



Sunrise

Thursday, 30 March 2017

Rates: Did German/EMU inflation already peak in January?

End-of-quarter conditions and rumours about an anxious ECB lifted core bonds yesterday, with Bunds outperforming. Today, German inflation data might draw attention. Did German/EMU CPI already peak in January? It could reduce speculation that the ECB will start normalizing its policy sooner than expected and support the Bund in an intraday perspective.

Currencies: EUR/USD corrects south as ECB speculation eases

Yesterday, EUR/USD declined further off the recent highs. Euro longs were squeezed by market rumours that the ECB was 'unhappy' with the hawkish market reaction after the March policy meeting. If German inflation returns back below 2.0% today, it might reinforce the euro correction.

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 ended mixed** yesterday with the S&P 500 and Nasdaq, unlike the Dow Jones, overcoming early weakness to close slightly positive. Overnight, most Asian stock markets lose ground with China underperforming (-1%)
- The Fed may raise rates three more times in 2017 said Boston Fed Rosengren and SF Fed Williams.** "An increase at every other FOMC meeting over the course of this year could and should be" the default starting in June, Rosengren said. Stock market valuations "may be a little frothy" in terms of anticipated stimulus, Williams added.
- The White House has not abandoned hope that Congress **could make another effort to pass healthcare legislation** that Trump administration officials believe would ease resistance to enacting tax reform.
- US crude inventories climbed less than analysts predicted last week, while gasoline stocks narrowed sharply, **lifting oil prices above \$52.5/barrel for Brent crude.**
- South Africa's ruling ANC party is split at the top over whether FM Gordhan should be sacked,** sources said. The rift at the top comes amid party divisions over the finance ministers plans to rein in spending as the economy stagnates,
- Margin debt climbed to a record high in February,** a fresh sign of bullishness for flummoxed investors trying to navigate the political and economic crosscurrents driving markets.
- Today's eco calendar** contains EMU confidence data, German CPI, US weekly jobless claims and the final US Q4 GDP reading. Several Fed and ECB members are scheduled to speak and Italy sells bonds. The CNB has a policy meeting.

Rates

Markets overinterpreted outcome March ECB meeting - sources

	US yield	-1d
2	1,27	-0,02
5	1,94	-0,03
10	2,39	-0,03
30	3,00	-0,03

Boston Fed Rosengren advocates new framework for Fed

	DE yield	-1d
2	-0,75	-0,05
5	-0,37	-0,06
10	0,34	-0,04
30	1,11	-0,02

Consensus expects decline from 2.2% Y/Y to 1.9% Y/Y

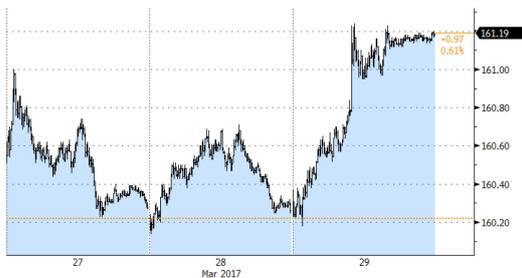
Bunds outperform on anxious ECB rumours

Global core bonds traded with an upward bias yesterday with Bunds outperforming US Treasuries after Reuters quoted sources indicating that the ECB is anxious of changing its message again after the “overinterpretation” of the March policy message. People familiar with the matter added that the onus should be on the current easy policy stance, which is far from ending, rather than on future policy normalisation. **At the end of the day**, German yields decline by 2.4 bps (30-yr) to 6 bps (5-yr). Changes on the US yield curve ranged between -2.8 bps (30-yr) and -4.3 bps (30-yr), bull flattening the curve. On intra-EMU bond markets, 10-yr yield spread changes versus Germany closed nearly unchanged with Greece outperforming (-12 bps) on supportive talk pointing in the direction of a bailout review agreement at the April 7 Eurogroup meeting.

