

**Tuesday, 23 April 2019**

### Rates: Eco data continuing to be bond supportive

Risks for today's US and EMU eco releases are on the downside of expectations which could further support core bonds. Higher oil prices and the US Treasury's end-of-month supply operation hang on the other side of the balance. This week's key trading items are Q1 earnings (Facebook, Microsoft, Amazon.com,...) and Q1 US GDP release (Friday).

### Currencies: EUR/USD holding in the lower part of the 1.12/1.13 range

Last week, EUR/USD failed to sustain north of 1.13 as EMU PMI's signalled little improvement in EMU economic activity yet. A higher oil price and a constructive risk sentiment are in theory a potential USD negative. However, it probably won't help the euro much as long as eco data doesn't improve in a convincing way.

### Calendar

## Headlines

- **US equity markets** closed yesterday's session close to unchanged with changes varying between -0.18% (DJI) and +0.22% (Nasdaq). **Asian equities** are trading largely in green this morning with Chinese indices lagging behind.
- **The US demands countries to no longer import any oil from Iran**, ending waivers from US sanctions to some of Iran's largest customers, incl. China and India, to pressure the Iranian regime. **A barrel crude (Brent) oil rose to \$74.**
- **Herman Cain**, US President **Trump's top pick** for one of the open seats on the Fed's board of governors, **has asked for his name to be withdrawn from consideration.** Trump's other top pic, Stephen Moore, is still in the running.
- **US existing home sales shrank 4.9% (MoM) in March**, more than expected (-3.8%) and sharply down from February's growth of 11.2%. The data follow on **disappointing Housing Starts and Building Permits** published on Friday.
- **UK PM May Theresa May will resume talks with Labour and opposition leader Jeremy Corbyn today** as Parliament returns from Easter break. Meanwhile, May faces renewed demands to stand down from Conservative hardliners.
- **North Korean leader Kim Jong Un will soon visit Russian president Putin.** It's the first meeting between the two countries' leaders since 2011, in a sign Kim is highlighting his willingness to strike relationships around the globe.
- **Today's US eco calendar** contains the Richmond Fed manufacturing Index for April and new home sales for March. The EMU calendar is empty. Q2 earnings season continues today with amongst others Twitter inc. and Procter & Gamble.

|              |   |
|--------------|---|
| 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

## Eco data continuing to be bond supportive?

|    | US yield | -1d  |
|----|----------|------|
| 2  | 2,39     | 0,01 |
| 5  | 2,38     | 0,02 |
| 10 | 2,59     | 0,03 |
| 30 | 2,98     | 0,03 |

|    | DE yield | -1d  |
|----|----------|------|
| 2  | -0,57    | 0,00 |
| 5  | -0,39    | 0,00 |
| 10 | 0,03     | 0,00 |
| 30 | 0,68     | 0,00 |

Most European markets remained closed yesterday for Easter Monday. US trading restarted after good Friday holiday. **US Treasuries lost slightly ground in a low-volume trading session. The US yield curve bear steepened with yields adding 0.6 bps (2-yr) to 3.1 bps (10-yr). Higher oil prices** perhaps played a minor role with Brent crude surging from \$72/barrel towards \$74.5/barrel after the US ended waivers (China, India,...) allowing Iranian imports. **US existing home sales disappointed like building permits and housing starts did last Friday.**

Asian stock markets eke out small gains this morning with China underperforming. The German Bund opens somewhat lower, catching up with yesterday's losses in the US Note future. The T-Note does have an upward bias.

**Today's eco calendar contains US new home sales (March) and Richmond Fed manufacturing index (April).** Recent weakness in US housing market data suggests downside risks (-2.7% M/M expected) for the former. The latter is forecast to stabilize (10) with risks probably tilted to the downside following earlier cyclical indicators. The US Treasury starts its end-of-month refinancing operation with a \$40bn 2-yr Note auction. EMU consumer confidence is expected to rebound from -7.2 to -7 with risks also on the lower side of consensus. **Overall, eco data might prove core bond supporting with US supply offsetting some of the impact (on the US Note future).** Earning season intensifies this week with big guns like Microsoft, Facebook and Amazon.com amongst them. Attention later this week especially turns to the first estimate of US Q1 GDP (2.2% Q/Qa expected).

