

European Sunrise

16 March 2015

€QE meets less patient Fed

- **Market direction:** This week's events argue for ongoing volatility with ECB QE meeting a less patient Fed. A change in the Fed wording may not come as a huge surprise but we still expect a bearish tone in US-Treasuries to prevail this week, tipping the balance also for tactical shorts in Bunds as QE become routine.
- **€QE:** The ECB will start reporting its aggregated purchases settled in the previous week. ECB guidance indicates a figure of €9.8bn pointing to a stronger start than the linear assumptions suggest.
- **Supply:** Slower scheduled gross supply from Slovakia, Germany and France and sub-€10bn net supply leaves room for opportunistic deals.
- **Ratings:** This week should see good news for Portugal, pointing to IG before long.

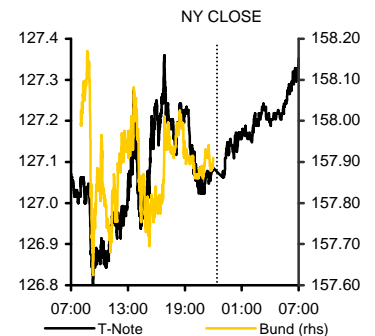
Overnight News

- **Greece:** Greece will meet €588mn IMF payment today, further depleting cash reserves that could run out this month, FinMin spokesman said. "Greece is part of "indivisible euro zone, according to FinMin Varoufakis. It would be helpful if ECB could show some flexibility in T-Bill limit. In German TV he said "help us to grow, so that we can pay the money back". Greece won't request new loan in June, Minister of State for Government Coordination Flavouraris said. If Greece leaves, Spain and Italy would be next. EU's Moscovici warns Grexit would be "beginning of the end".
- **€QE:** Bol's Visco said the euro decline was "larger than we had expected". Buba's Nagel said QE "bears balance-sheet risks, in particular if it includes bonds with negative yields". Italian FinMin Padoan hails success of QE. Greek FinMin Varoufakis thinks QE is incapable of boosting growth, calls for EIB bonds instead.
- **ECB:** 86% expect ECB to reach its volume target in March. Median estimate for March TLTRO is €40bn. 83% expect the economic outlook to improve.
- **Ratings:** DBRS upgraded Ireland to A/stable, confirmed Belgium at AA (high)/stable. S&P kept Greece at B- with Creditwatch Negative, affirmed ECB at AAA/stable.
- **Germany:** Government plans supplementary budget with €4.2bn extra spending, mostly to aid municipalities, to be financed mostly from higher tax revenues. Germany still to avoid net new borrowing from 2015 to 2019.
- **DuessHyp:** BdB said its Deposit Protection Fund will take over DuessHyp after Heta losses, "problem has been solved". WaS reports bank may collapse as sale to Lone Star is void amid Heta losses.
- **Italy:** Government will raise GDP forecast to 0.8%, sees deficit at 2.6% in 2015.
- **Italian banks:** FinMin Padoan said final proposal on bad bank is expected "very soon". He is confident that Monte Paschi and Banca Carige will turn around, rules out state aid.
- **Ireland:** NTMA plans €5.5bn early IMF repayment this month saving €1.5bn in interest, WiWo reports.
- **Fed:** Fed is ready for 'lift off' with chances for June greater than 50%, FT comments.
- **US:** Justice Department is seeking about US\$1bn from each global bank investigated for fx manipulation.
- **China:** PM Li said growth target of 7% is at risk, government is prepared to take action to stimulate the economy.
- **Markets:** Asian equities are mostly supported with China rallying. EUR hits new low below US\$1.05, then recovers. USTs closed little changed in NY, gain in Asia. WTI hits new 6y low. Gold is firm.