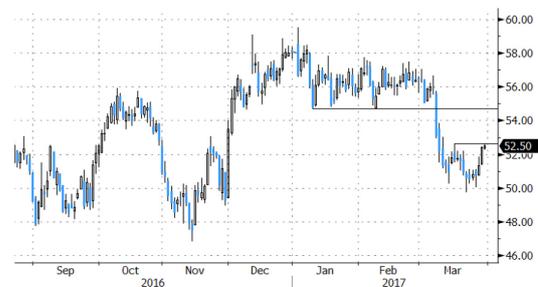
Better-than-expected US pending home sales, a solid 7-yr Note auction (see below), higher oil prices (see headlines) and hawkish Fed speak (Williams & Rosengren) didn’t cause damage to US Treasuries. We retain some interesting comments from **Boston Fed Rosengren**, a dove who turned hawk last year. He advocates three more rate hikes this year and suggests that it’s time to change the Fed’s framework. **From June on, he wants the Fed to hike rates every other meeting unless economic data are materially inconsistent with the forecast.** At present, the outcome of each FOMC meeting depends on nuances of incoming data,

German/EMU inflation already topping off?

Today’s eco calendar contains EMU confidence data (EC), US weekly jobless claims, the final reading of US Q4 GDP and German inflation data. We think that markets will especially pay attention to the latter. **After rising above the ECB’s 2% inflation target in February (2.2% Y/Y)**, consensus expects German inflation (and EMU CPI tomorrow) already to top off with a setback to 1.9% Y/Y. Plenty ECB- and Fed-members are scheduled to speak, but the topic of their speeches is often non-monetary policy related. If any, we eye NY Fed Dudley who is scheduled after US close. Dudley is a heavyweight inside the FOMC and close ally to Fed chairwoman Yellen.



German Bund (intraday, this week): rises to weekly high after Reuters article on anxious ECB



Brent crude testing first resistance around \$52.5/barrel. A break higher would make the technical picture more neutral

R2	164,40	-1d
R1	163,12	
BUND	161,16	0,88
S1	158,28	
S2	157,28	

Italy concludes this week's supply

The US Treasury concluded its end-of-month refinancing operation with a solid \$13B 2-yr FRN auction and a good \$28B 7-yr Note auction. The latter stopped through the 1:00 PM bid side with the best bid cover since November (2.56). Bidding details pointed to a strong indirect bid while direct and dealer bids were more in line with average.

The Italian debt agency concludes this week's scheduled EMU bond supply by tapping on the run 5-yr BTP (€1.75-2.25B 1.2% Apr2022), 10-yr BTP (€2-2.5B 2.2% Jun2027), 50-yr BTP (€0.5-0.75B 2.8% Mar2067), off the run BTP (€0.5-1B 0.65% Nov2020) and a floating rate 7-yr CCTeu (€2-2.5B Feb2024). The bonds on offer didn't cheapen in ASW spread terms going into the auction and the on the run BTP's are slightly expensive on the Italian curve. Given the relatively low amount of BTP's on offer, we nevertheless expect a plain vanilla auction.

Upward intraday bias core bonds

Overnight, most Asian stock markets cede ground with China underperforming (-1%). Brent crude (test \$52.5/barrel resistance) and the US Note future (small downward bias) paint a different picture. We expect a neutral opening for the Bund.

Today's calendar heats up and we especially eye German CPI. A decline back below the 2%-mark, which consensus expects, could ease pressure/speculation of an early ECB exit. Together with end-of-quarter buying and the end of the US refinancing operation, it could support core bonds in an intraday perspective.

Technically, **we expect the US 10-yr yield to trade in the 2.3%-2.64% range. Moves towards the lower bound could be used to offload bonds or position for higher rates. Longer term, we maintain our scenario of 4 rate hikes in 2017 and higher long term yields.** The German 10-yr yield trades in the 0.2%/0.5% range and we hold a similar approach as in the US **ahead of the French elections** **The March ECB meeting comforted our call that another "calibration" of the ECB's QE programme will happen in H2 2017.**



German Bund: sensitive if German CPI drops back below 2%-mark after only one month?



US Note future: Technically inspired gains after refinancing operation and because of end-of-quarter?

Currencies

EUR/USD topside rejected as ECB speculation eases

EUR/USD declines as euro longs are reduced.

USD/JPY stabilized in the 111 area despite hawkish Fed speak

Asian equities hardly profit from yesterday's WS rebound

EUR/USD remains in the defensive. USD/JPY is going nowhere.

