



**Thursday, 18 April 2019**

## Rates: Err on the cautious side for eco data

Key EMU and US eco data will be released today. We still prefer to err on the side of caution. Core bonds have an upward bias this morning, while the S&P 500 shows a tentative bearish engulfing pattern. USD/JPY failed to take out resistance. All this signals suggest more difficult times ahead from a risk perspective.

## Currencies: EMU PMI's to keep EUR/USD deadlocked

EUR/USD fails to choose sides recently, oscillating near the 1.13 mark. Markets are looking for clues in data to confirm the growth sentiment turnaround that occurred end of last week. Today's EMU PMI's are in the picture but we warn reading too much in a (modest) recovery. EUR/GBP is set for more technical trading during the parliamentary recess.

## 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 equity markets** closed yesterday's session little lower with the S&P 500 Index underperforming (-0.23%). **Asian equities** are tracking WS bourses this morning with Japanese and Korean indices underperforming.
- **The US and China have set up a new timeline in their trade negotiations.** They planned two rounds of face-to-face meetings to wrap up the deal end of April/early May and aim for a signing ceremony in late May or early June. (WSJ)
- A Japanese official said that **Japan's government could postpone a sales tax increase** for a third time if economic conditions deteriorate further. Meanwhile, the **Nikkei PMI manufacturing** slightly rebounded in April, from 49.2 to 49.5.
- **The US Fed's Beige Book** saw a "slight-to-moderate" pace of growth in recent weeks, while some sectors expect growth to pick up in the coming months. The survey also shows moderate wage growth and tight labor markets.
- **Australia's economy added 26k jobs in March**, rebounding from a 7k drop a month before, spurred by 48k new full time employments. **The participation rate increases** to 65.7%. Aussie dollar gains remain muted.
- **North Korea said it had tested a new short-range tactical weapon.** While the description doesn't suggest the weapon is of any nuclear kind, it does send a message to the US about the risk of allowing talks to fall apart.
- **Today's US eco calendar** contains retail sales (Mar), the Philly Fed business outlook (Apr) and jobless claims. PMI's are printed for the EMU, Germany and France. Fed's Bostic speaks today. Corporate earnings season continues.

# Rates

## Err on the cautious side going into key eco data

	US yield	-1d
2	2,40	-0,01
5	2,38	0,00
10	2,59	0,00
30	2,98	0,00

	DE yield	-1d
2	-0,57	0,00
5	-0,37	0,01
10	0,08	0,01
30	0,73	0,01

Global core bond trading showed two faces yesterday. They lost ground in Asian and European dealings following stronger-than-expected Chinese activity data. The German economy ministry was less optimistic, by downgrading this year's GDP forecast from 1% to 0.5%. Bond sentiment improved without a strong trigger as US investors entered the session with both the Bund and US Note future returning to opening levels. European stock markets managed to cling to gains, unlike US ones. The Fed's beige book reported a "slight-to-moderate" pace of growth in recent weeks. Retailers blamed unusually cold weather while manufacturers and the agricultural sector continue to worry over the trade conflict. The housing sector appears to be in a bright spot. The tight labour market makes it hard to fill vacancies despite higher wages. Daily changes on the US yield curve ranged between -1.2 bps (2-yr) and +0.4 bps (10-yr). German yield changes fluctuated between -0.1 bp (2-yr) and +1.4 bps (10-yr). 10-yr yield spread changes vs Germany ended close to unchanged.

Asian stock markets lose up to 1% this morning with South Korea underperforming. The US S&P 500 showed a tentative bearish engulfing pattern yesterday, hinting at a near term correction lower. Core bonds extend gains while USD/JPY retreats following multiple (failed) tests of important resistance. These all suggests more difficult times ahead.

