



**Monday, 21 January 2019**

### Rates: Risk sentiment to set the tone

The US 10-yr yield touched first resistance last Friday as stock markets flourished. Risk sentiment will drive intraday gyrations on bond markets today as well amid an empty eco calendar and in absence of US investors (MLK Day). These conditions might last until Thursday when January EMU PMI's will be released and when the ECB meets.

### Currencies: EUR/USD decline to slow?

At the end of last week, the dollar remained well bid even as sentiment on risk was positive. EUR/USD has returned to the 1.12/1.15 trading range. After the recent correction, technical support is lining up. Last week's sterling rally also did run into resistance as there is still little progress on the Brexit saga.

### 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 Friday's session with gains mounting over 1%. **Asian equities** opened in green this morning, as China offered new concessions to eliminate its trade imbalance with the US.
- **US-Sino trade talks continue to make progress** as the Chinese government offered to ramp up purchases of US goods. However, discussions on more technical matters as intellectual property are remaining more laborious.
- **The US shutdown heads into its 5<sup>th</sup> week**, as US President Trump made a first substantive offer, which Democrats immediately shot down. However, the Senate Majority Leader McConnell promised to bring the plan to a vote this week.
- **UK PM May returns to Parliament today** as she concluded talks with lawmakers from all sides. She will probably brief her MP's of little progress in the cross-party Brexit talks. She is now said to seek changes to the Irish backstop plan.
- **China's economy further cooled down in the 4<sup>th</sup> quarter** as GDP rose 6.4% (Y/Y), vs. 6.5% in Q3 and its slowest pace since '09. However, government actions to cushion the deceleration are starting to be seen in the Dec. economic data.
- **Thousands of Greeks marched in Athens yesterday** to protest a name deal with the neighbouring Republic of Macedonia. Law enforcements estimated that about 60,000 people had turned up to protest the 'Prespes agreement'.
- **Today's economic calendar** is very thin as US markets are closed in observance of Martin Luther King Day. UK PM May returns to Parliament and the IMF releases its World Economic Outlook update.

# Rates

	US yield	-1d
2	2,61	0,05
5	2,62	0,05
10	2,78	0,03
30	3,10	0,02

	DE yield	-1d
2	-0,58	0,01
5	-0,33	0,02
10	0,26	0,02
30	0,87	0,02

## Risk sentiment set to dominate trading

**Global core bonds lost ground on Friday as European/US equity markets rallied around 1.5%.** Mixed US eco data (good production, disappointing Univ. of Michigan consumer confidence) left no traces. **Heavyweight NY Fed governor Williams sounded open to scaling back the balance sheet run-off if changing conditions warrant it.** Earlier this year, vice-chair Clarida dropped a similar hint. Williams specifically referred to the current shutdown as a headwind to the US economy but he remains rather positive overall. *"The economy is strong, the outlook is healthy, and my number one priority is using monetary policy to keep it that way. In short, I'm watching, listening, and prepared to adjust my views depending on the data."* Washington Fed governor Brainard repeated the shutdown warning. The soft Fed comments didn't hamper an underperformance of the front end of the US yield curve with yields rising 5.2 bps (5-yr) to 2.3 bps (30-yr). The German yield curve bear steepened with yields ending 1.1 bp (2-yr) to 1.9 bps (30-yr) higher. Peripheral yield spreads vs Germany narrowed 4 to 6 bps.

**Asian stock markets gain around 0.5% this morning.** Chinese GDP growth slowed to 6.4% Y/Y, matching the slowest pace since Q1 2009. The outcome was in line with consensus though, like other Chinese data. **The Japanese yen and US Note future are marginally higher, suggesting some investor caution at the start of the week. The standoff between the White House and US Democrats lasts, extending the shutdown with no solution in sight. US markets are closed today because of Martin Luther King Day.**

**The EMU eco calendar is empty.** The IMF releases its World Economic Outlook. Some lowering of growth forecasts and stressing downside risks, shouldn't come as a surprise. UK PM May delivers her plan B, but a vote won't happen this week. **Risk sentiment will probably be the main theme in today's low volume session.** These conditions might only **change on Thursday with EMU PMI's and the ECB meeting.** We expect the central bank to keep policy unchanged and to refrain from downgrading its economic risks outlook. Any hints on preparing for new TLTRO's could support markets from a risk-on perspective.

**Technically,** the German 10-yr yield bounced off 0.15% support, but the picture didn't change yet. Therefore, the 10-yr yield needs to clear the 0.31% hurdle. The US 10-yr yield lost the 2.75%-2.8% area by the end of last year. This zone now works as resistance in a trading band floored by 2.5%. **In both Germany and the US, we think that sufficient bad news is discounted at current levels. Policy normalization expectations in the US and EMU have become extremely/too dovish. However, a clear trigger is needed before declaring a sustained turnaround.**



German 10-yr yield bounced off 0.15% support, but no change to technical picture yet. 0.31% is first resistance



US 10-yr yield. No clear trigger available to regain 2.75%-2.8% area. Sideways action ahead, floored by 2.5%

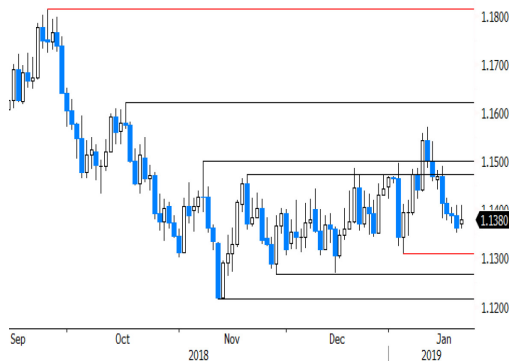
# Currencies

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	1,1363	-0,0026
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	0,8829	0,0059
S1	0,8700	
S2	0,862	

