NY Fed Dudley, Cleveland Fed Mester and Kansas city Fed George**). However, we expect them to defend their 'usual positions' (cf. FI part of this report) and don't expect them to change the picture for USD trading. Last week, USD yields and the dollar drifted south even as the Fed raised rates. At the same time, the euro was well bid as markets pondered the chances of an early change in the ECB policy after hawkish comments from ECB's Nowotny. In a longer term perspective, policy divergence between the Fed and the ECB will probably remain big enough to support further USD gains. Yellen suggested that, considering the eco developments, the Fed policy might follow closely to the 'dot-path' (still 2 rate hikes in 2017). **In a day-to-day perspective, the dollar shows no clear trend. The USD/JPY decline looks slowing down. At the same time, EUR/USD is holding near the recent top, partially on relative euro strength. We want more convincing signs that the USD has found a bottom before adding USD long exposure.**



EUR/USD holding near ST top on dollar softness and euro rebound



USD/JPY: decline slows, but no sustained rebound yet.

**Global context.** EUR/USD 1.0874 resistance remains the line in the sand with intermediate resistance at 1.0829. We maintain the view that a sustained break of EUR/USD above this area will be difficult. The US/German (EMU) interest rate differential remains at an absolute high level. Especially at the short end of the curve, the differential might even re-widen. **The fundamentals/ interest rate differentials are also supportive for USD/JPY, but of late the momentum/technical picture is not really convincing. We maintain the working hypothesis that the 111.60 range bottom should hold.**

### EUR/GBP to resume rebound?

On Monday, sterling trading was driven by technical considerations. Early in European dealings, sterling gained a few ticks but trading was confined to tight ranges. **Around noon, a spokesman of PM May announced that the UK will trigger article 50 of the Lisbon treaty on March 29.** The move was no surprise, but sterling reversed the intraday gains against the euro and the dollar as investors realize that a period of heightened political uncertainty is on the horizon. EUR/GBP closed the session at 0.8690 (from 0.8662). Cable finished the session at 1.2358 (from 1.2396).

**This morning,** cable gains a few ticks, but so does EUR/GBP on a broad-based bid in the euro (Macron). **Today,** the UK price data (CPI & PPI), the monthly public finance data and the CBI trends orders will be published. Last week, the BoE sounded a bit more attentive to a potential overshoot of inflation. Kristin Forbes voted for a rate hike and some other members are inclined to do so if growth and inflation were to surprise on the upside. We are not convinced that the majority of the BoE is already close to a rate hike. **Sterling might get some support from higher rate hike expectations in case of an upward surprise of the inflation data.** However, this might be counterbalanced by investor caution on sterling going into the start of the Brexit procedure. We assume that a big deviation from consensus is needed to unlock clear directional move of sterling.

Last week, the sterling decline took a breather. Some time ago, EUR/GBP **cleared the 0.8592 resistance, improving the MT technical EUR/GBP picture.** We don't expect a sustained EUR/USD rebound, but a combination of temporary euro consolidation and ongoing sterling softness as the Brexit negotiations are nearing, might trigger some more ST EUR/GBP gains. The 0.8854 correction top is the next key resistance. **The nervous swings over the previous days suggest that a clear break beyond 0.8854 will be difficult without important (UK negative) news.**

R2	0.8881	-1d
R1	0.8854	
EUR/GBP	0.8706	0.0031
S1	0.8592	
S2	0.8304	



EUR/GBP: post-BoE sterling rebound to slow as political uncertainty grows? Euro is also better bid



GBP/USD: rebound slows

# Calendar

Tuesday, 21 March		Consensus	Previous
<b>US</b>			
13:30	Current Account Balance (4Q)	-\$129.0b	-\$113B
<b>UK</b>			
10:30	CPI MoM / YoY (Feb)	0.5%/2.1%	-0.5%/1.8%
10:30	CPI Core YoY (Feb)	1.7%	1.6%
10:30	RPI MoM / YoY (Feb)	0.8%/2.9%	-0.6%/2.6%
10:30	PPI Input NSA MoM / YoY (Feb)	0.1%/20.1%	1.7%/20.5%
10:30	PPI Output NSA MoM / YoY (Feb)	0.3%/3.7%	0.6%/3.5%
10:30	PPI Output Core NSA MoM / YoY (Feb)	0.2%/2.5%	0.5%/2.4%
10:30	House Price Index YoY (Jan)	6.4%--	7.2%
10:30	Public Finances (PSNCR) (Feb)	--	-26.5b
12:00	CBI Trends Total Orders (Mar)	5	8
12:00	CBI Trends Selling Prices (Mar)	32	32
<b>Events</b>			
01:30	RBA March Rate Meeting Minutes		
11:00	Fed's Dudley Speaks at BoE Event on Bank Ethics in London		
17:00	Fed's George Speaks in Washington on U.S. Economy and the Fed		
23:00	Fed's Mester Speaks at University of Richmond		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2.48	-0.01		US	1.29	-0.02		DOW	20905.86	-8.76
DE	0.44	0.02		DE	-0.78	0.00		NASDAQ	5901.529	0.53
BE	0.96	0.04		BE	-0.44	0.03		NIKKEI	19455.88	-65.71
UK	1.23	-0.01		UK	0.09	0.00		DAX	12052.9	-42.34
JP	0.06	-0.01		JP	-0.27	-0.01		DJ euro-50	3437.48	-10.93
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	0.03	1.84	0.73	Eonia	-0.3500	0.0030				
5y	0.28	2.10	0.91	Euribor-1	-0.3710	0.0000		Libor-1	0.9761	0.0000
10y	0.87	2.44	1.25	Euribor-3	-0.3290	0.0000		Libor-3	1.1518	0.0000
				Euribor-6	-0.2410	0.0000		Libor-6	1.4316	0.0000
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1.0775	0.0004		EUR/JPY	121.4	0.05		CRB	184.78	0.30
USD/JPY	112.67	0.01		EUR/GBP	0.8706	0.0031		Gold	1229.10	-4.70
GBP/USD	1.2376	-0.0040		EUR/CHF	1.0746	0.0016		Brent	51.85	0.32
AUD/USD	0.7715	-0.0013		EUR/SEK	9.4819	-0.0022				
USD/CAD	1.3348	0.0034		EUR/NOK	9.1088	0.0140				

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