**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 50% probability of a Fed rate cut by December.** The US 10-yr yield closed last week above the lower bound of the previous 2.5%-2.79% trading range which turns 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, suggesting a return to the old trading band.

# Currencies

|         |        |        |
|---------|--------|--------|
| R2      | 1,1815 | -1d    |
| R1      | 1,1621 |        |
| EUR/USD | 1,1257 | 0,0012 |
| S1      | 1,1187 |        |
| S2      | 1,1119 |        |

|         |         |        |
|---------|---------|--------|
| R2      | 0,93067 | -1d    |
| R1      | 0,91    |        |
| EUR/GBP | 0,8672  | 0,0020 |
| S1      | 0,8500  |        |
| S2      | 0,8314  |        |

## EUR/USD stays in lower part of the 1.12/13 range

The euro was initially supported by a positive risk sentiment last week. Investors hoped that the better eco data from China could be a harbinger of a gradual rebound in the EMU. **EMU PMI's on Thursday defeated this hope.** The outlook for the EMU growth remains lacklustre. **At the same time, US data including retail sales printed strong. EUR/USD tumbled back in the 1.12 big figure.** In thin markets the euro regained modest ground on Friday and yesterday. Soft US homes sales and a sharp rise in the oil price were slightly USD negative. EUR/USD closed at 1.1257. USD/JPY showed no clear trend (close at 111.94).

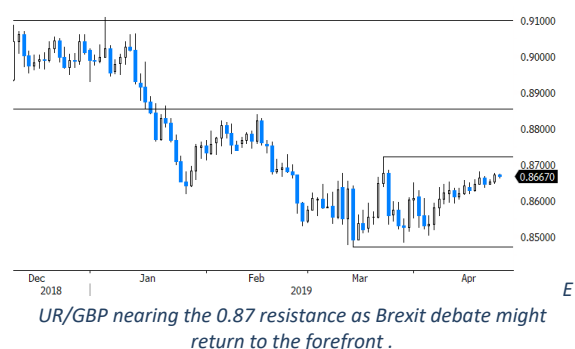
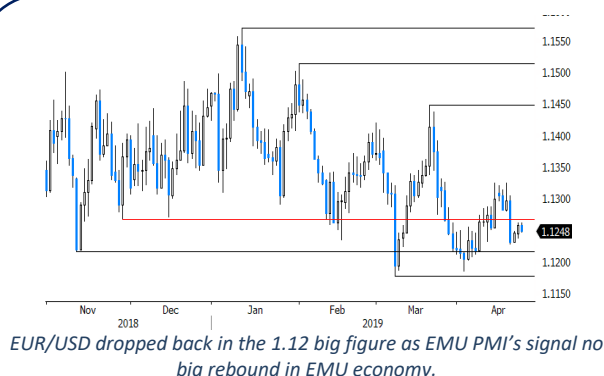
Asian equities are trading mixed. **China** again underperforms as markets are still pondering recent comments from officials suggesting that the country might turn **more selective when supporting the economy.** High oil prices also remain an eye-catcher, too. The yen jumped (temporarily) higher this morning, possibly as Japanese investors are reducing risk positions ahead of the Golden week holidays. The Aussie and the kiwi dollar remain in the defensive as they fail to profit from higher oil prices. EUR/USD hovers in the mid 1.12 area.

**Today,** the April EC consumer confidence and US housing data will probably only be of second tier importance for (EUR/USD) trading. **The focus will be on oil and on the corporate earnings.** A higher oil price in theory is a USD negative, but for now, it is no big help for the euro. Markets will also keep a close eye at corporates' expectations. A constructive equity sentiment often helps the euro, but any sustained euro rebound will probably remain difficult if there is no convincing evidence of the EMU economy gradually leaving its (drawn-out) 'soft spot'. More sideways EUR/USD trading in the 1.12 big figure might be on the cards. In a ST/daily perspective, some further downward erosion in the 1.12 big figure might be on the cards, but we don't anticipate a sustained break below the 1.1177/1.12 support area.

