

Thursday, 16 May 2019

Rates: Investors willing to buy into yesterday's risk rally?

President Trump granted the EU and Japan respite as he delayed the decision to impose auto tariffs. Core bonds temporarily lost ground, but maintain the upward bias of late. Given the outstanding bill with China, we err on the side of cautiousness too. The economic calendar offers some guidance today but is not expected to impact trading much.

Currencies: Euro profits only modestly as US considers to delay auto tariffs

EUR/USD (& EUR/JPY) initially declined yesterday as sentiment was risk off. The tide turned on headlines that the US would delay hiking tariffs on European cars. EUR/USD rebounded back above 1.12, but the move isn't really convincing. Today, sentiment on risk might remain fragile. More room for EUR/USD to drift back lower in the 1.1110/1.1265 range?

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 followed the European intraday swing higher** and closed with 0.45% (Dow) to 1.13% (Nasdaq) gains. **Asian bourses are less convinced this morning** with only China and India posting modest gains.
- US President Trump will **give the EU and Japan 180 days to agree to a deal that would limit or restrict imports into the US of automobiles and their parts, in return for delaying new auto tariffs**, according to Bloomberg.
- **April Australian labour market data were mixed.** Net job growth increased by 28.4k, more than forecast, but details show a decline in full time jobs. The unemployment rate rose to 5.2%, but was joined by a higher participation rate.
- **The US took dual actions** that will effectively ban Chinese technology giant **Huawei** from selling to the US market and preventing it from buying semiconductors in the US that are crucial for the production process.
- **Chinese US Treasury holdings slipped by \$10.4bn in March to \$1.12tn.** It was the first decline since November and the total stock has now hit the lowest level since March 2017.
- The UK 1922 Committee, all backbench Conservative MP's, will **urge PM May to quit as soon as possible (before June 15)**. If she refuses, they would **contemplate changing the rules to allow for another no-confidence vote**.
- **Today's economic calendar** contains US housing starts & building permits, weekly jobless claims and Philly Fed Business outlook. ECB Praet, Weidmann, de Guindos, Coeuré and Fed Quarles, Kashkari and Brainard speak.

Rates

	US yield	-1d
2	2.16	-0.04
5	2.14	-0.04
10	2.37	-0.04
30	2.81	-0.03

	DE yield	-1d
2	-0.65	-0.02
5	-0.51	-0.02
10	-0.10	-0.03
30	0.53	-0.04

Investors willing to buy into yesterday's risk rally?

Global core bonds gained ground yesterday with US Treasuries outperforming German Bunds. Core bonds climbed higher throughout the biggest part of European trading. Stock markets failed to cling to opening gains and US eco data (April retail sales and industrial production data) were weak. Intraday bond profits melted away as Bloomberg suggested that US president Trump would delay his decision whether or not to impose auto tariffs by 6 months. Those tariffs could have escalated trade tensions with the EU and Japan as well. Stocks turned losses into gains. **The US yield curve edged lower with changes in the range of -2.9 bps (30-yr) and -4.0 bps (5-yr). The German yield curve bull flattened with losses up to -3.9 bps (30-yr).** Peripheral spreads over the German 10-yr yield, who touched its lowest level since 2016, widened with **Italy (+5 bps) underperforming on new fiscal debauchery.**

Sentiment is mixed across Asia. While granting the EU and Japan respite, president Trump is ramping up the pressure with China. This morning, he signed an order that's expected to restrict Chinese telecommunication companies (Huawei) from selling equipment in the US and forbidding them from doing business with US companies. Core bonds opened neutral, but are eager to uphold their upward tendency.

The trade story could shift to the background with the EU and Japan probably (still rumours) temporarily excluded from Trump's trade crusade. We wait and see whether investors are willing to buy into yesterday's risk rally against a background of deteriorating eco data. If so - we aren't convinced - it could temporary top gains for core bonds. Today's eco calendar contains second tier US eco data including housing starts, building permits, weekly jobless claims and the Philly Fed Business Outlook. Speeches by Fed's Quarles, Kashkari, Brainard and ECB's Praet, Weidmann, de Guindos and Coeuré are wildcards.

Long term view: markets concluded that the ECB missed out on this cycle. They even start pondering the possibility of an additional deposit rate cut. The downtrend in the German 10-yr remains in place so far. **Regarding Fed policy, markets are now largely discounting a Fed rate cut by December.** The US 10-yr yield earlier this month temporary returned above the lower bound of the previous 2.5%-2.79%. However, the cycle low (2.34% is again on the radar).



Currencies

Currencies: Euro profits only modestly as US considers to delay auto tariffs

R2	1.1815	-1d
R1	1.1621	
EUR/USD	1.1201	-0.0003
S1	1.1110	
S2	1.0864	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8722	0.0040
S1	0.8500	
S2	0.8314	

Global trading (including FX) showed **two faces**. In Europe and early in US dealings, markets traded in **risk-off modus**. The euro suffered more than the dollar. Poor Chinese data and uncertainty on Italy caused modest EUR/USD (& EUR/JPY) selling. US retail sales and production missed expectations, but had limited impact on the dollar. Later, equities and the euro rebounded on headlines that President Trump would delay raising tariffs on European cars. EUR/USD rebounded north of 1.12, but gains were modest (close at 1.1201). USD/JPY reversed most of its earlier losses on the equity rebound and closed at 109.60.

