



## Sunrise

Tuesday, 28 March 2017

### Rates: Risk sentiment improves, but key support US 10-yr yield remains nearby

The improvement of risk sentiment in the US suggests that the first hesitation in the reflation trade was overdone. That could remove some of the upward pressure on bonds, though we wouldn't call off the risks. A test of 2.3% support (US 10yr yield) in the coming days remains likely. We don't think that eco data and central bank talk will impact dealings today.

### Currencies: USD decline slows, but short-term picture remains fragile.

Yesterday, the correction on the reflation trade slowed and so did the decline of the dollar. However, the USD picture remains fragile as it still trades within reach of the recent lows. Today, the US eco data probably won't be strong enough to put a solid floor for dollar. The ECB debate on reducing policy stimulation is an implicit supportive factor for the euro.

### 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 markets recovered on Monday** from an early-day slide to end mixed between -0.2% and +0.2%. Overnight, Asian markets eked out gains on the back of the improved risk sentiment on WS with China underperforming.
- Germany's two representatives on the ECB's main policy-making body called for it to prepare to **wind down its aggressive stimulus policy** as soon as economic conditions allow it. The ECB could discuss and decide on its next step **after June**.
- **President Trump's son-in-law, Kushner**, has been asked to discuss his contact with the head of a state-run Russian bank that is on a US sanctions list with a **Senate committee** probing Russia's alleged interference in the elections.
- **Chicago Fed Evans** said there may only be one more rate increase this year, though he could support two if the data warranted. **Dallas Fed Kaplan** said that he would support further interest rate hikes if the US economy takes more steps toward reaching the Fed's goals of full employment and 2% inflation.
- **German Chancellor Merkel has adopted a tough position on issues such as the UK's exit bill** and the sequencing of negotiations, partly in response to increasing expectations that Britain is seeking a hard Brexit.
- **The worst cyclone in six years smashed into the coast of Queensland**, forcing thousands of Australians to evacuate or seek emergency shelter and **prompting some of the world's biggest miners to halt coal operations**.
- **Today's eco calendar contains US trade balance, S&P CS housing data, consumer confidence and Richmond Fed manufacturing index**. Several ECB & Fed governors speak and the US & Germany supply markets.

# Rates

*Correction on reflation trade in Asia and Europe, but risk sentiment improves during US dealings*

	US yield	-1d
2	1,27	0,04
5	1,93	0,03
10	2,39	0,02
30	2,99	0,01

	DE yield	-1d
2	-0,70	0,04
5	-0,29	0,03
10	0,41	0,02
30	1,15	0,02

*Voting Fed governors eye similar rate path, but stress different risks*

*German hawks want discussion and decision on exit after June*

## Risk sentiment improves during US dealings

Global core bonds gained ground during Asian and the start of European dealings yesterday. Failure to push the Republican healthcare bill through US Congress caused risk aversion despite Friday evening's tepid WS market reaction. **Investors fear that Trump's political defeat could signal problems ahead for his economic agenda. As a consequence, they put in doubt the reflation trade, sending stocks, yields, the dollar and commodities lower. As US trading got going, Friday evening's reaction was confirmed. US investors bought the dip on stock markets and sent German Bunds and US Treasuries back lower. At the end of the session, the German yield curve steepened with yield changes varying between -0.5 bps (2-yr) and +1.5 bps (30-yr). US yields declined between -2.7 bps (2-yr) and -4 bps (10-yr). The US 10-yr yield (2.37%) approached key support (2.3% lower bound sideways channel). On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 3 bps with Portugal (-5 bps) and Greece (-15 bps) underperforming.**

**Voting Fed governors Evans and Kaplan sounded mixed.** Both governors voiced their support of two additional rate hikes earlier, but the former warned that he might switch to one vote if data disappoint, while the latter stressed the possibility of more hikes as the Fed hits its policy targets. Odds of a June rate hike remain steady around 50%. The market implied probability of two additional rises in 2017 also amounts to 50%.

