



Friday, 22 March 2019

Rates: First test of key 2.5% support in US 10-yr yield

The US 10-yr yield bounced off the key 2.5% support area yesterday, but we label the test as ongoing following the Fed's dovish turn. Today's eco calendar contains EMU PMI. We see upside risks vs consensus, but fear an asymmetric market reaction: core bond gains in case of disappointment against inaction in case of a positive surprise.

Currencies: dollar sell-off halted. Will better EMU PMI's support the euro?

USD trading was driven by conflicting factors yesterday. In the end, the US currency regained part of its post-Fed loss. Today, the EMU PMI's might determine daily sentiment for EUR/USD trading. However, we don't expect the pair to break out of established ranges, whatever the outcome. Sterling suffers as Brexit uncertainty intensifies.

Calendar

Headlines

- **US stocks** roared yesterday with the tech heavy Nasdaq outperforming (1.42%). **Asian markets** are trading mixed. China staged a strong intraday comeback but remains the region's laggard (-0.4%)
- **The US imposed the first new North Korea sanctions** since the failed summit last month. They said to have identified two Chinese companies helping North Korea to evade current economic sanctions and froze any US assets they have.
- If PM May gets her deal approved next week, **EU leaders are willing to let the UK remain in the bloc until May 22** to wrap up formalities. If she can't pull it off, May has until April 12 to leave with no deal or request a much longer extension.
- **Japanese February inflation disappointed.** Headline data stabilized at 0.2% YoY vs. 0.3% expected. Core measures ex. food (and energy) showed a 0.7% (0.4%) rate vs. 0.8% (0.4%) expected. March's manufacturing PMI stabilized at 48.9.
- **Trump recognized the Golan Heights as Israeli territory** after the country annexed the area in 1981, a move not recognised internationally. The move is seen as a bid to support Israeli president Netanyahu's re-election next month.
- **The White House rejected a congressional Democrats' request for information about Trump's communications with his Russian counterpart Putin** in an investigation of possible obstruction of justice or abuse of power.
- **Today's economic calendar** contains US's existing home sales and Canadian inflation data. Markets will also watch for EMU PMI's to show signs of bottoming out in line with other recent data.

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

EMU PMI's won't turn the tide, even in case of strength

	US yield	-1d
2	2,41	0,01
5	2,33	0,01
10	2,54	0,01
30	2,96	0,00

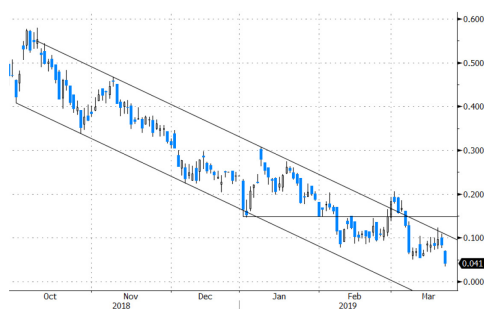
	DE yield	-1d
2	-0,55	-0,02
5	-0,36	-0,03
10	0,04	-0,04
30	0,69	-0,06

Global core bonds ended mixed yesterday. The German Bund started with a catch-up move after US Treasuries' impressive gains on Wednesday night.

These occurred after the Fed in a dovish surprise put all 2019 rate hikes off the table while ending the balance sheet run-off already by September. Markets took the scenario into stride where the monetary cycle already peaked despite the "symbolic" rate hike in 2020 suggested by the new dot plot. **The US Note future fell prey to some profit taking as the US 10-yr yield hit the key 2.5% support area. The failed test in combination with a US equity market rebound caused some return action lower** in the US Note future and explains the intraday underperformance vs the German Bund. Mixed US eco data proved to be irrelevant. The German yield curve bull flattened with yields 1.9 bps (2-yr) to 5.7 bps (30-yr) lower. Changes on the US yield curve varied between -0.5 bps (30-yr) and +1.3 bps (5-yr). 10-yr yield spread changes vs Germany narrowed up to 3 bps (Italy).

