



**Thursday, 14 February 2019**

### Rates: More underperformance of US Treasuries?

We expect core US retail sales to be strong given the tight labour market and rising disposable income. This might trigger a negative reaction in US Treasuries in line with yesterday's move following higher (wage) inflation. Stock markets can't really profit overnight from rumours that US President Trump contemplates a 2-month extension to reach a trade deal with China.

### Currencies: EUR/USD returns to recent lows and struggles to prevent further losses

Tuesday's EUR/USD rebound proved short-lived. The ongoing contrast between poor EMU data and decent US eco evidence revived a USD supportive 'divergence trade'. EUR/USD is nearing the bottom of a MT trading range. The euro desperately needs EMU and global event risk to cool down and signs of a gradual economic improvement in EMU.

### Calendar

## Headlines

- **US equities** edged modestly higher yesterday with gains up to +0.46% (Dow Jones). **Asian equity markets** are trading mixed this morning despite rumours of a 60-day extension to the US-China trade deadline.
- **US President Trump is said to be open to extending the China tariff deadline (March 1) by 60 days**, to give negotiating parties more time if they are close to a deal that addresses deep structural changes to China's economic policy.
- **US President Trump was cautious about the preliminary border security deal.** He will look at the final legislation before deciding whether to sign it but said a shutdown would be a "terrible thing". The House votes on the proposal tonight.
- **UK Parliament decides today if it gives PM May another two weeks** to secure changes to the Brexit deal. The anti-EU European Research Group is weighing to vote against May's motion as they do not want to rule out a no-deal Brexit.
- **Chinese export unexpectedly grew 9.1% (Y/Y) in January** (vs. -3.3% exp.), partly supported by front-loading before the Lunar New Year. **Imports declined 1.5% (Y/Y)**, less than the 10.2% drop expected, resulting in a \$39.16 trade surplus.
- **Japan's economy grew 1.4% (Q/Q annualized) in Q4 last year**, rebounding from a sharp contraction during a natural disaster-hit 3rd quarter (-2.6% Q/Q). The Q4 expansion was fuelled by business investment and consumer spending.
- **Today's eco calendar** contains US producer price inflation, weekly jobless claims, retail sales and the 2<sup>nd</sup> reading of EMU Q4 GDP. UK Parliament votes on more time for UK PM May, while BoE's Vlieghe speaks.

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	➡

# Rates

## More underperformance of US Treasuries vs Bunds?

	US yield	-1d
2	2,53	0,02
5	2,53	0,03
10	2,70	0,01
30	3,04	0,01

	DE yield	-1d
2	-0,56	0,01
5	-0,23	0,00
10	0,12	-0,01
30	0,75	-0,01

Global core bonds ended mixed yesterday's with **US Treasuries underperforming German Bunds**. The main downleg occurred following **higher than expected US CPI, and especially wage data**. Main European and US equity indices recorded gains to the tune of 0.5%. US yields added 0.6 bps (30-yr) to 2.7 bps (5-yr) on a daily basis. Fed governors Mester, Harker and Bostic spoke out in favour of 1 rate hike this year, but that didn't change market thinking (no more hikes in 2019, rate cut in 2020). The German yield curve flattened with yield changes ranging between +0.8 bps (2-yr) and -1 bp (30-yr). 10-yr yield spread changes vs Germany varied between flat (Spain) and -5 bps (Italy). **The Spanish parliament voted the 2019 budget proposal down**, putting Socialist PM Sanchez' minority government in a corner. El Pais reported that he'll announce **on Friday whether or not to call snap elections**. Any underperformance of Spanish bonds (higher political risk premium) should be limited as the lion share of parties are pro-EU. **There's no real risk of a populist government like in Italy**.

Asian stock markets are mixed overnight despite **stronger than expected, but distorted (by Lunar NY) Chinese trade data**. Bloomberg reports that US president Trump is contemplating **a 2-month deadline extension** (March 1 to May 1) for lifting imports on remaining Chinese goods without a trade deal. Both the US Note future and the German Bund are marginally weaker.

