



Monday, 18 March 2019

Rates: Focus on Fed meeting

Markets might be paralyzed ahead of Wednesday's FOMC verdict. A dovish outcome is expected which should keep US yields under modest downward pressure. The US 10-yr yield lost 2.61% intermediate support. The Belgian debt agency holds its first regular bond auction of the year following two successful syndications.

Currencies: Dollar trading with a soft bias going into Wednesday's Fed decision

This morning's price action suggests a continuation of last week's trends. Declining yields and a soft dollar support a positive risk-on bid on global markets. EUR/USD is trending further off the 1.12 range bottom. Sterling shifted to a wait-and-see modus as a next set of key Brexit event risks are lining up.

Calendar

Headlines

- **US stocks** finished a strong week in green last Friday, registering gains ranging from 0.50% (S&P) to 0.76% (Nasdaq). **Asian equities** start this week on positive footing with China outperforming (+1.75%).
- **Rating agency S&P has raised Portugal's rating from BBB- to BBB** with a stable outlook, citing the country's steady economic growth and primary budget surpluses that keep the debt to GDP ratio "on a firm downward path".
- **Saudi Energy Minister Al-Falih said OPEC(+)'s job in restoring the oil market is "nowhere near complete"** as the risk of oversupply in the short term is still present. Oil production curbs are to remain in place at least until May/June.
- **Theresa May will meet with Tory rebels and the Northern Irish DUP.** May seeks support for her beleaguered brexitdeal which she is to put for another (third) vote, possibly tomorrow, but only if there's a decent chance to get approved.
- **Slovakia's first round of the presidential elections has resulted in a resounding victory for liberal lawyer Zuzana Caputova** (40.6%). She is to face Smer-backed Sefcovic, who came in second (18.7%) in the next round in 2 weeks.
- **The ECB is deeply concerned about the EU asserting power over clearing houses supervision**, saying it strips them from powers to safeguard the houses' functioning which has a direct impact on bank's lending capacity..
- **Today's economic calendar** is little inspiring. The US publishes NAHB's housing market confidence. Belgium taps the bond market. Given the scant data we expect investors to focus on Wednesday's Fed meeting.

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	2,44	-0,02
5	2,40	-0,04
10	2,59	-0,04
30	3,02	-0,03

	DE yield	-1d
2	-0,54	0,00
5	-0,34	0,00
10	0,08	0,00
30	0,75	0,00

Focus on FOMC meeting

Global core bonds ended mixed on Friday with US Treasuries significantly outperforming German Bunds. The latter ended flat on the day. **Disappointing US eco data (empire manufacturing business survey and industrial production) lifted US Treasuries.** The **US 10-yr yield lost 2.61% intermediate support, accelerating the move.** Some final positioning into this week's dovish anticipated FOMC meeting and the end to the US Treasury's mid-month refinancing operation fuelled the upleg further. US yields lost 2.5 bps (2-yr) to 4.2 bps (10-yr) in a daily perspective. Changes on the German yield curve varied between -0.2 bps (10-yr) and +0.4 bps (2-yr). 10-yr yield spread changes vs Germany narrowed up to 2 bps. **S&P raised the Portuguese rating from BBB- to BBB (stable outlook)** after trading hours.

Most Asian stock market copy Friday's WS gains with China (+2%)

outperforming. Saudi Arabia said that the job of balancing the oil market (via production cuts) was nowhere near complete. Brent crude remains just below \$68/barrel resistance with many anticipating an official accord at the April or June OPEC+ meeting. Core bonds edge marginally lower this morning.

Today's US eco calendar

contains the US NAHB housing market index. Consensus expects a stabilization in March which should help stem fears about an overvalued market. Investors might especially be sensitive to disappointing eco data in the current environment. Any market action could be limited though ahead of Wednesday's FOMC meeting. Fed chair Powell already suggested in front of US Congress to halt the balance sheet run-off by the end of the year. That's much sooner than the Fed originally had in mind and market participants had expected until the turn of last year. Apart from this, we only expect the Fed's plotted rate hikes to drop from 3 currently (2 in 2019 and 1 in 2020) to 1 (in 2019). **Long term bond yields will probably remain under some downward pressure in anticipation of a dovish Fed remaining sidelined for longer.** **Patience will again be the buzz word in the Fed statement.** **The US 10-yr yield lost intermediate support (2.61%), suggesting a return to the 2.49% bottom channel.** The March ECB decision to delay the earliest timing for an interest rate hike into 2020 pulled German yields to their lowest levels since the end of 2016. In combination with the grim outlook, **it might mean no ECB rate hikes at all this cycle.** The technical picture suggests **a return to negative levels** for the German 10-yr yield unless we see a pick-up soon in growth/activity data.

The Belgian debt agency holds its first regular tap auction of the year following two successful syndication at which they raised a combined €11bn of this year's €28bn OLO funding need. Bonds on offer are OLO 82 (0.5% Oct2024), OLO 87 (0.9% Jun2029) and OLO 86 (1.25% Apr2033) for a combined €2.5-3bn.



German 10-yr yield reaches lowest level since end 2016. Markets fear that the ECB signal suggests no rate hikes this cycle.



