

Friday, 15 February 2019

Rates: Can core bonds profit from increased uncertainty?

Dreadful US retail sales pushed core bonds higher yesterday. A new government shutdown will be avoided but US President Trump plans to declare a national emergency to obtain more funds. Trade optimism fades as both parties report few signs of progress. Today's US sentiment gauges can pile on investor worries/uncertainties. Safe haven flows might be in play.

Currencies: USD declines on poor US retail sales, but EUR/USD rebound unconvincing

The dollar was hammered on awful US December retail sales. EUR/USD rebounded, but the technical picture remains fragile. EUR/USD gains will probably remain difficult as long as issues of global/EMU event risk aren't solved or unless EMU eco data improve. A risk-off context probably doesn't help the euro.

Calendar

Headlines

- Awful December retail sales weighed on **US equities**. Nasdaq barely managed to eke out gains but the S&P and DJI finished in red. A trade talk reality check pours cold water on the recent **Asian equity** rally. China underperforms.
- **US president Trump plans to declare a national emergency** to secure more funds for the border wall, after signing a spending bill that avoids a new government shutdown. Democrat House Speaker Pelosi considers a lawsuit.
- **Chinese consumer inflation** in January slowed for a third straight month to 1.7% YoY (vs. 1.9% expected), the weakest in more than a year. Producer prices increased at the slowest pace since 2016 (0.1% YoY vs. 0.3% anticipated).
- The **US and China said that both parties remain far apart on structural reform demands**. The report suggests little progress has been made during this week's trade talks in Beijing despite recent overall constructive tone.
- **British Parliament rejected May's plea for more time to renegotiate** the Irish backstop in Brussels. The vote, however, is non-binding. May will continue EU talks and provide Parliament with an update on February 27.
- **Spain's Socialist Prime Minister Pedro Sanchez might call snap elections** this morning as he called an extraordinary cabinet meeting. His budget proposal was blocked by Parliament earlier this week.
- On **today's eco calendar**, the US prints the Empire Manufacturing Index and U. of Michigan consumer sentiment gauge. The UK publishes retail sales (Jan). China's president Xi Jinping joins discussions with Lighthizer and Mnuchin.

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

	US yield	-1d
2	2,49	-0,04
5	2,47	-0,05
10	2,65	-0,05
30	2,99	-0,03

	DE yield	-1d
2	-0,55	0,01
5	-0,35	-0,01
10	0,10	-0,02
30	0,71	-0,03

Core bonds to profit from increased uncertainty?

Global core bonds gained ground yesterday with **US Treasuries outperforming German bunds**. European equities opened higher, tracking gains on WS and in Asia but edged lower immediately afterwards. German Bunds profited from the shift in risk sentiment. **German yield curve flattened with yield changes ranging between +0.7 bps (2-yr) to -2.9 bps (30-yr)**. The main main upleg occurred just before US openings following **disappointing US retails sales**. The December results missed expectations by a landslide, setting multiyear lows. Senate Majority Leader Mitch McConnell said President Trump was going to sign the border security bill into legislation to avoid a government shutdown. However, Trump said he will be issuing a national emergency declaration at the same time to get more funds for his border wall. US Treasuries didn't profit on the news and even paired some of its intraday gains. **The US yield curve shifted lower with changes up to -5.1 bps (5-yr)**. Spanish PM Sanchez was rumoured to announce a date for early elections, but eventually did not make any statements. He did call an extraordinary cabinet meeting for today. Peripheral spreads over the German 10-yr yield remained close to unchanged, with Spain (+3 bps) and Italy (+4 bps) underperforming.

Asian stock markets move lower overnight as **trade optimism faded**. The two sides reported to be far apart on reform demands as high-level talks in Beijing are making less progress than hoped for. The lack of progress recently motivated Trump to consider a 60-day delay of the March 1 tariffs deadline. On top, **Chinese consumer/producer inflation for January fell short of expectations**. Global core bonds opened neutral this morning but we expect the uncertainty to support the upward bias today.

Today's economic calendar contains UK retail sales for January and December trade balances in the EMU. ECB's Coeuré speaks in New York. The US publishes **the Empire Manufacturing and the University of Michigan Sentiment gauges** for February. The former, a confidence gauge for the industry, is expected to recover to 7.0, after it fell to 3.9 in January. The latter, a consumer confidence gauge, is also expected to rebound to 93.5 (vs. 91.2 last month). **A new disappointing reading could pile on yesterday's weak retail sales and worry investors some more, supporting core bond.**

Technically, the German 10-yr yield fell through the lower bound of the 0.15%-0.31% range, 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	1,1295	0,0034
S1	1,1187	
S2	1,1119	

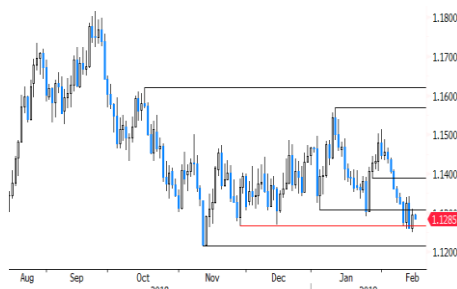
R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8822	0,0056
S1	0,8620	
S2	0,8314	

Dollar rally blocked by poor US retail sales

The focus for FX/USD trading turned to the US **on Wednesday**. At first, euro weakness/USD strength still reigned. German/EMU growth data were again week and EUR/USD (re)tested the 1.1250 area. However, fortunes for the dollar changed as December US retail sales printed at an awful -1.2% M/M. US yields and the dollar fell off a cliff. In a market looking for clear direction, EUR/USD finally finished at 1.1295 (from 1.1261). USD/JPY closed at 110.48 (from 111.0). **Overnight**, Asian markets are pondering the meaning of the poor US retail sales. The headlines on the US-China trade talks are now seen as indicating that the glass is half empty rather than half full (parties say they are still quite far apart). At the same time, Chinese price data remain soft and the US budget solution isn't that comforting. Asian equities show broad-based losses up to 2.0% (Hong Kong). The (trade-weighted) dollar is trading off yesterday's top, but the loss remains modest (97.05 area). USD/JPY (110.35 area) extends yesterday's post-retail sales decline. EUR/USD hovers slightly below the 1.13 handle.

