

**Thursday, 19 July 2018**

### Rates: Technical topping off pattern in US Note future?

The US note future shows tentative signs of topping off following days of narrow sideways trading. There's no obvious trigger, though the Fed's beige book pointed to increased price/cost pressures. Today's eco calendar contains only second tier items. Heavy EMU bond supply is a negative.

### Currencies: EUR/USD perfectly holds sideways range. Sterling decline to slow?

Yesterday, the post-Powell USD rebound slowed even as US yields maintain a slight upward bias. Today, more USD consolidation might be on the cards as the eco calendar is thin. Sterling remained under pressure on Brexit and due to a soft CPI. However, pressure might ease as EUR/GBP nears first resistance and as Brexit headlines might dwindle temporarily.

### Calendar

## Headlines

- **American bourses** ended flat (Nasdaq -0.01%) to slightly higher (Dow Jones +0.32%, S&P +0.22%). **Asian stock markets** are trading mixed, with China underperforming (-0.11%).
- **Australian unemployment stabilized at 5.4%** in June. The economy created 50.900 new jobs, mostly full time (41.200). Labour participation increased from 65.5% to 65.7%. AUD/USD trades slightly stronger, north of 0.74.
- **Alcoa cut its earnings outlook for 2018** as Trump's tariffs on imported aluminium and steel from Canada (its biggest supplier), the EU and Mexico went into effect in June, already leading to an extra \$15 million in costs this quarter.
- **The Trump administration launched a probe into uranium imports**, investigating whether they pose threats to the national security. If deemed so, the US could slap tariffs, adding to mounting trade tensions.
- **The PBOC plans to introduce incentives that will boost liquidity of banks**, in an attempt to encourage lending and investment. Meanwhile China's banking and insurance regulator urges banks to cut financing costs for small companies.
- **Boris Johnson lashed out to PM May's Brexit-strategy** in his resignation speech, saying it would leave Britain in a "miserable, permanent limbo". Fears for a leadership challenge by Johnson or a call on May to resign proved ungrounded.
- **Today**, the US releases weekly jobless claims and the Philly Fed Business Outlook. In the UK, June retail sales are published. The Bank of NY (12:30) and Microsoft (22:09) provide Q2 results. Spain, France and the US tap the market.

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	2,61	-0,01
5	2,78	0,01
10	2,87	0,01
30	2,99	0,02

	DE yield	-1d
2	-0,63	0,00
5	-0,30	0,00
10	0,34	0,00
30	1,02	0,00

## Tentative topping off in the US Note future

Global core bonds swapped a modest positive bias during European trading for a small negative one once US investors joined the session. **The Bund and US Note future eventually closed unchanged to slightly weaker.** US stock markets managed to deepen recent gains. Weak US housing data went by unnoticed. **The Fed's Beige Book showed that some manufacturers and construction firms blamed tariffs for higher prices for products as well as supply-chain chaos. Ten of the Fed's 12 districts reported moderate or modest growth so far this summer, but many businesses warned about the impact of trade.** The US yield curve steepened with yield changes ranging between -0.7 bps (2-yr) and +1.6 bps (30-yr). Moves on the German yield curve ranged between -0.4 bps and +0.4 bps. 10-yr yield spread changes vs Germany widened up to 4 bps (Italy). Clearing house LCH's increase of collateral requirements for Italian bonds ended the BTP rally since last week.

**Asian stock markets** are mixed this morning with China and Korea underperforming. The US Note future grinds further south. We expect a slightly softer opening for the Bund.

**Today's eco calendar contains only second tier eco data with weekly jobless claims and July Philly Fed business outlook.** The former is expected to hover near historically low levels (220k), confirming tightness on the US labour market. The latter is forecast to rebound (21.5 from 19.9) following a steep drop in June. Bank of NY and Microsoft are amongst companies to publish earnings. They're unlikely to break the positive vibe on stock markets. Heavy EMU bond supply is negative for bonds. **Both the Bund and the US Note future traded in very narrow sideways ranges the past days. Traded volumes are low, reflecting Summer conditions.** Traditional correlations with other markets (eg risk paradigm) are rather loose. Eco/event/other news is easily shrugged off as well these days. Nevertheless, **the US Note future is showing tentative signs of a topping off pattern, suggesting some more downside.**

Technically, the German 10-yr yield tested support just below 0.3%. A break didn't occur, suggesting room to move higher in the 0.3%-0.5% range. **The US 10-yr yield hovers near the middle of the sideways range between 2.71% and 3.12%.**



German Bund future: low volume, range-bound action



US Note future: tentative signs of topping off pattern following several days in very narrow sideways range?