Today's eco calendar contains EMU PMI's, US retail sales, Philly Fed business outlook and weekly jobless claims. April PMI's are expected to show tentative signs of bottoming out, but (manufacturing) gauges will remain in contraction territory. Most outcomes, bar a significant positive surprise which we don't expect, will probably underpin core bonds with Bunds outperforming. US retail sales are forecast to rebound following a dismal February. Higher oil prices will benefit and strong car sales will benefit the headline measure, but strong winter weather could still hurt core gauges. We prefer to err on the cautious side for US eco data as well, underpinning our positive intraday bias for bonds.

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 now discount a 40% probability of a Fed rate cut by December. The US 10-yr yield closed above the lower bound of the previous 2.5%-2.79% trading range. A confirmation would turn the technical picture more neutral again.



German 10-yr yield: downtrend remains in place so far. Upward break would turn the picture more neutral with -0.1%-0.15% the new trading range



US 10-yr yield manages to regain previous support after several failed tests. Confirmation would suggest return to old trading band.

# Currencies

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1296</b>	<b>0,0015</b>
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8663</b>	<b>0,0018</b>
S1	0,8500	
S2	0,8314	

## EMU PMI's to keep EUR/USD deadlocked

Strong Chinese growth data yesterday prompted a recovery of EUR/USD above 1.13. The move's momentum quickly stalled however. A turnaround occurred during early European hours. The couple eventually closed just an inch below 1.13 (1.1296) amidst a lacklustre US session, yet still up from Tuesday's 1.1281. Germany cutting its growth outlook again can at least partially explain yesterday's price action. Markets weren't impressed by the Fed's beige book which showed its districts aren't too negative going forward. USD/JPY held ground above 112.

Asian stocks already wash away part of yesterday's post Chinese growth gains. Most indices colour red in the wake of a rather poor Wall Street performance. EUR/USD oscillates near 1.13, awaiting possibly crucial PMI's later today. USD/JPY fails to retain the 112 barrier (111.87 at the moment). Australia published a strong jobs report. The Aussie dollar spiked to 0.72 but immediately retraced most of the gains.

**Today's** EMU PMI's are expected to recover in the manufacturing sector after the steep decline in recent months. Services PMI's will probably more or less stabilize. We side with consensus but warn that **a (modest) recovery from the current depressed levels, notably in the manufacturing PMI, provides little reason for cheering.** US retail sales will probably rebound from a weak February result but we see risks tilted to the downside in core measures due to weather-related and Easter effects.

The euro fails to choose sides recently. EUR/USD hovers near 1.13 as the economic situation remains fragile. Today's EMU PMI's are to show signs of bottoming after an impressive decline over the last months. **However, we don't expect them to provide much momentum for the euro given the indicators still wander in contraction territory.** US data probably won't be very convincing either, keeping EUR/USD deadlocked for the time being. If any, 1.13 might prove difficult to capture/hold. We maintain the view however that a EUR/USD break lower isn't evident.

Slightly softer than expected March CPI in the UK had little to zero impact on sterling trading. EUR/GBP closed a technical trading session in the 0.866's (up from 0.864). Today's retail sales will probably be ignored by markets also. Given the lack of brexit news during the current parliamentary recess, we expect more low-volume, directionless technical trading for the coming days. In a broader perspective we stay cautious on sterling as long as Brexit and the political impasse drags on.



EUR/USD oscillates near 1.13 recently. Are EMU PMI's to break the deadlock?



EUR/GBP nearing first resistance during predominantly technical trading sessions.