Of late, EUR/GBP held a tight range in the 0.86 big figure. UK eco data were mixed and still fail to guide sterling trading as the Brexit stalemate persists.

**Today, Brexit headlines might resurface after the Easter recess has ended.**

However, for now there is no indication of an imminent break-through in the talks of PM May's conservative party and the labour opposition. The euro isn't really in good shape, but at the same time we seen no trigger for a sustained euro rebound. **More technical trading in EUR/GBP might be on the cards.**



# Calendar

| Tuesday, 23 April |                                    | Consensus  | Previous  |
|-------------------|------------------------------------|------------|-----------|
| <b>US</b>         |                                    |            |           |
| 15:00             | FHFA House Price Index MoM (Feb)   | 0.5%       | 0.6%      |
| 16:00             | Richmond Fed Manufact. Index (Apr) | 10         | 10        |
| 16:00             | New Home Sales / MoM (Mar)         | 649k/-2.7% | 667k/4.9% |
| <b>EMU</b>        |                                    |            |           |
| 11:00             | Govt Debt/GDP Ratio (2018)         | --         | 86.8%     |
| 16:00             | Consumer Confidence (Apr A)        | -7.0       | -7.2      |
| <b>Events</b>     |                                    |            |           |
| 19:00             | US to Sell 2-yr Notes              |            |           |

| 10-year    | Close  | -1d     |      | 2-year     | Close   | -1d     | Stocks      | Close    | -1d    |
|------------|--------|---------|------|------------|---------|---------|-------------|----------|--------|
| US         | 2,59   | 0,03    |      | US         | 2,39    | 0,01    | DOW         | 26511,05 | -48,49 |
| DE         | 0,03   | 0,00    |      | DE         | -0,57   | 0,00    | NASDAQ      | 8015,266 | 17,20  |
| BE         | 0,47   | 0,00    |      | BE         | -0,48   | 0,00    | NIKKEI      | 22259,74 | 41,84  |
| UK         | 1,20   | 0,00    |      | UK         | 0,77    | 0,00    | DAX         | 12222,39 | 0,00   |
| JP         | -0,03  | 0,00    |      | JP         | -0,15   | 0,00    | DJ euro-50  | 3499,23  | 0,00   |
|            |        |         |      |            |         |         |             |          |        |
|            |        |         |      |            |         |         |             |          |        |
| IRS        | EUR    | USD     | GBP  | EUR        | -1d     | -2d     | USD         | -1d      | -2d    |
| 3y         | -0,13  | 2,42    | 1,12 | Eonia      | -0,3660 | 0,0000  |             |          |        |
| 5y         | 0,04   | 2,42    | 1,22 | Euribor-1  | -0,3680 | 0,0000  | Libor-1     | 2,4809   | 0,0000 |
| 10y        | 0,53   | 2,57    | 1,39 | Euribor-3  | -0,3110 | 0,0000  | Libor-3     | 2,5811   | 0,0000 |
|            |        |         |      | Euribor-6  | -0,2320 | 0,0000  | Libor-6     | 2,6290   | 0,0000 |
|            |        |         |      |            |         |         |             |          |        |
|            |        |         |      |            |         |         |             |          |        |
| Currencies | Close  | -1d     |      | Currencies | Close   | -1d     | Commodities | Close    | -1d    |
| EUR/USD    | 1,1257 | 0,0012  |      | EUR/JPY    | 126,01  | 0,19    | CRB         | 187,92   | 0,79   |
| USD/JPY    | 111,94 | 0,02    |      | EUR/GBP    | 0,8672  | 0,0020  | Gold        | 1277,60  | 1,60   |
| GBP/USD    | 1,2982 | -0,0011 |      | EUR/CHF    | 1,1432  | 0,0025  | Brent       | 74,04    | 2,07   |
| AUD/USD    | 0,7134 | -0,0018 |      | EUR/SEK    | 10,4764 | 0,0167  |             |          |        |
| USD/CAD    | 1,3347 | -0,0044 |      | EUR/NOK    | 9,5669  | -0,0045 |             |          |        |

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