# Currencies

## EUR/USD settles in sideways range

R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1639	-0,0022
S1	1,1510	
S2	1,1448	

R2	0,9033	-1d
R1	0,8968	
EUR/GBP	0,8905	0,0014
S1	0,8628	
S2	0,8548	

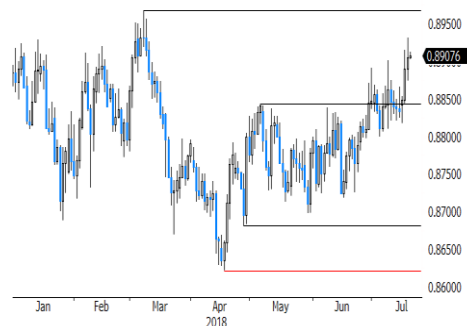
**Yesterday**, recent USD comeback petered out. The positive tone of Fed's Powell before Congress temporary supported the dollar, but the move already ran into resistance yesterday. Poor US housing data (higher costs?) maybe helped to block further USD gains. In the Fed Beige Book some districts hinted that tariffs are causing higher costs. However the report had little direct impact on the dollar. EUR/USD finished the day slightly lower at 1.1639, but off the intraday low. USD/JPY failed to sustain north of 113 (close 112.86). **Overnight**, Asian markets give mixed signals. Chinese equities again underperform. The PBOC weakened the fixing of the yuan further. USD/CNY trades at 6.74 (CNH touched 6.78). CNY weakness is reinforced by rumours on further PBOC easing. At the same time, Chinese officials indicate they will optimize macroprudential measures to manage capital flows resulting from trade war uncertainty. The impact from China on other regional markets stays modest. The Aussie dollar (AUD/USD 0.7420) profited (temporarily?) from strong Australian labour data. EUR/USD stabilizes in the mid 1.16 area. USD/JPY hovers near 112.75.

**Today**, the eco calendar is thin with only the US jobless claims and the **Philly Fed Business outlook** scheduled for release. The reports won't change markets' view. US yields are tentatively rising after Powells comments before Congress, but it is far from evident for these small moves to have an impact on the dollar. Last week, EUR/USD temporary gained a few ticks on USD weakness, but returned back to the middle of the 1.1510/ 1.1850 range after Powell. **For now we see no trigger to break the stalemate**. Higher US yields might give the USD downside protection. Uncertainty on China and a slowdown in the US equity rally capped the USD/JPY rally, but for now there is no trend reversal yet.

Yesterday, sterling remained in the defensive. **The Brexit turmoil and a soft UK June CPI weighed on the dollar**. EUR/GBP stayed north of 0.89, but further gains were modest. The Brexit stalemate persists, but it might move a bit to the background as UK politics is gradually shifting into holiday modus. Today, UK June retails sales will be published. A small rise is expected after a strong figure in May. A really poor report is probably needed to create further doubts on an August rate hike. **Pressure on sterling might slightly ease as Brexit headlines are fading temporarily. EUR/GBP 0.8968 is a first important resistance**.



EUR/USD returns to middle of the 1.1510/1.1850 trading range



EUR/GBP: Sterling decline to slow as Brexit headlines might move temporary to the back ground.

# Calendar

Thursday, 19 July		Consensus	Previous
<b>US</b>			
14:30	Initial Jobless Claims	220k	214k
14:30	Continuing Claims	1729k	1739k
14:30	Philadelphia Fed Business Outlook (Jul)	21.5	19.9
<b>Japan</b>			
01:50	Trade Balance Adjusted (Jun)	¥66.2b A	-¥296.8b
01:50	Exports YoY (Jun)	6.7% A	8.1%
01:50	Imports YoY (Jun)	2.5% A	14.0%
<b>UK</b>			
10:30	Retail Sales Ex Auto Fuel MoM / YoY (Jun)	0.1%/3.7%	1.3%/4.4%
10:30	Retail Sales Inc Auto Fuel MoM / YoY (Jun)	0.2%/3.5%	1.3%/3.9%
<b>Events</b>			
<b>Q2 Earnings</b> Bank of NY (12:30), Microsoft (22:09)			
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
15:00	Fed's Quarles Speaks on Alternative Reference Rates		
19:00	US to Sell \$13bn 10-yr TIPS		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,87	0,01		US	2,61	-0,01	DOW	25199,29	79,40
DE	0,34	0,00		DE	-0,63	0,00	NASDAQ	7854,444	-0,67
BE	0,64	0,01		BE	-0,52	-0,01	NIKKEI	22806,57	12,38
UK	1,23	-0,03		UK	0,74	-0,01	DAX	12765,94	104,40
JP	0,04	-0,01		JP	-0,13	-0,01	DJ euro-50	3485,08	27,58
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	-0,03	2,89	1,11	Eonia	-0,3660	-0,0010			
5y	0,27	2,91	1,26	Euribor-1	-0,3690	0,0000	Libor-1	2,0818	0,0000
10y	0,86	2,94	1,48	Euribor-3	-0,3210	0,0000	Libor-3	2,3419	0,0000
				Euribor-6	-0,2690	0,0000	Libor-6	2,5231	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	1,1639	-0,0022		EUR/JPY	131,34	-0,30	CRB	191,47	0,38
USD/JPY	112,86	-0,02		EUR/GBP	0,8905	0,0014	Gold	1227,90	0,60
GBP/USD	1,3069	-0,0046		EUR/CHF	1,1628	-0,0035	Brent	72,90	0,74
AUD/USD	0,7398	0,0009		EUR/SEK	10,318	0,0088			
USD/CAD	1,317	-0,0021		EUR/NOK	9,5081	0,0008			

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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
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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