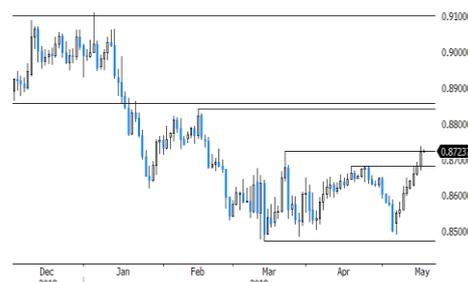
This morning, Asian equities don't join the rebound of Europe and the US yesterday. The US taking action against telecom companies on security issues reminds markets that the trade war is far from over. The yuan shows signs of stabilisation. China substantially reduced holdings of US Treasuries in March but for now it doesn't hurt the dollar. EUR/USD hovers near 1.12. USD/JPY is losing a few ticks. Australia labour data were mixed, with solid job growth but at the same time, the unemployment rate rose to 5.2%. This keeps speculation on RBA rate cuts alive and weighs on the AUD (AUD/USD 69.15 area).

Later today, there are few data in Europe. In the US, housing starts and building permits, the Philly Fed business outlook and jobless claims will be published. Data will probably be of second tier importance. Downside surprises will fuel Fed rate cut speculation. In theory, this asymmetric bias should be USD negative. However, over the previous days, the dollar, in a risk-off context, proved again more resilient than was the case last week. So, the jury is still out. We don't see a strong case for a sustained USD rebound, but **in a day-to-day perspective**, EUR/USD is losing momentum. The pair might cede some further ground in the 1.1110/1.1265 ST range. Further (risk-off inspired) losses of EUR/JPY might also weigh on the EUR/USD headline pair.

Yesterday, sterling declined further against the euro and the dollar. **The lack of process in the Brexit process and growing uncertainty on UK PM May's fate weighed on the UK currency**. EUR/GBP rebounded above 0.87 and is testing the 0.8723 resistance. Yesterday's story will still be at work today. UK PM May's position as leader of the conservative party might again be in question at a party meeting. Further sterling losses might be on the cards. Next resistance beyond 0.8723 is see at 0.8840.



EUR/USD: euro profits only modestly from US delay on auto tariffs



EUR/GBP test MT range top as growing political uncertainty in the UK weighs on sterling sentiment

Calendar

Thursday, 16 May		Consensus	Previous
US			
14:30	Housing Starts Total/MoM(Apr)	1209k/6.2%	1139k/-0.3%
14:30	Building Permits Total/MoM(Apr)	1289k/1.7%	1288k/-0.2%R
14:30	Philadelphia Fed Business Outlook (May)	9.0	8.5
14:30	Initial Jobless Claims	220k	228k
14:30	Continuing Claims	1673k	1684k
Japan			
01:50	PPI MoM/YoY (Apr)	A: 0.3%/1.2%	0.30%/1.30%
EMU			
11:00	Trade Balance SA (Mar)	19.4b	19.5b
France			
07:30	ILO Unemployment Rate (1Q)	8.70%	8.80%
07:30	Mainland Unemp. Change 000s (1Q)	--	-90k
Events			
09:30	ECB's Praet Moderates Panel in Brussels		
10:15	Bundesbank Weidmann Speaks in Hamburg		
10:50	France to Sell 0% 2022 & 0% 2025 Bonds + Linkers (2023, 2029 & 2036)		
14:30	ECB Vice President Guindos Speaks in Brussels		
16:00	Fed's Quarles testifies on Supervision Before House Panel (voter)		
18:05	Fed's Kashkari Discusses Monetary Policy and the Economy (non-voter)		
18:15	Fed's Brainard Discusses Economic and Monetary Policy Outlook (voter)		
19:30	BOE's Jonathan Haskel speaks in York		
20:00	ECB's Coeuré Speaks in Geneva		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2.37	-0.04	US	2.16	-0.04	DOW	25648.02	115.97	
DE	-0.10	-0.03	DE	-0.65	-0.02	NASDAQ	7822.147	87.65	
BE	0.41	-0.02	BE	-0.52	-0.01	NIKKEI	21062.98	-125.58	
UK	1.07	-0.04	UK	0.71	-0.01	DAX	12099.57	107.95	
JP	-0.07	-0.01	JP	-0.16	-0.01	DJ euro-50	3385.78	21.40	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.18	2.16	1.01	Eonia	-0.3680	-0.0020	Libor-1	2.4376	0.0000
5y	-0.03	2.17	1.09	Euribor-1	-0.3660	0.0000	Libor-3	2.5245	0.0000
10y	0.42	2.33	1.25	Euribor-3	-0.3110	0.0000	Libor-6	2.5509	0.0000
				Euribor-6	-0.2350	-0.0030			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1201	-0.0003	EUR/JPY	122.76	-0.05	CRB	180.66	0.66	
USD/JPY	109.6	-0.01	EUR/GBP	0.8722	0.0040	Gold	1297.80	1.50	
GBP/USD	1.2845	-0.0060	EUR/CHF	1.1299	-0.0002	Brent	71.77	0.53	
AUD/USD	0.6928	-0.0016	EUR/SEK	10.7534	-0.0062				
USD/CAD	1.3438	-0.0024	EUR/NOK	9.7703	-0.0275				

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Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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