Thursday, 28 February 2019

Rates: First resistance in German 10-yr yield at risk of break

Core bonds sold off yesterday with UK Gilts leading the way lower as the prospect of a no deal brexit fades. The German 10-yr yield tested first resistance at 0.15%. Today's national inflation readings could cause a break with Bund underperforming US Treasuries in a daily perspective. Recent ECB comments show no desire to change policy (guidance) next week.

Currencies: Will balance between US and EMU data support further EUR/USD gain?

The tentative USD decline/rise of the euro slowed yesterday as there was no important news to force a EUR/USD break beyond 1.14. Today, EMU CPI's and US Q4 GDP will be published. A bottoming in EMU CPI's and a soft US GDP might support the gradual EUR/USD uptrend. Sterling stays well bid. How much good news on Brexit is currently discounted?

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** were mixed to negative with Nasdaq outperforming (+0.07%). **Asian equities** were broadly mixed overnight until US/North Korean nuclear talks wrapped up sooner than expected, sending bourses south.
- The **US Trade Rep. Lighthizer** said that the US and China settled on a process for enforcing a (possible) trade agreement between the countries. He added that it is still **too early to tell if China will concede to US demands.**
- **US President Trump and North Korean leader Kim Jong Un abruptly wrapped up negotiations** in Vietnam, without a public joint statement. The US said no agreement was reached but talks had been "good and constructive".
- **Federal Reserve chairman Jerome Powell confirmed that the balance sheet normalization could be ended by the end of this year.** In that case, the balance sheet would be 16-17% of GDP, up from about 6% before the financial crisis.
- **ECB governor François Villeroy warned for keeping interest rates below zero for too long** as it may hinder the ECB's policy from dripping to the economy. He therefore thinks a normalization of monetary policy is still "desirable".
- **China's manufacturing sector contracted further in February,** with the PMI down to 49.2 from 49.5 a month before and below 50 for a third straight month. The non-manufacturing component decreased to 54.3, down from 54.7.
- **Today's US eco calendar** contains US Q4 GDP results, weekly jobless claims and the Chicago PMI for February. Germany, France, Spain and Italy print February inflation numbers. Fed's Clarida, Bostic, Kaplan and Harker speak.

Rates

German 10-yr yield tests first resistance at 0.15%

	US yield	-1d
2	2,50	0,02
5	2,46	0,04
10	2,68	0,05
30	3,04	0,06

	DE yield	-1d
2	-0,53	0,01
5	-0,30	0,03
10	0,15	0,03
30	0,77	0,02

Global core bonds lost ground yesterday. The main move started in the afternoon with **UK Gilts selling off** after leading Brexit purist Jacob Rees-Mogg softened his stance, removing the threat of a no-deal brexit and raising the odds that May's brexit deal gets parliamentary support. The US yield curve bear steepened with yields increasing by 1.6 bps (2-yr) to 6 bps (30-yr). **Fed chair Powell's confirmation that the balance sheet run-off would stop by the end of the year** with a detailed plan announced soon (March 20 policy meeting?) went unnoticed. German yields added between 0.6 bps (2-yr) and 3 bps (10-yr) with the belly of the curve underperforming the wings. **ECB Villeroy expressed his desire to get rid of negative policy rates and continue policy normalization as planned.** 10-yr yield spread changes vs Germany narrowed up to 2 bps with Greece outperforming (-6 bps) and Italy underperforming (+5 bps). The EC labelled both countries (and Cyprus) as showing "excessive" imbalances, mainly related to their high ratio of bad loans in the banking sectors and their large shares of public and private debt.

Most Asian bourses cede ground towards the end of Asian trading as the 2nd US/North Korean **nuclear Summit wrapped up sooner than expected without an accord.** Core bonds gain ground.

Today's eco calendar contains **US Q4 GDP data.** Consensus expects a slowdown from 3.4% Q/Qa in Q3 to 2.2% Q/Qa in the final quarter of last year. We side with consensus. Such releases fits in the Fed's "assessment" strategy. Weekly jobless claims, the Chicago PMI and **national EMU inflation readings** will be published as well. **The latter are expected to show an uptick which will be welcomed by ECB governors planning to keep forward guidance on policy rates unchanged next week. They might trigger a break of 0.15% resistance in the German 10-yr yield and cause underperformance of the Bund today.** Plenty of Fed governors speak. With the end of the BS run-off now a certainty, markets will focus on comments about the probability of a H2 rate hike. Vice-chair Clarida, who first wants to see signs of rising inflation before committing to action, is the only voting member though on the agenda (Bostic, Harker and Kaplan are the others).