Asian stock markets are mixed overnight. Core bonds have a tentative upward bias. The EU and UK pushed the brexit deadline from March 29 to April 12 (see below), adding to general uncertainty. Japanese eco data disappointed. The Japanese 10-yr yield reached the lowest level since the end of 2016 (-0.07%), with investors returning from a one day holiday.

Today's eco calendar contains March EMU PMI's. Consensus expects a stabilization of the composite measure (52 from 51.6) with the manufacturing gauge still forecast in contraction territory (49.5). We see risks on the upside of expectations. **After the dovish messages from both the ECB and the Fed, we think that market reactions to economic data will in first instance be asymmetric** with core bonds gaining ground on disappointments, but trading lacklustre in case of beats. Core bond momentum is positive and we don't fight that trend. **Both the ECB and Fed created fertile breeding ground for additional bond gains over the medium term, flattening the curve.** The US 10-yr yield made a first test of the lower band of the 2.5%-2.79% trading range. The German 10-yr yield can return to zero and even negative levels unless growth/activity data start picking up at a rapid pace.



German 10-yr yield: bracing for return of negative levels unless growth/activity data pick up rapidly



US 10-yr yield: first attempt of 2.5% support area failed, but test isn't over yet

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1374	-0,0039
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8677	0,0028
S1	0,8500	
S2	0,8314	

Will better PMI's support EUR/USD further?

FX markets weighed the consequences of Wednesday's Fed communication

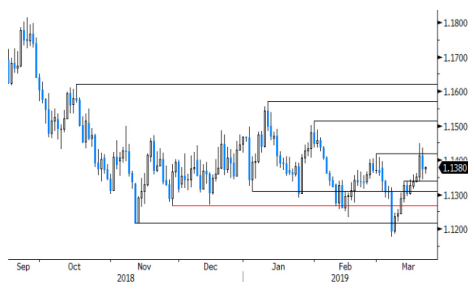
yesterday. The dollar won't receive Fed interest rate support in the foreseeable future, but that is also the case for the euro. The picture for USD (EUR/USD) trading was a bit puzzling. The US currency gradually fought back on Wednesday's sell-off. This rebound occurred even as US yields remained well below the pre-Fed levels. At the same time, US equities rebounded which is usually also no USD supportive. US data were mixed, at best. Still, at some point, EUR/USD completely erased the post-Fed rebound. The pair closed at 1.1374 (1.1413 Wednesday). The intraday rebound of the dollar against the yen was more modest. The pair closed at 110.82 (from 110.70).

This morning, Asian markets show a mixed picture. Japan inflation (0.2% Y/Y headline, 0.4% ex fresh food) is drifting ever further away from the BoJ inflation target. The Japan 10-j yield (-0.07%) is touching the lowest levels since end 2016. Still, the impact on the yen is limited (USD/.JPY 110.75 area). EUR/USD also stabilizes in the 1.1380 area.

Today's EMU PMI's are interesting. Markets will look out for signs of improvement, confirming the hypothesis that the slowdown at the end of 2018/early this year might be temporary. A single positive surprise won't change expectations on the ECB interest rate trajectory. Still, a surprise in either direction might guide the intraday euro sentiment. We see a slightly higher chance for positive surprise. If so, it might help EUR/USD to return north of 1.14, but we don't expect a breach of important technical levels.

This week's soft Fed communication evidently was USD negative and helps to put a floor for EUR/USD. **That said, in a broader perspective, the Fed and the ECB are now a similar soft, wait-and-see modus.** The euro had already a good run. In this respect, a sustained break beyond the 1.1514 resistance is not evident. Such a test/break probably needs US data to deteriorate further. **We assume it's too early for that.**

The BoE kept a cautious positive assessment on the economy yesterday. Markets evidently didn't react as the BoE's view is conditional on an orderly Brexit. The latter looks ever further away. At the EU summit, EU leaders gave UK PM May until April 12 to decide what to do if she doesn't get the deal approved in Parliament. EUR/GBP briefly jumped above 0.87 yesterday evening. **With visibility on the Brexit process becoming foggier rather than clearer, the era of erratic sterling trading also risks to be prolonged for another two weeks.**



EUR/USD: holding firmly within the 1.12/1.16 range. Will better EMU PMI's provide some additional support?