Market Indications		
Bunds (Friday's closing)		
2 year	-0.23%	+0.002
5 year	-0.09%	+0.006
10 year	0.26%	+0.010
30 year	0.72%	-0.005
Equities		
Dow Jones	17749.31	-0.82%
Nikkei	19246.06	-0.04%
Shanghai Comp.*	3438.42	+1.94%

* 06:31 GMT; Source: Bloomberg

Overnight Markets



Source: Bloomberg

Bund future

Tactical positioning for today* (RXM5)	
Short	
Target	157.60
Stop	158.45
Cumulative performance YTD: +209 ticks	

*7:00am to 4:15pm GMT

Source: Commerzbank Research

Technical levels (RXM5)	
Resistance	
159.00	minor
159.50	2 nd Feb 2015 (cont)
159.71**	channel
160.00	26 th Feb high (cont)
Support	
157.31	2 nd Feb high
156.00/155.98**	February lows
155.91	Fibo
155.87*	5 th March low

Source: Commerzbank Research

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Events for today (see primary market activities for this week and critical events from page 3)

Economic Events								
Time*	Country	Event	Period		Commerzbank	Consensus	Previous	
12:30	USA	Empire State Index	Mar	sa	7.00	8.00	7.78	
13:15		Industrial production	Feb	mom, sa	0.0	0.2	0.2	
14:00		NAHB Index	Mar		56	576	55	

Primary Market Activity								
Cut-off time* for bids	Indicative Time* of auction results/ announcement		Issuer	Event				Size
10:00	from 10:00		Slovakia	SLOVGB219 4.625% Jan17, SLOVGB227 3.625% Jan29				up to €0.2bn (f)
	late afternoon		Belgium	Announcement for OLO auction on 23 March				

*Time GMT; mom/qoq/yoq: change to previous period in %, AR = annual rate, sa = seasonal adjusted, wda = working days adjusted

Source: Commerzbank Research; Bloomberg

€QE meets less patient Fed*Opposing impetus*

The upcoming events argue for another volatile week as ECB €QE looks set to meet a less patient Fed. Markets continued to consolidate on Friday primarily as there are little signs that the scarcity theme will grow into shortage concerns amid a steep learning curve for national central banks (NCBs) and market participants regarding the €QE procedures (see also below on QE reporting). While nominal markets consolidated further, linkers ended a very strong week on a strong footing, with break-evens widening another 5-7bp on Friday despite the renewed sell-off in oil prices.

In the absence of significant data impetus this week, the focus will remain on monetary policy with the FOMC meeting on Wednesday looming large (see below). A change in the Fed wording may not come as a huge surprise but we still expect a bearish tone in US-Treasuries to prevail this week, tipping the balance also for tactical shorts in Bunds as QE become routine.

Draghi speech today

Official ECB comments about QE implementation and the ECB's macro assessment will also be closely followed with ECB President Draghi scheduled to speak tonight and chief economist Praet tomorrow and board member Cœuré on Wednesday.

QE reporting: turning anecdotal evidence into facts*€9.8bn QE purchases settled last week*

The ECB will start reporting its aggregated QE purchases today and update about the progress on a weekly basis. Given standard t+2 settlements today's figure should cover the period from Monday to Wednesday last week. ECB Board member Cœuré let the cat out of the bag already by mentioning that the ECB bought some €9.8bn during the first three days. It is unclear whether he referred to the entire Expanded Asset Purchase Programme (EAPP incl. Covered Bonds and ABS) or the new Public Sector Purchase Programme (PSPP), but either way this figure suggests a stronger start than a linear run rate would suggest. The recent weekly run rate for the CBPP3 and ABS programmes has been slightly above the implied monthly target of €10bn. The corresponding sovereign/SSA target is €50bn, implying a linear path of some €11.5bn per week or €2.25bn of purchases per day.

The first reporting data will have to be taken with a pinch of salt. For one, the NCBs likely started the programme on a stronger note in order to ensure the weekly targets. The data may also reflect a slightly skewed daily profile towards the first part of the week given restrictions resulting from the busy auction schedule last Thursday. With the ECB likely to aim reaching its sovereign/SSA target on a trend basis, covered bonds purchases should slow slightly in coming weeks. A more detailed reporting with average duration for individual national markets will have to wait a few more weeks and will only be conducted on a monthly basis.

Fed: Fuelling divergence*Getting less patient*

While €QE remains a dominant market theme, Wednesday's FOMC meeting will be the next key event. It will be a 'big' meeting indeed with the market focussing on any change in the rhetoric of the statement, the press conference, and the summary of economic projections including the famous dots. We expect the Fed to abandon 'patience' and to move towards a data-dependent policy stance. The wording regarding inflation will be in focus, but we do not expect any major changes but rather a repetition that transitory factors should dissipate, opening the door for inflation to move back towards 2%. Overall, the drop of 'patience' and the transition of the wording to a (normal) data-dependent monetary policy stance should not come as a surprise, but we still see more headroom to US Treasury yields on tactical grounds.