# Calendar

Thursday, 18 April		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (Mar)	1.0%	-0.2%
14:30	Retail Sales Ex Auto MoM (Mar)	0.7%	-0.4%
14:30	Retail Sales Ex Auto and Gas (Mar)	0.4%	-0.6%
<b>14:30</b>	<b>Retail Sales Control Group (Mar)</b>	<b>0.4%</b>	<b>-0.2%</b>
<b>14:30</b>	<b>Philadelphia Fed Business Outlook (Apr)</b>	<b>11.0</b>	<b>13.7</b>
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>205k</b>	<b>196k</b>
14:30	Continuing Claims	1722k	1713k
15:45	Markit US Manufacturing PMI (Apr P)	52.9	52.4
15:45	Markit US Services PMI (Apr P)	55	55.3
15:45	Markit US Composite PMI (Apr P)	--	54.6
16:00	Business Inventories (Feb)	0.3%	0.8%
<b>Canada</b>			
14:30	Retail Sales MoM (Feb)	0.4%	-0.3%
14:30	Retail Sales Ex Auto MoM (Feb)	0.2%	0.1%
<b>UK</b>			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Mar)	-0.3%/4.0%	0.2%/3.8%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Mar)	-0.3%/4.5%	0.4%/4%
<b>EMU</b>			
10:00	Markit Eurozone Manufacturing PMI (Apr P)	48.0	47.5
10:00	Markit Eurozone Services PMI (Apr P)	53.1	53.3
<b>10:00</b>	<b>Markit Eurozone Composite PMI (Apr P)</b>	<b>51.8</b>	<b>51.6</b>
<b>Germany</b>			
08:00	PPI MoM/YoY (Mar)	0.2%/2.7%	-0.1%/2.6%
09:30	Markit/BME Germany Manufacturing PMI (Apr P)	45.0	44.1
09:30	Markit Germany Services PMI (Apr P)	55.0	55.4
<b>09:30</b>	<b>Markit/BME Germany Composite PMI (Apr P)</b>	<b>51.7</b>	<b>51.4</b>
<b>France</b>			
09:15	Markit France Manufacturing PMI (Apr P)	50.0	49.7
09:15	Markit France Services PMI (Apr P)	49.8	49.1
<b>09:15</b>	<b>Markit France Composite PMI (Apr P)</b>	<b>49.7</b>	<b>48.9</b>
<b>Italy</b>			
10:00	Industrial Sales MoM/WDA YoY (Feb)	--/--	3.1%/0.6%
10:00	Industrial Orders MoM/NSA YoY (Feb)	--	1.8%/-1.2%
<b>Sweden</b>			
09:30	Unemployment Rate SA (Mar)	6.2%	6.2%
<b>Events</b>			
2019Q1 earnings	Schlumberger (13:00), Blackstone (bef-mkt), American Express (13:30) ...		
10:50	France to Sell Bonds		
10:30	Bank of England Credit Conditions & Bank Liabilities Surveys		
<b>18:10</b>	<b>Fed's Bostic Speaks at an Economic Roundtable Event in Florida (non-voter)</b>		
19:00	US to Sell USD17 Bln 5-Year TIPS		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,59	0,00		US	2,40	-0,01	DOW	26449,54	-3,12
DE	0,08	0,01		DE	-0,57	0,00	NASDAQ	7996,08	-4,15
BE	0,52	0,00		BE	-0,47	0,00	NIKKEI	22090,12	-187,85
UK	1,24	0,02		UK	0,79	-0,01	DAX	12153,07	51,75
JP	-0,03	-0,02		JP	-0,16	-0,01	DJ euro-50	3477,73	14,37
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,12	2,45	1,14	Eonia	-0,3690	-0,0030			
5y	0,07	2,44	1,25	Euribor-1	-0,3680	-0,0010	Libor-1	2,4798	0,0000
10y	0,58	2,59	1,42	Euribor-3	-0,3110	-0,0010	Libor-3	2,6009	0,0000
				Euribor-6	-0,2320	0,0000	Libor-6	2,6314	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1296	0,0015		EUR/JPY	126,57	0,21	CRB	186,60	-0,68
USD/JPY	112,06	0,06		EUR/GBP	0,8663	0,0018	Gold	1276,80	-0,40
GBP/USD	1,3043	-0,0005		EUR/CHF	1,1417	0,0047	Brent	71,62	-0,10
AUD/USD	0,7179	0,0004		EUR/SEK	10,4478	0,0047			
USD/CAD	1,3341	-0,0009		EUR/NOK	9,5973	0,0134			

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