German CPI data in focus

Data might inspire some further downside momentum

R2	1,1145	-1d
R1	1,0906	
EUR/USD	1,0753	-0,0058
S1	1,0341	
S2	1,0000	

EUR/USD declined further below 1.08 yesterday. The move was inspired by rumours that the ECB has become reluctant to change the language of its policy statement after the hawkish reaction to the March communication. Declining EMU yields rather than outright USD strength drove EUR/USD trading. USD/JPY traded sideways to slightly lower even as US equities traded with a positive bias as Fed speakers talked rather hawkish. EUR/USD finished the session at 1.0766 (from 1.0814 on Tuesday). USD/JPY closed the day at 111.04 (from 111.15).

Overnight, Asian equities mostly show modest to moderate losses even as US indices held near record high levels. USD/JPY struggles to extend its rebound off the recent lows which weighs on Japanese equities. End of quarter/fiscal year caution of Japanese investors is probably a factor for behind the recent mediocre performance of USD/JPY. The pair tried to regain further ground early in the session, but for now the move has no strong legs. The dollar remains well bid against a weak euro. EUR/USD trades in the 1.0750 area, holding near yesterday's correction low.

Today's eco calendar is better filled. The **economic confidence data from the EC** will probably be solid given the recent evidence from other regional data. The **first estimate of the German March CPI** is interesting. Headline HICP is expected to rise 0.5% M/M, but might result in a decline of the Y/Y reading from 2.2% to 1.9%. The move is due to base effects. However, **markets realizing that German/EMU CPI probably won't sustain north of 2.0% in the near future, might cause a softer position on the interest rate markets. It could also put some further pressure on the euro short-term.** US jobless claims ticked somewhat higher of late but are expected to return to 247.000 from 261 000. If so, the report can be considered as confirming a healthy US labour market. There are again several Fed members scheduled to speak, but we expect them to confirm the scenario of at least two additional rate hikes.



EUR/USD: test of 1.0874 resistance rejected, at least for now.



USD/JPY: decline halted, but picture remains fragile

The dollar changed course on Tuesday. The US reflation trade regained momentum after a very **strong US consumer confidence**. Yesterday, **the euro faced headwinds as market rumours questioned the scenario of early ECB policy normalization**.

The debate will probably resurface, but for now, it looks that the relative policy divergence between the Fed and the ECB turned again in favour of the dollar, at least short-term. The **topside of EUR/USD looks again better protected. A cautious EUR/USD sell-on-upticks approach can be reconsidered. At the same time, the picture of USD/JPY is not really convincing.** Will this change when Japanese investors enter a new fiscal year next week?

From a technical point of view, the picture of USD/JPY remains fragile as it dropped below 111.60/36 support. Next support kicks in at 108.84 (50% retracement of the MT up-move). **EUR/USD extensively tested 1.0829/1.0874 resistance, but the test was rejected. 1.0906 now looks a solid resistance. EUR/USD might return lower in the previous 1.0875/1.05 trading range.**

Sterling ignores May triggering article 50

The UK finally triggered article 50 of the Lisbon treaty, starting the official procedure to leave the EU in two years' time. Sterling was quite aggressively sold in (thin) Asian markets, but rebounded going into the official Brexit-announcement. **The statement of Theresa May and the first answer of EU's Tusk were quite conciliatory. EUR/GBP filled bids in the 0.8625 area after the Brexit-statements, but regained some ground afterward.** We are reluctant to make a direct link between the Brexit-communication and the performance of sterling. Euro weakness also played a role. EUR/GBP closed the session at 0.8658 (from 0.8685). The swings in cable were more modest. Sterling traded soft against the dollar (1.2434 close).

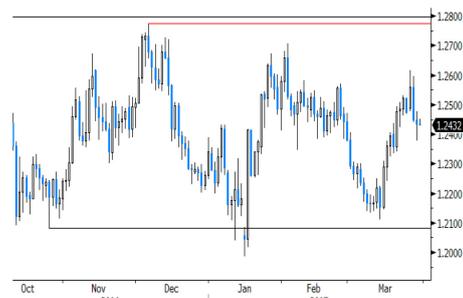
Toda, there are no important eco data in the UK. Yesterday's exchange of official notes between the UK and the EMU was rather reconciliatory, but it didn't contain real clues for sterling trading. There might be some Brexit radio silence short-term. We don't see a clear trend for sterling trading until the next concrete steps in the Brexit-process are taken.