Supply: Slowing down

Below average volumes open door for opportunistic deals

Following last week's busy run of primary market activities, this week will be calmer. Scheduled issuance volumes should slow to a meagre €13.5bn, coming from Slovakia, Germany and France (see table below for details) with some €4bn coupon payments reducing the net supply further. Germany will reopen the 10y Bund Feb25 and France will launch a new 3y benchmark alongside two reopenings and inflation-linked bonds. Also today, Belgium is set to publish its bond selection and auction size for next week's regular auction. In peripherals, Italy and Spain will pause the next two weeks, which opens the door for opportunistic deals from both large and small peripherals. Latest market talk about a 15y Italian bond issue confirms this notion.

Ratings: Portugal – good news looming large

Portugal & S&P: Inching towards regaining investment grade status

We look for positive action on **Portugal** from S&P this week. Portugal's BB rating carries a stable already since May last year. Thanks to the reforms implemented in recent years (see *Economic Insight* – Portugal: Like Spain, but with less political risk, published 25 February) and the success of the ECB's QE programme, triggering 10y PGB yields to nose-dive to c. 1.6% vs. 2.9% in mid-January and vs. c. 3.25% at the time of S&P's last review, this should easily outweigh the risks stemming from domestic political uncertainty heading into the general elections in autumn. A one-notch upgrade looks likely to us, which would leave Portugal's rating just at the verge of re-gaining investment-grade (IG) status – as is already the case with Fitch (BB+ and even with a positive outlook). A positive action by S&P would also be a good omen for the market pricing in Fitch to upgrade Portugal again as soon as next week. Besides the spread-compressing impact of ECB QE, opportunistic demand followed by rating-sensitive index-tracker should underpin PGBs heading into month-end. Recall: In our 2015 Outlook published 20 November, we outlined that Portugal should regain IG status with Fitch this year and that it 'has a fair chance to migrate back into the 'BBB' category within iBoxx as early as (late) 2015'. The major risk to our bullish rating view on Portugal is that the situation in Greece is viewed by rating agencies as carrying a markedly higher potential of negative spill overs into peripherals than investors price in at this stage.

Cyprus & Moody's: Wait-and-see, or more positive action?

Also in the periphery, **Moody's** is scheduled to look at **Cyprus**. Rating action looks unlikely though only four months after a 3-notch upgrade to B3 with a stable outlook. However, the bold move last time bodes well for further positive action before long. Uncertainty surrounding Greece should warrant a wait-and-see stance at this stage.

Finland & Fitch: A likely non-event

Fitch's review of **Finland** (AAA / Stable) should be a non-event. S&P's decision to downgrade Finland by one notch to AA+ after Fitch's last action in September may be a bad omen – but probably no more than that at this stage.

Euro area rating updates scheduled for Friday 20 March

Issuer	Rating agency	Current rating / outlook	Last action by the rating agency		Next scheduled update
Portugal	S&P	BB / Stable	7-Nov-14	affirmed	27-Mar-15 by Fitch
Finland	Fitch	AAA / Stable	26-Sep-14	affirmed	27-Mar-15 by Fitch
Cyprus	Moody's	B3 / Positive	14-Nov-14	upgraded, outlook ↓	27-Mar-15 by S&P

Source: Rating agencies; Commerzbank Research

Primary market activity for this week

Date	Cut-off time* for bids	Indicative time* of auction results/ announcement	Issuer	Event	Size
16-Mar	10:00	from 10:00	Slovakia	SLOVGB219 4.625% Jan17, SLOVGB227 3.625% Jan29	up to €0.2bn (f)
		late afternoon	Belgium	Announcement for OLO auction on 23 March	
18-Mar	10:30	from 10:30	Germany	Bund 0.5% Feb25	€4bn
19-Mar	9:50	from 9:55	France	New 3y OAT Feb18 and reopenings of the OATs 0% May20 & 3% Apr22	€7.5-8.5bn
	10:30	from 10:30	UK	New Gilt 2% Sep25	£2.75bn
	10:50	from 10:55	France	OATei 0.25% Jul18, OATi 1.3% Jul19, OATei 0.25% Jul24	€1-1.5bn
		from 16:00	US	Announcement for new 2y, 5y & 7y note on 24, 25 & 26 March	
		from 16:00	US	Announcement for 2y FRN on 25 March	
	17:00	from 17:00	US	10y TIPS	US\$13bn
20-Mar		around 11:00	Belgium	Size announcement for OLO auction on 23 March	
		around 12:00	Netherlands	Coupon announcement for new 10y DSL Jul25	