## EUR/USD correction to slow?

The dollar initially showed no clear trend on Friday. US and European equities profited both from headlines on progress in the China-US trade talks. **Later, US yields rose more than German/EMU ones and this finally triggered some USD outperformance.** US December production data were strong, but U. of Michigan consumer sentiment declined much sharper than expected. However, it didn't break the USD's momentum. The trade-weighted dollar jumped to the 96.35 area. EUR/USD eased from 1.14+ levels to close the day 1.1363. USD/JPY had a good run and finished at 109.78. **This morning**, the China Q4 GDP showed a further slowdown, but the report was largely as expected (6.6% growth YTD Y/Y; 6.4% Y/Y in Q4). Regional equity markets mostly show modest gains. US equity futures are losing slightly ground. The dollar is holding most of Friday's gain. EUR/USD is trading in the 1.1375/80 area. USD/JPY hovers in the mid 109 area. There are no important data in EMU **today**. USD markets are closed in observance of Martin Luther King Day. Technical factors and global market sentiment will have to guide USD trading. **Last week, there was no straight forward narrative for USD trading.** The USD correction on a softer Fed-approach from early this year had run its course. **Global sentiment** on risk remain constructive, but it had no further negative impact on the dollar as US yields rebounded in lockstep. Modest EMU data also hampered any euro progress. At the end of the week, the dollar even outperformed. EUR/USD settled again in the established 1.12/1.15 trading range. **We start the week with a neutral bias on EUR/USD.** The attempt of a topside break is rejected. Later this week, EMU confidence data (ZEW, ifo PMI) might bottom. The ECB will probably also maintain a rather constructive tone on the EMU economy. US politics (shutdown) and the earnings season are wild cards. Last week, the dollar outperformed, but the EUR/USD decline might slow as technical support is lining up from 1.1309 to 1.1270 area. Sterling fell prey to profit taking **on Friday**. Earlier last week, the UK currency captured a better momentum as investors saw a rising chance that a no deal Brexit could be avoided. **Today**, UK PM will set out her plans after the Brexit deal was rejected last week. For now, it looks that a breakthrough in the UK Parliament will be difficult to reach. The EU is said to be divided on the length of a Brexit delay. In this context, further GBP-gains don't look evident.



EUR/USD: dollar outperforms, but EUR/USD support is lining up.



EUR/GBP: sterling rebound slows as markets expect more concrete progress on Brexit.

# Calendar

Monday, 21 January		Consensus	Previous
<b>US</b>			
<b>21JAN</b>	US markets closed in observance of Martin Luther King Jr. Day		
<b>Japan</b>			
08:00	Convenience Store Sales YoY (Dec)	--	0.6%
<b>UK</b>			
01:01	Rightmove House Prices MoM/YoY (Jan)	0.4%A/0.4%A	-1.5%/0.7%
<b>Germany</b>			
08:00	PPI MoM/YoY (Dec)	-0.1%/2.9%	0.1%/3.3%
<b>Belgium</b>			
15:00	Consumer Confidence Index (Jan)	--	-5
<b>China</b>			
<b>03:00</b>	<b>Retail Sales YTD/YoY (Dec)</b>	<b>9.0%A/8.2%A</b>	<b>9.1%/8.1%</b>
03:00	Industrial Production YTD/YoY (Dec)	6.2%A/5.7%A	6.3%/5.4%
03:00	Fixed Assets Ex Rural YTD YoY (Dec)	5.9%A	5.9%
03:00	Property Investment YoY (Dec)	9.5%A	9.7%
03:00	Surveyed Jobless Rate (Dec)	4.9%A	4.8%
<b>03:00</b>	<b>GDP SA QoQ/YoY (4Q)</b>	<b>1.5%A/6.4%A</b>	<b>1.6%/6.5%</b>
03:00	GDP YTD YoY (4Q)	6.6%A	6.7%
<b>Events</b>			
<b>21JAN</b>	May presents brexit plan B to Parliament – Actual vote scheduled for January 29		
<b>21JAN</b>	IMF releases its World Economic Outlook update		
17:00	BOE's Place, Fried Speak in London		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,78	0,03	US	2,61	0,05	DOW	24706,35	336,25	
DE	0,26	0,02	DE	-0,58	0,01	NASDAQ	7157,228	72,77	
BE	0,70	0,01	BE	-0,53	0,00	NIKKEI	20719,33	53,26	
UK	1,35	0,02	UK	0,81	-0,01	DAX	11205,54	286,92	
JP	0,01	-0,01	JP	-0,17	0,00	DJ euro-50	3134,92	65,57	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,73	1,24	Eonia	-0,3710	-0,0020	Libor-1	2,5060	0,0030
5y	0,21	2,71	1,35	Euribor-1	-0,3680	0,0000	Libor-3	2,7610	-0,0147
10y	0,81	2,82	1,52	Euribor-3	-0,3080	0,0000	Libor-6	2,8519	-0,0006
				Euribor-6	-0,2350	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1363	-0,0026	EUR/JPY	124,74	0,32	CRB	182,21	2,46	
USD/JPY	109,78	0,52	EUR/GBP	0,8829	0,0059	Gold	1282,60	-9,70	
GBP/USD	1,2872	-0,0114	EUR/CHF	1,1310	-0,0013	Brent	62,70	1,52	
AUD/USD	0,7168	-0,0025	EUR/SEK	10,2603	-0,0105				
USD/CAD	1,326	-0,0019	EUR/NOK	9,7267	-0,0133				

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