Technically, the US 10-yr yield remain stuck in a 2.49%-2.78% sideways trading range. The German 10-yr yield tried to undo the break below 0.15% support, but eventually closed just below. We consider the test as ongoing with risks of a break higher.

German 10-yr yield: 2nd test to regain 0.15% mark

US 10-yr yield: 2.49%-2.78% sideways range

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Currencies

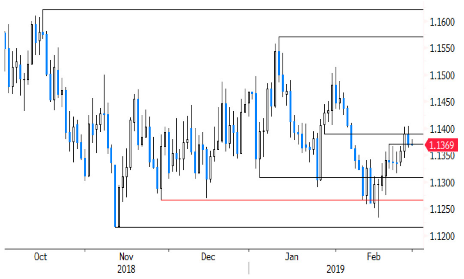
R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1370	-0,0019
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8543	-0,0052
S1	0,8543	
S2	0,8314	

Will data support further EUR/USD gains?

There was tentative USD softness on FX markets **earlier this week** while the euro enjoyed a cautious bid. Both 'trends' halted yesterday, but there was no big countermove. EC confidence suggested that the downturn in the region might be slowing. ECB speakers kept the line that the recent, supposed temporarily economic slowdown still allows the ECB to consider first cautious steps to policy normalization in a not-that-distance future. EUR/USD retested the 1.14 area, but the test was rejecte (close at 1.1370). USD/JPY reversed earlier losses as US yields rose and as sentiment on risk improved gradually. USD/JPY finished at 111.00.
Overnight, Chinese PMI's printed again soft, with the manufacturing measure holding below the 50 level. However, the number was not that far from consensus. Asian equities initially showed a mixed picture, but sentiment deteriorated as president Trump and Kim Jong Un abruptly ended their meeting in Hanoi without a joined statement, raising geopolitical uncertainty in the region. The yen rose slightly with USD/JPY trading in the 110.75 area. **EUR/USD is trading little changed** in the 1.1370/75 area. The yuan is trading in the 6.6850 area. **Today,** several EMU countries including Germany and France will release February CPI data. Signs of a bottoming out process might support the idea that a start of ECB policy normalisation might still be on the table at the end of 2019 or early 2020 and might be a tentative euro supportive. In the US, the Q4 GDP release will be published. A modest rise (2.2%) is expected. As soft figure (e.g. <2.0%) would confirm that the Fed has the time to consider further policy steps and could be a tentative negative for the dollar. Geopoltical tensions (US-North Korea) area a wildcard, but we don't expect it to be a big topic for EUR/USD. We started this week with a cautious bias on the US dollar as the US currency mighty **become (slightly) more sensitive to soft US data.** Last week, EUR/USD rebounded but unconvincingly. Any EUR/USD rebound will develop slowly as long as EMU data stay unconvincing. Still, we see room for EUR/USD to extend gains in the 1.12/1.15 trading range.

Yesterday, the sterling rebound/short squeeze simply continued. EUR/GBP dropped below the 0.8550 handle. At the Brexit debate in the UK Parliament yesterday, May's Brexit timetable was not really challenged. Today, Brexit headlines might move a bit to the background and eco data probably won't change the global picture for sterling trading. Sterling had a good run of late and quite some 'good news' on Brexit is discounted. Some consolidation might be on the cards.



EUR/USD testing the 1.14 big figure, but no sustained break (yet?)

EUR/GBP holding below 0.86 level. How much good news on Brexit is discounted?