Sterling struggles as Brexit process is becoming ever less predictable

Calendar

Friday, 22 March		Consensus	Previous
US			
14:45	Markit US Manufacturing PMI (Mar P)	53.5	53.0
14:45	Markit US Services PMI (Mar P)	55.5	56.0
14:45	Markit US Composite PMI (Mar P)	--	55.5
15:00	Wholesale Inventories MoM (Jan)	0.1%	--
15:00	Wholesale Trade Sales MoM (Jan)	--	-1.0%
15:00	Existing Home Sales Total/MoM (Feb)	5.10m/3.2%	4.94m/-1.2%
19:00	Monthly Budget Statement (Feb)	-\$227.0b	\$8.7b
Canada			
13:30	Retail Sales MoM (Jan)	0.4%	-0.1%
13:30	Retail Sales Ex Auto MoM (Jan)	0.1%	-0.5%
13:30	CPI MoM/YoY (Feb)	0.6%/1.4%	0.1%/1.4%
13:30	CPI Core YoY (Feb)	1.8%	1.9%
Japan			
00:30	Natl CPI YoY (Feb)	0.2%A	0.2%
00:30	Natl CPI Ex Fresh Food YoY (Feb)	0.7%A	0.8%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Feb)	0.4%A	0.4%
01:30	Nikkei Japan PMI Mfg (Mar P)	48.9A	48.9
06:00	Supermarket Sales YoY (Feb)	-2.5%A	-3.4%
06:30	Nationwide Dept Sales YoY (Feb)	0.4%A	-2.9%
06:30	Tokyo Dept Store Sales YoY (Feb)	0.5%A	-2.9%
EMU			
10:00	ECB Current Account SA (Jan)	--	16.2b
10:00	Markit Eurozone Manufacturing PMI (Mar P)	49.5	49.3
10:00	Markit Eurozone Services PMI (Mar P)	52.7	52.8
10:00	Markit Eurozone Composite PMI (Mar P)	52.0	51.9
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Mar P)	48.0	47.6
09:30	Markit Germany Services PMI (Mar P)	54.8	55.3
09:30	Markit/BME Germany Composite PMI (Mar P)	52.8	52.8
France			
09:15	Markit France Manufacturing PMI (Mar P)	51.4	51.5
09:15	Markit France Services PMI (Mar P)	50.6	50.2
09:15	Markit France Composite PMI (Mar P)	50.7	50.4
Italy			
10:00	Current Account Balance (Jan)	--	4211m
Events			
09:15	ECB's Guindos Speaks in Frankfurt		
09:30	SSM's Angeloni Speaks in Frankfurt		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,54	0,01		US	2,41	0,01	DOW	25962,51	216,84
DE	0,04	-0,04		DE	-0,55	-0,02	NASDAQ	7838,959	109,99
BE	0,48	-0,05		BE	-0,47	-0,03	NIKKEI	21627,34	18,42
UK	1,06	-0,09		UK	0,70	-0,04	DAX	11549,96	-53,93
JP	-0,07	-0,03		JP	-0,18	-0,02	DJ euro-50	3367,4	-4,98
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	-0,10	2,43	1,03	Eonia	-0,3710	0,0000			
5y	0,07	2,39	1,11	Euribor-1	-0,3670	0,0000	Libor-1	2,4906	0,0000
10y	0,55	2,53	1,26	Euribor-3	-0,3090	0,0000	Libor-3	2,6070	0,0000
				Euribor-6	-0,2290	0,0020	Libor-6	2,6790	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	1,1374	-0,0039		EUR/JPY	126,04	-0,34	CRB	185,37	-0,23
USD/JPY	110,82	0,12		EUR/GBP	0,8677	0,0028	Gold	1313,60	5,80
GBP/USD	1,3107	-0,0091		EUR/CHF	1,1285	-0,0044	Brent	67,86	-0,64
AUD/USD	0,7112	-0,0004		EUR/SEK	10,434	0,0041			
USD/CAD	1,3364	0,0059		EUR/NOK	9,6161	-0,0856			

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