



Tuesday, 25 June 2019

Rates: Pressure on US 10-yr yield (2.01%-)support intensifies

Friday's profit taking move didn't last long with core bonds back in the driver's seat. Geopolitical concerns, downside risks to US consumer confidence and a dovish anticipated Powell speech provide more short term tail wind. The pressure on key support on the US 10-yr yield (2.01%) is becoming bigger and bigger.

Currencies: Powell to send EUR/USD into next resistance area?

EUR/USD extended last week's uptrend yesterday, stopping short of capping the 1.14-handle. Today's event calendar might prove a chance for the couple to sneak towards the next resistance area (1.1450). Sterling is expected to remain in the defensive as the Tory election campaign heats up.

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 stock markets ended mixed** (Dow) **to slightly lower** (S&P, Nasdaq) yesterday as geopolitical worries linger. Asian stock markets are downwardly oriented as well with **China (up to -2%) underperforming**.
- **US President Trump imposed new sanctions** on Ayatollah Khamenei and eight senior military commanders. **Iran responded that these measures closed the path to a diplomatic solution**.
- **Two senior MEP's of Spain's opposition party Ciudadanos have resigned** over the party's pull to the right and veto over working with Spanish Socialist PM Sanchez. The split **adds to the deadlock in place since April general elections**.
- **Dallas Fed Kaplan**, non-voting FOMC member, believes that at this stage it is **too early to judge** whether trade and global growth uncertainties are to persist in a manner that leads to a material deteriorate for US eco growth.
- The gold price rose to its strongest level since 2013, around \$1424/ounce with **geopolitical tensions, ultralow yields levels and dollar weakness boosting bullion**.
- **The Polish overhaul of the supreme court**, which forced a third of its judges in early retirement and gave the ruling Law and Justice party powers of the judiciary, **broke EU law according to the European Court of Justice**.
- **Today's economic calendar** contains US S&P housing data, Richmond Fed manufacturing index, new home sales and consumer confidence. Several central bankers, including **Fed Chair Powell**, speak. Italy and the US tap the market.

Rates

Will Powell give the nod for a July rate cut?

| | US yield | -1d |
|----|----------|-------|
| 2 | 1.73 | -0.04 |
| 5 | 1.73 | -0.04 |
| 10 | 2.01 | -0.01 |
| 30 | 2.53 | -0.04 |

| | DE yield | -1d |
|----|----------|-------|
| 2 | -0.74 | -0.01 |
| 5 | -0.65 | -0.02 |
| 10 | -0.31 | 0.00 |
| 30 | 0.26 | -0.03 |

Friday's profit taking move didn't continue in this week's first trading session. **The main leap higher occurred at the start of European trading without a strong driver.** Geopolitical concerns could have played a role with the US weighing and eventually announcing new sanctions against Iran. Whatever the reason, we note that yesterday's gains came amid extremely low volumes. Stock and oil markets lost slightly ground. The main eco event, June German Ifo business sentiment, showed a stabilization near May levels. The German yield curve bull flattened with yields losing 0.6 bps (2-yr) to 3.4 bps (30-yr). US yields fell by 3.6 bps (2-yr) to 4.3 bps (5-yr). 10-yr yield spread changes vs Germany narrowed up to 3 bps with Italy underperforming (+3 bps) and Greece outperforming (-9 bps).

Asian stock markets lose ground this morning with China underperforming (-1.5%). US President Trump's sanctions against Iran and the country's response dominate headlines. These geopolitical concerns weigh on risk sentiment and push core bonds higher. **The US 10-yr yield is back testing 2.01% key support.**

Today's eco calendar contains several US eco data. June consumer confidence is the most important. Consensus expects a decline from 134.1 to 131 with **risks probably tilted to the downside** following weakness in labour market reports. **Several Fed governors speak, including chair Powell.** Markets turned even more softer since the Fed's June policy meeting. A July rate cut is 100% discounted, with market 60/40 split on whether it will be a 25 bps or 50 bps one. **Will Powell align with one of these market views or try to tone down expectations?** Speeches by ECB De Guindos and Coeuré are wildcards. **The US Treasury starts its end-of-month refinancing operation with a \$40 bn 2-yr Note auction. The arriving supply operation generally exerts some selling pressure on the US Treasuries, but that hasn't been the case this time around.** Friday's G-20 meeting keeps a lot of investors side-lined.