Calendar

Thursday, 28 February		Consensus	Previous
US			
14:30	**Initial Jobless Claims**	**220k**	**216k**
14:30	Continuing Claims	1737k	1725k
14:30	**GDP Annualized QoQ (4Q A)**	**2.2%**	**3.4%**
14:30	Personal Consumption (4Q A)	3.0%	3.5%
14:30	**Core PCE QoQ (4Q A)**	**1.6%**	**1.6%**
15:45	**Chicago Purchasing Manager (Feb)**	**57.5**	**56.7**
17:00	Kansas City Fed Manf. Activity (Feb)	6	5
Japan			
00:50	Industrial Production MoM/YoY (Jan P)	-3.7%A/0.0%A	-0.1%/-1.9%
00:50	Retail Sales MoM/YoY (Jan P)	-2.3%A/0.6%	0.9%/1.3%
UK			
01:01	GfK Consumer Confidence (Feb)	-13A	-14
01:01	Lloyds Business Barometer (Feb)	4A	19
08:00	Nationwide House PX MoM/NSA YoY	0.0%/0.3%	0.3%/0.1%
Germany			
28FEB	CPI Baden Wuerttemberg MoM/YoY (Feb)	--/--	-0.9%/1.6%
09:00	CPI Saxony MoM/YoY (Feb)	--/--	-1.0%/1.4%
10:00	CPI Brandenburg MoM/YoY (Feb)	--/--	-0.5%/1.3%
10:00	CPI Hesse MoM/YoY (Feb)	--/--	-1.0%/0.9%
10:00	CPI Bavaria MoM/YoY (Feb)	--/--	-1.0%/1.7%
10:30	CPI North Rhine Westphalia MoM/YoY (Feb)	--/--	-0.7%/1.5%
14:00	CPI MoM/YoY (Feb P)	0.4%/1.5%	-0.8%/1.4%
14:00	**CPI EU Harmonized MoM/YoY (Feb P)**	**0.6%/1.7%**	**-1.0%/1.7%**
France			
08:45	PPI MoM/YoY (Jan)	--/--	-1.1%/1.2%
08:45	**CPI EU Harmonized MoM/YoY (Feb P)**	**0.3%/1.7%**	**-0.6%/1.4%**
08:45	GDP QoQ/YoY (4Q P)	0.3%/0.9%	0.3%/0.9%
Italy			
11:00	CPI EU Harmonized MoM/YoY (Feb P)	-0.2%/1.2%	-1.7%/0.9%
China			
02:00	**Composite PMI (Feb)**	**52.4A**	**53.2**
02:00	Non-manufacturing PMI (Feb)	54.3A	54.7
02:00	Manufacturing PMI (Feb)	49.2A	49.5
Spain			
09:00	CPI EU Harmonised MoM/YoY (Feb P)	0.1%/1.0%	-1.7%/1.0%
Sweden			
09:30	GDP QoQ/WDA YoY (4Q)	0.6%/1.5%	-0.2%/1.6%
Events			
14:00	**Fed Vice Chair Clarida Speaks at NABE Conference in Washington (voter)**		
14:30	**BEA Releasing Initial 4Q GDP (Combining Initial/Second)**		
14:50	**Fed's Bostic Speaks on the Economic and Housing Landscape (non-voter)**		
17:00	**Fed's Harker Discusses Economic Outlook (non-voter)**		
19:00	Fed's Kaplan to Speak in Q&A in San Antonio (non-voter)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,68	0,05		US	2,50	0,02	DOW	25985,16	-72,82
DE	0,15	0,03		DE	-0,53	0,01	NASDAQ	7554,509	5,21
BE	0,68	0,02		BE	-0,41	0,01	NIKKEI	21385,16	-171,35
UK	1,27	0,07		UK	0,83	0,04	DAX	11487,33	-53,46
JP	-0,02	0,00		JP	-0,15	0,01	DJ euro-50	3282,77	-6,55
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,06	2,54	1,19	Eonia	-0,3710	0,0010			
5y	0,15	2,54	1,30	Euribor-1	-0,3680	0,0000	Libor-1	2,4930	0,0000
10y	0,68	2,69	1,48	Euribor-3	-0,3100	0,0000	Libor-3	2,6289	0,0000
				Euribor-6	-0,2290	0,0010	Libor-6	2,6870	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1370	-0,0019		EUR/JPY	126,2	0,25	CRB	183,23	1,82
USD/JPY	111	0,41		EUR/GBP	0,8543	-0,0052	Gold	1321,20	-7,30
GBP/USD	1,3309	0,0057		EUR/CHF	1,1386	-0,0001	Brent	66,39	1,18
AUD/USD	0,7138	-0,0048		EUR/SEK	10,5414	-0,0308			
USD/CAD	1,3156	-0,0013		EUR/NOK	9,727	-0,0251			

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