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. 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	
EUR/GBP	0,8647	-0,0073
S1	0,8592	
S2	0,8304	



EUR/GBP: no negative impact from the Brexit announcement on sterling (yet).



GBP/USD: USD rebound rather than sterling weakness

Calendar

Thursday, 30 March		Consensus	Previous
US			
14:30	GDP Annualized QoQ (4Q T)	2.0%	1.9%
14:30	Personal Consumption (4Q T)	3.0%	3.0%
14:30	GDP Price Index (4Q T)	2.0%	2.0%
14:30	Core PCE QoQ (4Q T)	1.2%	1.2%
14:30	Initial Jobless Claims	247k	258k
14:30	Continuing Claims	2031k	2000k
EMU			
11:00	Economic Confidence (Mar)	108.3	108.0
11:00	Business Climate Indicator (Mar)	0.87	0.82
11:00	Industrial Confidence (Mar)	1.4	1.3
11:00	Services Confidence (Mar)	14	13.8
11:00	Consumer Confidence (Mar F)	-5.0	-5.0
Germany			
	CPI Baden Wuerttemberg MoM / YoY (Mar)	--/--	0.6%/2.2%
09:00	CPI Saxony MoM / YoY (Mar)	--/--	0.5%/2.4%
10:00	CPI Brandenburg MoM / YoY (Mar)	--/--	0.5%/2.0%
10:00	CPI Hesse MoM / YoY (Mar)	--/--	0.6%/2.5%
10:00	CPI Bavaria MoM / YoY (Mar)	--/--	0.6%/2.1%
10:30	CPI North Rhine Westphalia MoM / YoY (Mar)	--/--	0.6%/2.3%
14:00	CPI MoM / YoY (Mar P)	0.4%/1.8%	0.6%/2.2%
14:00	CPI EU Harmonized MoM / YoY (Mar P)	0.5%/1.9%	0.7%/2.2%
Belgium			
	CPI MoM / YoY (Mar)	--/--	0.37%/2.97%
Spain			
08:00	CPI EU Harmonised MoM / YoY (Mar P)	1.5%/2.7%	-0.3%/3.0%
Events			
08:00	ECB's Mersch Speaks in Frankfurt		
10:00	Bank of Finland Governor Liikanen Briefing on Monetary Policy		
11:15	ECB's Nowotny speaks		
11:00	Italian BTP auction (0.65% Nov2020, 1.2% Apr2022, 2.2% Jun2027 & 2.8% Mar2067)		
12:00	ECB Executive Board member Praet speaks in Berlin		
15:45	Fed's Mester Speaks in Chicago on Payment System Improvement		
17:00	Dallas Fed's Kaplan Speaks in Washington ay Annual capital markets summit		
17:15	Fed's Williams Speaks at Learning Community Event in New York		
22:30	Fed's Dudley speaks in Sarasota (Financial conditions and monetary policy)		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,39	-0,03		US	1,27	-0,02		DOW	20659,32	-42,18
DE	0,34	-0,04		DE	-0,75	-0,05		NASDAQ	5897,547	22,41
BE	0,83	-0,03		BE	-0,53	-0,04		NIKKEI	19063,22	-154,26
UK	1,15	-0,04		UK	0,14	-0,04		DAX	12203	53,58
JP	0,07	0,00		JP	-0,23	0,03		DJ euro-50	3475,27	10,20
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	-0,02	1,81	0,72	Eonia	-0,3570	0,0000		Libor-1	0,9822	0,0000
5y	0,20	2,05	0,89	Euribor-1	-0,3730	0,0000		Libor-3	1,1522	0,0003
10y	0,78	2,37	1,22	Euribor-3	-0,3300	0,0000		Libor-6	1,4249	0,0006
				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	1,0753	-0,0058		EUR/JPY	119,58	-0,58		CRB	185,21	1,13
USD/JPY	111,2	0,06		EUR/GBP	0,8647	-0,0073		Gold	1252,90	1,00
GBP/USD	1,2435	0,0037		EUR/CHF	1,0724	-0,0002		Brent	52,49	0,94
AUD/USD	0,7656	0,0014		EUR/SEK	9,5511	0,0019				
USD/CAD	1,3339	-0,0047		EUR/NOK	9,1534	-0,0600				

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