**Hawkish German ECB members Lautenschlaeger and Weidmann** said the ECB should prepare to wind down its economic stimulus. If economic data remain supportive, they **could discuss and decide on the next step after June**, they added. Weidmann added though that he sees a danger that QE will last longer than needed (according to him). The two Belgian ECB members, chief economist Praet and Smets, defended the ECB's ultra-easy policy yesterday.



T-Note future (orange) & S&P future (black) (intraday): risk sentiment improved in US dealings, with stocks recovering.



US 10-yr yield approaches key support at 2.3%, lower bound of sideways trading channel

*Plenty central bank speakers, but the topics of their speeches suggests that they won't touch on monetary policy*

## US eco calendar heats up

Today's eco calendar heats up in the US with the trade balance, S&P CS housing data, consumer confidence and Richmond Fed manufacturing index. US consumer confidence could be most important for trading. After reaching a multi-year high in February, consensus expects a modest setback from 114.8 to 114. **There are plenty of central bank speakers** with Fed Kaplan (spoke yesterday), George ("a forum for woman in banking"), Powell ("the history and

structure of the Fed”) and Yellen (“workforce development challenges in low-income communities”). **The topics of these speeches suggests that they won’t touch on monetary policy sensitive topics.** Speeches by ECB Coeure, Makuch and Visco, probably have the same “problem”.

### US and Germany tap market

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

**The US Treasury started its end-of-month refinancing operation with a solid \$26B 2-yr Note auction. The auction stopped through the 1:00 PM bid side and the bid cover (2.73) was above average. Bidding details showed very good indirect demand.** The Treasury continues today with a \$34B 5-yr Note auction. Currently, the WI trades around 1.94%.

The German Finanzagentur holds a €4B 2-yr Schatz auction (€4B 0% Mar2019). Total bids averaged €5.49B at the previous 4 Schatz auctions. We expect plain vanilla demand.

### How strong is market’s faith in reflation trade?

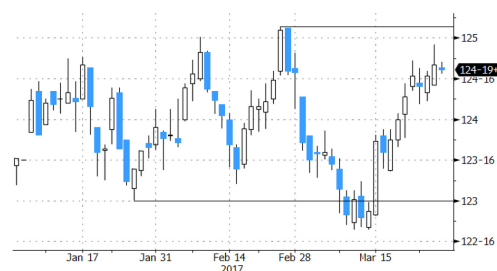
**Overnight, Asian risk sentiment improved** in line with WS yesterday evening. The US Note future loses slightly ground, suggesting a weaker opening for the Bund.

**Today’s calendar** heats up in the US, but we don’t expect the data or central bank speakers (see above) to influence trading. **The main question remains: how strong is market’s faith in the reflation trade? Yesterday’s improvement of risk sentiment in the US suggests that the first panic reaction was overdone.** That could remove some of the upward pressure on Bunds and US Treasuries, though we wouldn’t call off the risks. In yield terms, the US 10-yr yield is close to 2.3% support, suggesting that a test one of the next days remains highly likely. That could be an opportunity to position again for higher US yields.

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: German Bund doesn’t full profit from US Treasury rally as ECB exit debate lingers on background



US Note future: How strong is market’s faith in reflation trade?

# Currencies

## USD holds near recent lows, but decline slows

*The post Trumpcare risk-off trade eased gradually and finally slowed the decline of the USD*

R2	1,1145	-1d
R1	1,0906	
<b>EUR/USD</b>	<b>1,0852</b>	<b>0,0006</b>
S1	1,0341	
S2	1,0000	

*Asian equities are joining the US rebound*

*The dollar is looking for a bottom, but stays within reach of the recent lows*

*Will US eco data help to slow the correction of the reflation trade and of the dollar*

*Internal ECB debate on reducing policy stimulation protects euro downside*

The correction on the reflation trade initially continued yesterday as investors were uncertain about the impact of the failure to pass a new US healthcare bill. Equities and the dollar were sold. Later in the US session, the risk-off trade eased and so did the decline of US/core bond yields and of the dollar. Still the US currency remained relatively close to the recent lows against other majors. EUR/USD finished the session at 1.0864 (from 1.0798 on Friday). USD/JPY closed the session at 110.66.