Today, the US Empire manufacturing survey, **US production data and consumer confidence** of the U. of Michigan will be released. The Empire manufacturing and Michigan confidence are expected to improve after a substantial decline last month. In a broader perspective, markets will become more alert for US data after yesterday's shocking retail sales. Unconvincing data will probably **affect risk sentiment first**. The impact on the dollar is less obvious. **USD/JPY** is vulnerable in case of more negative news. **We doubt that EUR/USD will be able to start a sustained rebound if global risk sentiment remains 'instable', even if it is (partially) due to US data**. The advice of the Commerce department on auto import tariffs (expected this weekend) is an additional source of uncertainty for Europe and the euro. This week, the dollar rally showed signs of hesitation, but the picture especially for EUR/USD hasn't materially improved yet. Even with softer US data, a real **euro rebound probably needs some of the global/EMU event risks to be solved and better EMU data. This condition isn't met.** **EUR/USD 1.1216 marks the Nov low. EUR/USD 1.1287 is 61% retracement 2016 low/2018 top).**

Sterling (EUR/GBP above 0.88) traded in the defensive from most of the day as investors looked out of a new Brexit vote in the UK Parliament yesterday. May lost the (non-binding) vote, undermining her mandate to renegotiate the Brexit deal. So, more political muddling through will probably continue. We stay cautious on sterling as long as there are no indications on an delay/rising chance for an orderly Brexit.



EUR/USD: dollar declines on poor US retail sales but euro rebound remains unconvincing



EUR/GBP: sterling still awaits clearer sign on Brexit scenario

Calendar

Friday, 15 February		Consensus	Previous
US			
14:30	Empire Manufacturing (Feb)	7.0	3.9
14:30	Import Price Index MoM/YoY (Jan)	-0.2%/-1.6%	-1.0%/-0.6%
14:30	Import Price Index ex Petroleum MoM (Jan)	-0.1%	0.3%
14:30	Export Price Index MoM/YoY (Jan)	-0.1%/--	-0.6%/1.1%
15:15	Industrial Production MoM (Jan)	0.1%	0.3%
15:15	Capacity Utilization (Jan)	78.7%	78.7%
15:15	Manufacturing (SIC) Production (Jan)	0.0%	1.1%
16:00	U. of Mich. Sentiment (Feb P)	93.5	91.2
16:00	U. of Mich. Current Conditions (Feb P)	111.6	108.8
16:00	U. of Mich. Expectations (Feb P)	85.5	79.9
16:00	U. of Mich. 1 Yr Inflation (Feb P)	--	2.7%
16:00	U. of Mich. 5-10 Yr Inflation (Feb P)	--	2.6%
22:00	Net Long-term TIC Flows (Dec)	--	\$37.6b
22:00	Total Net TIC Flows (Dec)	--	\$31.0b
UK			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Jan)	0.2%/3.2%	-1.3%/2.6%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Jan)	0.2%/3.4%	-0.9%/3.0%
EMU			
08:00	EU27 New Car Registrations (Jan)	--	-8.4%
11:00	Trade Balance SA (Dec)	15.7b	15.1b
Italy			
10:00	Trade Balance Total (Dec)	--	3843m
Belgium			
15:00	Trade Balance (Dec)	--	-1028.2m
China			
15FEB	BoP Current Account Balance (4Q P)	--	\$23.3b
02:30	CPI YoY (Jan)	1.7%	1.9%
02:30	PPI YoY (Jan)	0.1%	0.9%
Events			
2018Q4 earnings	Kraft Heinz (unconfirmed), PepsiCo (12:00) ...		
15FEB	Stopgap US government funding expires at US midnight		
14:00	ECB's Coeure Speaks in New York		
15:55	Fed's Bostic to Speak on Workforce Development in Alabama (non-voter)		
16:45	ECB's Angeloni Speaks in Brunico-Bruneck, Italy		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,65	-0,05		US	2,49	-0,04	DOW	25439,39	-103,88
DE	0,10	-0,02		DE	-0,55	0,01	NASDAQ	7426,955	6,58
BE	0,68	-0,02		BE	-0,44	0,00	NIKKEI	20900,63	-239,08
UK	1,15	-0,03		UK	0,74	0,00	DAX	11089,79	-77,43
JP	-0,02	-0,01		JP	-0,17	0,00	DJ euro-50	3182,66	-19,71
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	2,58	1,09	Eonia	-0,3700	-0,0010			
5y	0,13	2,56	1,18	Euribor-1	-0,3680	-0,0010	Libor-1	2,4888	0,0000
10y	0,65	2,69	1,35	Euribor-3	-0,3080	0,0000	Libor-3	2,6838	0,0000
				Euribor-6	-0,2310	0,0000	Libor-6	2,7433	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	1,1295	0,0034		EUR/JPY	124,81	-0,19	CRB	178,72	0,01
USD/JPY	110,48	-0,53		EUR/GBP	0,8822	0,0056	Gold	1313,90	-1,20
GBP/USD	1,2803	-0,0043		EUR/CHF	1,1352	-0,0013	Brent	64,57	0,96
AUD/USD	0,7106	0,0016		EUR/SEK	10,4945	0,0568			
USD/CAD	1,3295	0,0041		EUR/NOK	9,7705	0,0168			

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