*Time GMT, (f) = forecast; Source: Commerzbank Research; Bloomberg, Reuters

Economic Calendar

GMT	Region	Indicator	Period	Forecast	Survey	Last	
Monday, 16 March 2015							
12:30	USA	Empire State Index	Mar	sa	7.00	8.00	7.78
13:15		Industrial production	Feb	mom, sa	0.0	0.2	0.2
14:00		NAHB Index	Mar		56	56	55
Tuesday, 17 March 2015							
10:00	GER	ZEW Index	Mar		70.0	59.4	53.0
	EUR	HICP, final	Feb	yoy	-0.3	-0.3	-0.3
		Core HICP (ex energy/food/tobacco), final	Feb	yoy	0.6	0.6	0.6
		HICP ex tobacco	Feb	Index	115.82	-	115.13
12:30	USA	Housing starts	Feb	SAAR, k	1,020	1040	1,065
		Housing permits	Feb	SAAR, k	1,060	1065	1,060
Wednesday, 18 March 2015							
9:30	UK	Jobless claims change	Feb	mom, k, sa	-20.0	-30.0	-39.3
		Average earnings	Jan	3m yoy	2.3	2.2	2.1
		Unemployment rate (ILO)	Jan	%, sa	5.7	5.6	5.7
18:00	USA	Fed monetary policy decision & press conference		%	0.25	0.25	0.25
Thursday, 19 March 2015							
9:00	NOR	Norgesbank policy rate announcement		%	1.00	1.00	1.25
12:30	USA	Initial claims	Mar 14	k, sa	290	292	289
14:00		Philadelphia Fed Index	Mar	sa	5.0	7.0	5.2
EUR: EU Summit – Heads of State and Government (19/20 March)							
Friday, 20 March 2015							
EUR: EU Summit – Heads of State and Government (2nd day)							

= Date/time not yet specified, sa = seasonal adjusted, wda = working days adjusted, p = preliminary f = final; Source: Bloomberg, Commerzbank Research

Critical Events

Date	Critical Events
March	
16	ECB's Draghi and Lautenschläger are set to speak
17	ECB's Praet to participate in panel discussion
17	Austria: Government will present tax-reform proposal
18	BoE MPC minutes
18	FOMC Monetary Policy Announcement and press conference (incl. economic projections)
19-20	EU Summit - Heads of State and Government
20	Fed's Lockhart and Evans are set to speak
22	Spain/Andalucia: Regional election (Region is usually a Socialist bastion; PSOE leads the polls)
22/29	France: Department elections
by end-March	Netherlands: Dijsselbloem to decide on ABN Amro sale
April	
by April	Italy: Election reform should be approved
by April	Portugal: Coalition talks with the senior ruling party PSD for the parliamentary elections
	Catalonia/Spain: Fitch to resolve Rating Watch Negative from 10 November
9	BoE MPC meeting
15	ECB policy meeting and press conference (this is Wednesday)
16	G20 finance ministers and central bankers to meet in Washington
17-19	Spring Meetings of World Bank and IMF 2015 in Washington
19	Finland: Parliamentary elections
29	FOMC Monetary Policy Announcement
May	
during May	Spain: regional and local elections (13 out of 17 regions, including Catalonia; 8,100 mayors)
during May	EU Commission presents spring 2015 European Economic Forecast
7	UK: General election
10	Germany: Regional elections (Bremen)
11	BoE MPC meeting
11-12	Eurogroup/ECOFIN meetings
13	BoE Inflation Report
26	Netherlands: Senate elections
27-29	G7 Finance ministers meet in Dresden, Germany

Source: Commerzbank Research

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