**Overnight**, Asian equities join yesterday's intraday rebound in the US. However, the gains outside Japan and Australia are **modest**. This is also the case for the **comeback of the dollar**. USD/JPY rebounded temporary to the 110.80 area, but returned soon to the mid 110 area. EUR/USD hovers in the 1.0865 area. So, yesterday's top just north of 1.09 is still within reach. On the EU side of the story, the euro is probably supported by comments of German ECB members Weidmann and Lautenschlaeger. They kept the debate alive that the ECB should consider scaling back policy stimulation in a not-that-distant future.

**Today**, there are no EMU eco data. In the US, the advance trade balance, consumer confidence (conference board) and the Richmond Fed manufacturing index will be published. **Consumer confidence has probably most market moving potential**. The consensus expects a small setback from 114.8 to 114. Recent indicators of consumer confidence were strong, but a slight setback given the very high level is possible. **From a market/USD point of view, the question is whether the US data will be strong enough to reverse recent market doubts on the US reflation trade and on the dollar**. A good figure might help, but more USD positive news is needed to restore confidence in the dollar. There is also again a long list of Fed and ECB speakers. **ECB comments might be at least as important as Fed speakers**. Yesterday, the intra-ECB division became again apparent with the German ECB members advocating scaling back policy stimulation. At the same time ECB Chief economist Peter Praet defended the current soft ECB approach.



EUR/USD: extensive test of 1.0829/74 resistance both on USD weakness and euro strength.



USD/JPY: decline slows, but picture remains fragile

**In a day-to-day perspective, markets will look whether the correction on the US reflation trade eases further. This process will take time. USD/JPY might try to build a bottom in the 110 area.**

However, it is too early to conclude that the correction has already run its course. **A similar reasoning applies for EUR/USD. Sentiment on the dollar was fragile.** At the same time, the internal ECB debate on whether or not scaling back policy stimulation continues. **This puts a floor for the euro, at least short-term. A new downleg in EUR/USD probably has to come from better news from the US, halting the decline in the US/Euro (German) interest rate differential. We are not at this point yet. So, EUR/USD might hold near the recent highs and even (slight) further upticks are still possible even as we don't expect a sharp break higher.**

**From a technical point of view,** the picture of USD/JPY remains fragile as it clearly dropped below the 111.60/36 support. Next support kicks in at 108.84 (50% retracement of the MT up-move). **EUR/USD is extensively testing the 1.0829/1.0874 resistance.** A break beyond this level would deteriorate the MT picture for the dollar. Chances on a break of this level are growing. However, we don't expect a real protracted rally of the euro against the dollar already now. The absolute interest rate differential between the US and Germany/Europe makes EUR/USD longs costly. At the same time, we also don't see the euro as the perfect safe haven.

### Sterling rebound slows ahead of article 50 triggering

On Monday, there were no important UK data. The BoE published a framework for the 2017 banking stress test that included a test against a big economic setback and a sharp depreciation of sterling. This scenario isn't formally linked to the risks of Brexit, but the case is straight forward. The upcoming new phase in the Brexit saga (triggering article 50 on Wednesday) didn't negatively impact sterling for now. USD weakness was the most important driver for sterling trading. Cable 'enjoyed' quite a powerful short squeeze. The pair traded temporary above 1.26, but closed the session at 1.2559. EUR/GBP initially declined, but finally closed the session in the mid 0.86 area.

**Today, there are again no important eco data in the UK. So, global factors and investors looking forward to the formal triggering of Article 50 (tomorrow) will set the tone for sterling trading. With no high profile news on the agenda, some further consolidation on the recent sterling rebound might be on the cards.** Two weeks ago, 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, (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. 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.

R2	0,8881	-1d
R1	0,8854	
<b>EUR/GBP</b>	<b>0,8653</b>	<b>-0,0004</b>
S1	0,8592	
S2	0,8304	



EUR/GBP: sterling rebound to show tentative signs of slowing?