Today's eco calendar contains the second reading of Q4 EMU GDP (0.2% Q/Q) and December US retail sales. **Core retail sales are expected to be strong, backed by labour market strength and rising disposable income**. An upward surprise could trigger **a negative reaction in the US Note future** as we've seen after yesterday's data. More US eco data strength might eventually lead to markets opening up for the possibility of a (final?) Fed move towards the end of the year. **Especially if event risks gets out of the way** (eg avoiding new government shutdown by the end of the week or reaching a trade deal with China). So the **underperformance of US Treasuries vs German Bunds** might last today. As UK PM May failed to deliver a plan B by today, **the brexit vote in UK parliament is reduced to a vote on giving her a new two-week mandate** to negotiate a better deal with Brussels. The kicking the can down the road process might last until the March 21-22 EU Summit. **Spillover effects from UK to global markets stemming from brexit developments have been very minor** so far. **Technically**, the German 10-yr yield fell through the lower bound of the 0.15%-0.31%, suggesting a return to the psychological 0% mark or even to negative levels. The US 10-yr yield trades in a 2.49%-2.78% sideways range.



# Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1261	-0,0065
S1	1,1187	
S2	1,1119	

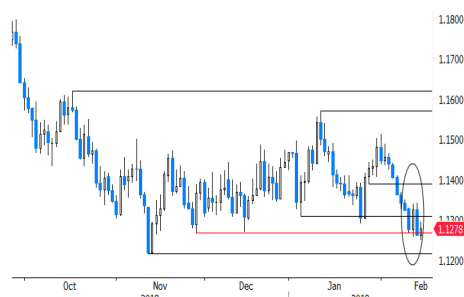
R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8766	-0,0020
S1	0,8620	
S2	0,8314	

## EUR/USD rebound proves short-lived

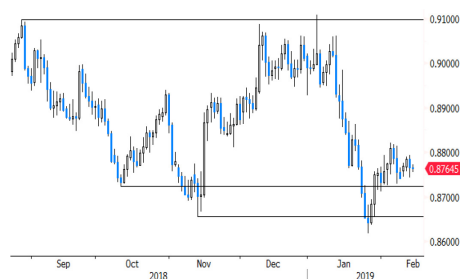
Tuesday's **EUR/USD rebound proved short-lived**. Yesterday, EUR/USD failed to extend gains beyond the 1.1340 area. EMU production data were again weak, dampening the potential for further euro gains. Later, **the dollar was supported by (slightly) higher than expected US CPI data and by solid real labour earnings**. The dollar was again in the driver's seat, profiting from higher US yield. USD/JPY closed just north of 111. EUR/USD completely reversed Tuesday's rebound to finish at 1.1261. **Overnight**, Asian equities are taking a breather after recent rally. Headlines from the US China trade talks remain constructive. President Trump is rumoured considering delaying a rise in import tariffs on Chinese goods. The yuan (USD/CNY 6.76 area) stabilizes despite broad USD strength. China January foreign trade data were strong, but distorted due to the Lunar New Year. The trade weighted dollar (97.05 area) and USD/JPY (111 area) are holding near recent peaks. In the same context, EUR/USD set a minor correction low in the mid 1.12 area this morning. At 1.1275 the pair still struggles to prevent further losses. The Aussie and the Kiwi dollar maintain recent bid tone.

EMU Q4 GDP is expected at a meagre 0.2% Q/Q **today**. End 2018 **EMU eco weakness** is well documented. Still, additional evidence recently often continued to weigh on the euro. In the US, PPI inflation, jobless claims and **retail sales** will be released. Headline US sales are expected soft (0.1%) but control group sales are expected OK (0.4%). December data are a bit outdated so we don't expect a big reaction. That said, there is little evidence that today's data will change the **US/EMU divergence trade that weighed on EUR/USD of late**. Headline risk on Spain is a wildcard. A protracted ST EUR/USD downtrend pushed EUR/USD to the lower part of the MT 1.12/1.16 trading range. A temporary rebound on Tuesday proved unsustainable. The dollar profits for ongoing (relative) eco strength. **A sustained euro rebound probably needs some of the global (trade) and EMU political event risks to be solved and more comforting EMU data. This condition isn't met. The day-to-day EUR/USD picture remains fragile. EUR/USD 1.1216 marks the Nov low. EUR/USD 1.1287 is 61% retracement 2016 low/2018 top).**

EUR/GBP touched an intraday top in the 0.8790 area around the publication of softer UK price data **yesterday**. Later, sterling rebounded on rumours that a Brexit delay might still be an option for the government. Today, UK PM May seeks Parliamentary approval to extend negotiations with the EU, but the conservative party stays divided on tactics. Sterling trading will again develop according to the tone of the Brexit headlines. We stay sterling cautious.