Long term view: The onus of the ECB is back on potential easing measuring including revamping asset purchases or cutting rates. The German 10-yr yield set a new all-time low. There's no trigger available at this stage to escape the lows, let alone negative territory. The Fed opened the door for cutting rates with a July rate cut discounted. The US 10-yr yield remains near 2.01%. There's probably little room for a strong rebound unless eco data improve significantly. Current circumstances probably favour a break lower instead.



German 10-yr stabilizes near all-time lows



US 10-yr yield bounced again testing 2.01% support on geopolitical concerns

Currencies

| | | |
|----------------|---------------|---------------|
| R2 | 1.1533 | -1d |
| R1 | 1.1448 | |
| EUR/USD | 1.1399 | 0.0030 |
| S1 | 1.1110 | |
| S2 | 1.0864 | |

| | | |
|----------------|---------------|---------------|
| R2 | 0.93067 | -1d |
| R1 | 0.91 | |
| EUR/GBP | 0.8948 | 0.0025 |
| S1 | 0.8500 | |
| S2 | 0.8314 | |

Fed's Powell to push EUR/USD to next resistance?

Follow-through euro buying in the wake of better than expected EMU PMI's kept EUR/USD on an upward trend yesterday. The couple was little affected by a further deteriorating German Ifo business climate (97.4). It found support in narrowing US/German yield spreads instead as prospects of Fed rate cuts continue to weigh on US yields. Together with more sideline dollar positioning ahead of the G20 at the end of this week, **EUR/USD's advance stopped short of capping the 1.14-handle** (1.1399, up from 1.1369). USD/JPY oscillated near opening levels and eventually closed virtually unchanged at 107.30.

Sentiment in Asia dented this morning. **Geopolitical tensions rise after the US initiated a new batch of sanctions on Iran's supreme leader and other top officials.** Iran's foreign ministry said that any new sanctions "mean the permanent closure of the diplomatic path with the US". Trump is also said to consider withdrawing from post-war Japan defense pact that he thinks treats the US unfairly, adding more jitters to an already fragile trade environment. EUR/USD holds up well however, trading close to 1.14. The Japanese yen profits with USD/JPY slipping below 107.

Economic data is rather scant today. **The US Conference Board consumer confidence is expected to decline** from 134.1 to 131 in June. Risks are tilted to the downside due to a sharp increase over the two previous months. The poor payrolls earlier this month strengthens our case for a negative surprise of this labour market sensitive indicator. We therefore expect the dollar to remain in the defensive in the run-up to an important speech by Powell this evening. **Will the Fed chair confirm markets view of a July rate cut? If he does we might witness the dollar (and US yields) to edge lower.** EUR/USD recently regaining the 1.1350 area improved the technical picture in this cross rate. Next resistance is seen in the 1.1450 area.

The pound lost additional ground during a mostly technical trading session yesterday with EUR/GBP closing at around 0.895. The Tory leadership campaign is gaining traction; debates between Johnson and Hunt are thorny. **Given the high amount of political uncertainty we see little reasons for sterling to strengthen significantly even as Johnson's lead over Hunt decreased.** We expect EUR/GBP to hold rather strong.



EUR/USD breaking north of 1.1350, improving the ST technical picture. Next resistance in the 1.1450 area to reach after Fed's Powell?



EUR/GBP: sterling to enter a period of technically driven trade near 0.89 in the run up to the Tory party leadership outcome.