US 10-yr yield losing intermediate support (2.61%) ahead of dovish anticipated Fed meeting.

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1326	0,0022
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8521	-0,0016
S1	0,8500	
S2	0,8314	

USD caution prevails as market await Fed decision

The EUR/USD quite easily retained most of its weekly gain on Friday. Initially, the EUR/USD rebound took a breather **even as sentiment on risk remained positive. US data were mixed.** The Empire manufacturing survey and production data disappointed. Michigan consumer confidence was solid. Still US yields tested/drifted below technical support levels and the dollar turned back south. EUR/USD again tested last week's peak levels in the 1.1340+ area (close at 1.1326). USD/JPY struggled not to fall below the 111.50 area (close at 111.48). **This morning,** Asian equities are taking a positive start to the week, with China outperforming. We didn't see any specific reason. Japanese exports (and imports) disappointed in February but didn't affect regional sentiment in a profound way. **Expectations for a soft Fed (reducing its projected rate hikes on Wednesday) supports global risk taking.** USD/JPY is little changed in the 111.55 area. EUR/USD is gaining a few ticks and is again changing hands the 1.1335 area. The global risk-on context and an **improving sentiment on China also propelled the Aussie dollar this morning.** AUD/USD regained the 0.71 handle. The EMU eco calendar is thin **today.** In the US, the NAHB housing index is interesting, but is no high profile market mover. It rebounded since the December dip, but the picture is still a bit fragile. A further loss of momentum might be seen as reinforcing the case for the Fed to keep a wait-and-see approach. There are few important data in EMU or the US before the Fed decision. German ZEW confidence is the exception to the rule. Brexit remains a source of global/euro uncertainty.

Last week, EUR/USD traders soon forgot the soft message from the ECB March meeting. EUR/USD profited from an improving risk sentiment. The risk-on and the EUR/USD rebound was at least partially supported by expectations on a soft Fed at this week's meeting. This morning's price action only confirms investors USD/caution **ahead of Wednesday's Fed meeting.** The technical picture for EUR/USD become more stable The 1.12 range bottom survived. Any further sustained rebound needs better EMU data. As long as the EMU eco picture remains foggy, more EUR/USD consolidation might be in the cards (1.12/1.14 area).

On Friday, sterling entered calmer waters as a series of key votes were out of the way. Still, sterling remained will bid given the high degree of uncertainty that still persists on the next steps in the brexit process. This week, UK PM May might still try to get her deal approved. Later she will probably ask for a brexit delay at the EU summit. We don't expect the brexit process to be clarified anytime soon and stay cautious on sterling. **The 0.8490/0.85 area might become a ST floor for EUR/GBP.**



EUR/USD: Dollar softness prevails ahead of Wednesday's Fed decision



Sterling rally slows stalls as markets await next steps in Brexit procedure

Calendar

Monday, 18 March		Consensus	Previous
US			
15:00	NAHB Housing Market Index (Mar)	63	62
Japan			
00:50	Trade Balance Adjusted (Feb)	¥116.1b A	-¥370.0b
00:50	Imports/Exports YoY (Feb)	-6.7%A/-1.2%A	-0.8%R/-8.4%
05:00	Tokyo Condominium Sales YoY (Feb)	-6.7%A	-1.8%
05:30	Industrial Production MoM/YoY (Jan F)	-3.4%A/0.3%A	-3.7%/0.0%
05:30	Capacity Utilization MoM (Jan)	-4.7%A	-1.9%
UK			
01:01	Rightmove House Prices MoM/YoY (Mar)	0.4%A/-0.8%A	0.7%/0.2%
EMU			
11:00	Trade Balance SA (Jan)	--	15.6b
Events			
11:30	Belgium to Sell Bonds		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,59	-0,04		US	2,44	-0,02	DOW	25848,87	138,93
DE	0,08	0,00		DE	-0,54	0,00	NASDAQ	7688,527	57,62
BE	0,53	-0,01		BE	-0,45	0,01	NIKKEI	21584,5	133,65
UK	1,21	-0,01		UK	0,76	-0,01	DAX	11685,69	98,22
JP	-0,04	0,00		JP	-0,16	0,00	DJ euro-50	3386,08	44,05
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	-0,09	2,49	1,15	Eonia	-0,3660	0,0020			
5y	0,09	2,47	1,25	Euribor-1	-0,3680	0,0000	Libor-1	2,4818	0,0000
10y	0,59	2,61	1,40	Euribor-3	-0,3090	0,0000	Libor-3	2,6253	0,0106
				Euribor-6	-0,2320	0,0000	Libor-6	2,6718	-0,0074
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1326	0,0022		EUR/JPY	126,27	0,00	CRB	183,87	0,48
USD/JPY	111,48	-0,22		EUR/GBP	0,8521	-0,0016	Gold	1302,90	7,80
GBP/USD	1,329	0,0048		EUR/CHF	1,1349	0,0001	Brent	67,16	-0,07
AUD/USD	0,7085	0,0021		EUR/SEK	10,4528	-0,0655			
USD/CAD	1,3336	0,0001		EUR/NOK	9,6594	-0,0291			

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