EUR/USD returns to recent lows and struggles to prevent further losses



EUR/GBP: Brexit vote Parliament to set the tone for sterling trading

# Calendar

Thursday, 14 February		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM/YoY (Jan)	0.1%/2.1%	-0.1%R/2.5%
14:30	PPI Ex Food and Energy MoM/YoY (Jan)	0.2%/2.5%	0.0%R/2.7%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Jan)	0.2%/2.7%	0.0%/2.8%
14:30	<b>Initial Jobless Claims</b>	<b>225k</b>	<b>234k</b>
14:30	Continuing Claims	1740k	1736k
14:30	Retail Sales Advance MoM (Dec)	0.1%	0.2%
14:30	Retail Sales Ex Auto MoM (Dec)	0.0%	0.2%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.4%	0.5%
14:30	<b>Retail Sales Control Group (Dec)</b>	<b>0.4%</b>	<b>0.9%</b>
16:00	Business Inventories (Nov)	0.2%	0.6%
<b>Japan</b>			
00:50	<b>GDP SA QoQ/YoY Annualized (4Q P)</b>	<b>0.3%A/1.4%A</b>	<b>-0.7%R/-2.5%</b>
00:50	GDP Deflator YoY (4Q P)	-0.3%A	-0.4%R
<b>UK</b>			
01:01	RICS House Price Balance (Jan)	-22%	-19%
<b>EMU</b>			
11:00	Employment QoQ/YoY (4Q P)	--/--	0.2%/1.3%
11:00	<b>GDP SA QoQ/YoY (4Q P)</b>	<b>0.2%/1.2%</b>	<b>0.2%/1.2%</b>
<b>Germany</b>			
08:00	<b>GDP SA QoQ/WDA YoY (4Q P)</b>	<b>0.1%/0.7%</b>	<b>-0.2%/1.1%</b>
<b>France</b>			
07:30	ILO Unemployment Rate (4Q)	9.1%	9.1%
<b>China</b>			
14FEB	Exports/Imports YoY (Jan)	9.1%A/-1.5%A	-4.4%/-7.6%
14FEB	Trade Balance (Jan)	\$39.16bA	\$57.06b
<b>Sweden</b>			
09:30	Unemployment Rate SA (Jan)	6.4%	6.4%
<b>Events</b>			
2018Q4 earnings	Six Flags Entertainment (bef-mkt), Coca-Cola (12:55), Nvidia (22:20) ...		
14FEB	<b>UK Parliament votes on alternatives to PM May's earlier defeated proposal</b>		
10:30	<b>BOE's Vlieghe Speaks on the Economic Outlook</b>		
17:00	Fed's Harker Discusses Approaches to Leadership (non-voter)		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,70	0,01		US	2,53	0,02	DOW	25543,27	117,51
DE	0,12	-0,01		DE	-0,56	0,01	NASDAQ	7420,378	5,76
BE	0,70	-0,01		BE	-0,43	0,00	NIKKEI	21139,71	-4,77
UK	1,18	0,00		UK	0,73	0,00	DAX	11167,22	41,14
JP	-0,01	-0,01		JP	-0,17	-0,01	DJ euro-50	3202,37	11,62
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0,07	2,62	1,11	Eonia	-0,3690	-0,0020			
5y	0,13	2,61	1,20	Euribor-1	-0,3670	0,0010	Libor-1	2,4938	0,0000
10y	0,66	2,73	1,36	Euribor-3	-0,3080	0,0000	Libor-3	2,6929	0,0000
				Euribor-6	-0,2310	0,0000	Libor-6	2,7405	0,0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1261	-0,0065		EUR/JPY	125	-0,12	CRB	178,72	0,51
USD/JPY	111,01	0,53		EUR/GBP	0,8766	-0,0020	Gold	1315,10	1,10
GBP/USD	1,2846	-0,0046		EUR/CHF	1,1366	-0,0035	Brent	63,61	1,19
AUD/USD	0,709	-0,0005		EUR/SEK	10,4377	-0,0508			
USD/CAD	1,3254	0,0016		EUR/NOK	9,7537	-0,0434			

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