Calendar

| Tuesday, 25 June | | Consensus | Previous |
|------------------|--|--------------|--------------|
| US | | | |
| 15:00 | FHFA House Price Index MoM (Apr) | 0.20% | 0.10% |
| 15:00 | S&P CoreLogic CS 20-City MoM/YoY (Apr) | 0.10%/2.50% | 0.09%/2.68% |
| 16:00 | Richmond Fed Manufact. Index (Jun) | 4 | 5 |
| 16:00 | New Home Sales Total/MoM (May) | 684k/1.60% | 673k/-6.90% |
| 16:00 | Conf. Board Consumer Confidence (Jun) | 131.0 | 134.1 |
| 16:00 | Conf. Board Present Situation (Jun) | -- | 175.2 |
| 16:00 | Conf. Board Expectations (Jun) | -- | 106.6 |
| Japan | | | |
| 01:50 | PPI Services YoY (May) | 0.80%A | 1.00%A |
| UK | | | |
| 12:00 | CBI Retailing Reported Sales (Jun) | -5 | -27 |
| 12:00 | CBI Total Dist. Reported Sales (Jun) | -10 | -20 |
| France | | | |
| 08:45 | Business Confidence (Jun) | 106 | 106 |
| 08:45 | Manufacturing Confidence (Jun) | 104 | 104 |
| 08:45 | Production Outlook Indicator (Jun) | 5 | 4 |
| 08:45 | Own-Company Production Outlook (Jun) | 13 | 13 |
| Events | | | |
| 09:15 | ECB Vice President Guindos Speaks in Rome | | |
| 11:30 | Germany to Sell 5 Billion Euros of 0% 2021 Bonds | | |
| 14:45 | Fed's Williams Makes Opening Remarks at Finance Forum (voter) | | |
| 17:00 | Italy to Sell 2021 Bonds | | |
| 18:00 | Fed's Bostic Speaks on Housing (non-voter) | | |
| 19:00 | Powell Discusses Economic Outlook and Monetary Policy (chair) | | |
| 19:00 | US to Sell USD40 Bln 2-Year Notes | | |
| 19:15 | ECB's Coeuré Speaks in Frankfurt | | |
| 21:30 | Fed's Barkin Speaks in Ottawa (non-voter) | | |

| | <u>Close</u> | <u>-1d</u> | | <u>Close</u> | <u>-1d</u> | Stocks | <u>Close</u> | <u>-1d</u> | |
|-------------------|--------------|------------|---------------|-------------------|--------------|-------------------|--------------------|--------------|------------|
| US | 2.01 | -0.01 | 2-year | 1.73 | -0.04 | DOW | 26727.54 | 8.41 | |
| DE | -0.31 | 0.00 | | | | NASDAQ | 8005.696 | -26.01 | |
| BE | 0.09 | 0.00 | | | | NIKKEI | 21193.81 | -92.18 | |
| UK | 0.82 | 0.00 | | | | DAX | 12274.57 | -65.35 | |
| JP | -0.16 | 0.00 | | | | DJ euro-50 | 3455.57 | -11.35 | |
| | | | | | | | | | |
| | | | | | | | | | |
| 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 | -0.34 | 1.69 | 0.84 | Eonia | -0.3590 | 0.0090 | | | |
| 5y | -0.21 | 1.73 | 0.88 | Euribor-1 | -0.3930 | 0.0050 | Libor-1 | 2.4044 | 0.0000 |
| 10y | 0.21 | 1.94 | 1.02 | Euribor-3 | -0.3430 | 0.0010 | Libor-3 | 2.3493 | 0.0000 |
| | | | | Euribor-6 | -0.3080 | 0.0000 | Libor-6 | 2.2201 | 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 | 1.1399 | 0.0030 | | EUR/JPY | 122.31 | 0.32 | CRB | 179.99 | 1.47 |
| USD/JPY | 107.3 | -0.02 | | EUR/GBP | 0.8948 | 0.0025 | Gold | 1418.20 | 18.10 |
| GBP/USD | 1.2743 | 0.0006 | | EUR/CHF | 1.1080 | -0.0023 | Brent | 64.86 | -0.34 |
| AUD/USD | 0.6963 | 0.0037 | | EUR/SEK | 10.5763 | -0.0557 | | | |
| USD/CAD | 1.318 | -0.0042 | | EUR/NOK | 9.6656 | 0.0027 | | | |

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