GBP/USD: USD weakness prevails

# Calendar

Tuesday, 28 March		Consensus	Previous
<b>US</b>			
<b>-14:30</b>	<b>Advance Goods Trade Balance (Feb)</b>	<b>-\$66.6b</b>	<b>R: -\$68.8b</b>
<b>-15:00</b>	S&P CoreLogic CS-20-City MoM SA / YoY NSA (Jan)	0.70%/5.60%	0.93%/5.58%
<b>-16:00</b>	<b>Conf. Board Consumer Confidence (Mar)</b>	<b>114</b>	<b>114.8</b>
<b>-16:00</b>	<b>Richmond Fed Manufact. Index (Mar)</b>	<b>15</b>	<b>17</b>
<b>UK</b>			
<b>-28MAR-03APR</b>	Nationwide House PX MoM / NSA YoY (Mar)	0.5%/4.1%	0.6%/4.5%
<b>Italy</b>			
<b>-10:00</b>	Industrial orders M/M/Y (Jan)	-2.6%/-	2.8%/-0.9%
<b>Sweden</b>			
<b>-09:30</b>	Retail sales M/M/Y (Feb)	0.3%/2.7%	1.3%/2.2%
<b>-09:30</b>	PPI M/M/Y (Feb)		0.6%/8.2%
<b>-09:30</b>	Trade balance (Feb)	2B	1.5B
<b>Events</b>			
<b>-00:30</b>	Fed's Kaplan Speaks in College Station, Texas (also at 19:00) Economy & Mon. policy		
<b>-09:00</b>	ECB's Coeuré speaks in Frankfurt (panel discussion at 13:45) Statistical subject		
<b>-11:00</b>	Italy to Sell Up to €2.5B Zero 2018 Bonds		
<b>-11:30</b>	Germany to Sell €4B 0% 2019 Bonds		
<b>-13:00</b>	ECB's Makuch Speaks in Bratislava (revised Slovak eco forecasts)		
<b>-17:30</b>	Bank of Italy Governor Visco Speaks at Book Presentation		
<b>-18:45</b>	Fed's George Speaks in Midwest City, OK (Banking and the economy)		
<b>-18:50</b>	<b>Fed Chair Janet Yellen Speaks (Workforce development challenges in low income)</b>		
<b>-19:00</b>	US to Sell \$34B 5-yr Notes		
<b>-22:30</b>	<b>Fed Governor Jerome Powell Speaks on history US Fed (Q&amp;A)</b>		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,39	0,02		US	1,27	0,04		DOW	20550,98	-45,74
DE	0,41	0,02		DE	-0,70	0,04		NASDAQ	5840,374	11,64
BE	0,89	0,01		BE	-0,47	0,02		NIKKEI	19202,87	217,28
UK	1,17	-0,03		UK	0,17	0,00		DAX	11996,07	-68,20
JP	0,06	0,00		JP	-0,25	0,01		DJ euro-50	3437,14	-7,01
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	0,02	1,80	0,73	Eonia	-0,3570	-0,0010		Libor-1	0,9828	0,0000
5y	0,28	2,04	0,90	Euribor-1	-0,3740	-0,0020		Libor-3	1,1513	0,0000
10y	0,82	2,36	1,24	Euribor-3	-0,3300	0,0000		Libor-6	1,4271	0,0000
				Euribor-6	-0,2420	0,0000				
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0852	0,0006		EUR/JPY	120,15	0,54		CRB	183,10	-0,37
USD/JPY	110,71	0,43		EUR/GBP	0,8653	-0,0004		Gold	1256,50	-4,10
GBP/USD	1,2542	0,0013		EUR/CHF	1,0706	-0,0008		Brent	51,03	0,65
AUD/USD	0,7599	-0,0031		EUR/SEK	9,5398	0,0130				
USD/CAD	1,3393	0,0061		EUR/NOK	9,2206	0,0476				

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