



Tuesday, 05 March 2019

Rates: First 10y Greek bond sale in almost a decade

Yesterday's market correlations were very loose amid an empty eco/event calendar. The US non-manufacturing ISM spices trading today. We expect a strong, but in line with consensus outcome. This should nevertheless be sufficient to cause some underperformance of US Treasuries. Greece launches a new 10y bond via syndication for the first time since March 2010.

Currencies: EUR/USD correction off 1.14 resistance continues

EUR/USD drifted back lower in the 1.13 big figure yesterday as last week's EMU reflation trade evaporated, at least temporarily. Euro traders are taking a cautious approach head of this week's ECB meeting. Today, EMU and US data might cause some intraday volatility in the euro and the dollar. Sterling shifted to consolidation modus on 'Brexit pause'

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** edged lower yesterday with losses varying between -0.23% and -0.79% (DJI). **Asian equities** are largely trading in red this morning with Japanese indices underperforming. China outperforms.
- **The US removed Turkey/India from a list that grants low-income economies duty-free access for some exports**, as India fails to assure the US reasonable market access while Turkey is now "sufficiently economically developed".
- **China lowered its GDP growth target for 2019 to a range of 6 to 6.5%**, the lowest growth pace of economic growth in almost three decades. Premier Li announced tax cuts worth of \$298bn for this year to offer some rebuttal.
- **UK attorney General Cox and Brexit Secretary Barclay travel to Brussels today to seek concessions from the EU**. UK PM May has only a week left to win over MP's before the House of Commons decides on her divorce deal.
- **China's services PMI fell to 51.1 in February**, down from 53.6 a month before and the lowest reading in 4 months. Weaker new orders at home and abroad underline the mounting concerns on a slump in global trade.
- **The Reserve Bank of Australia kept its policy rate at 1.5%**, unchanged since August 2016. Governor Lowe's main focus remains the uncertainty of household consumption as wage growth remains soft and house prices are falling.
- **Today's US eco calendar** contains the ISM Non-Manufacturing (Feb) in the US. Both the UK and EMU (final) Markit/CIPS PMI's are released for February. BoE's Carney testifies to UK Parliament, while Fed's Barker and Rosengren speak.

Rates

	US yield	-1d
2	2,54	-0,01
5	2,53	-0,03
10	2,72	-0,03
30	3,09	-0,03

	DE yield	-1d
2	-0,51	0,00
5	-0,28	-0,02
10	0,16	-0,03
30	0,81	-0,02

US non-manufacturing ISM kicks off eco/event calendar

Global core bonds gained ground yesterday. Correlations between markets was loose. News that the US and China are entering the final stages lifted bourses in Asia, but the move lost momentum in Europe and the US. The eco/event calendar was empty. German yields lost 0.1 bp (2-yr) to 2.6 bps (10-yr). The US yield curve bull flattened with yields grinding 1.3 bps (2-yr) to 3.3 bps (30-yr) lower. 10-yr yield spread changes vs Germany ended unchanged with Italy (+3 bps) and Greece (+5 bps) underperforming. **Greece announced a new 10-yr syndicated deal** (likely today), which will be the first bond sale with a 10-yr maturity since March 2010!

Most Asian stock markets trade flat to weaker this morning following minor losses on WS yesterday (Dow -0.8% underperforming). China lowered its growth target for 2019 to 6%-6.5% from "around 6.5% last year while announcing some fiscal stimulus as well. The Chinese Caixin services PMI disappointed (51.1 from 53.6 vs 53.5 expected). The German Bund and US Note future are going nowhere.

Today's eco calendar contains final EMU services PMI's and **the US non-manufacturing ISM**. We especially eye the latter. Consensus expects a slight uptick in February from 56.7 to 57.4. We side with consensus even if the (more externally-oriented) manufacturing gauge fell from 56.6 to 54.2. Such outcome could weigh on US Treasuries with underperformance against the German Bund. **Boston Fed Rosengren**, who votes this year, speaks on the current economic outlook. Early January, he said that his own economic outlook was brighter than the one painted by financial-market movements. He nevertheless advocated patience to see how things evolved. Developments suggest that he'll stick to his more optimistic view on the economy which can result in hawkishly perceived headlines. The market reaction might be muted/non-existing given that Rosengren represent a minority voice on the board. European investors might be side-lined ahead of **Thursday's ECB meeting**. Minor downward revision to the central bank's eco outlook probably **won't trigger changes to the ECB's forward guidance**. The ECB intends to keep policy rates unchanged at least through the Summer, with some betting on an extension of this period beyond 2019. Rate markets only discount a first hike by the end of 2020. **We do think that the ECB will announced work-in-progress on new TLTRO's by June**. Such message should be sufficient to prevent a near term return to February lows in German yields. **Technically**, the US 10-yr yield is moving higher in a 2.49%-2.78% sideways trading range. The German 10-yr yield regained 0.15% support, paving the way for a further rise towards 0.27%.



Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1340	-0,0025
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8605	-0,0002
S1	0,8543	
S2	0,8314	

EUR/USD ease off 1.14 resistance.

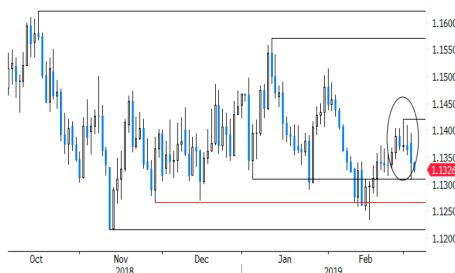
Short term market trends of last week evaporated or even reversed **yesterday**. The cautious (EMU) reflation trade including higher equities, a rise in EMU yields and a gradual rise of the euro ran into resistance. US and European equities failed to profit from optimism on trade that dominated Asian trading. The faltering risk-rally put the dollar again in the drivers' seat and weighed on the euro. EUR/USD declined off the 1.14+ resistance and closed at 1.1340 (from 1.1365). USD/JPY lost modest ground as risk sentiment deteriorated and closed at 111.74.

Overnight, the focus in Asian is on the National People's Congress in China. The Chinese growth forecast for this year was lowered to a range of 6.0% to 6.5%, but the government announced fiscal stimulus including a 3% VAT cut. The yuan gains marginal ground (USD/CNY 6.70 area). Global markets are still looking for concrete news from the US-China trade talks. Most Asian equity indices show modest losses with China outperforming. USD/JPY (111.95 area) rebounded on overall USD strength. EUR/USD struggles to prevent further losses. The RBA left its policy rate unchanged and kept a rather positive view on the economy. AUD/USD hovers in the upper half of the 0.70 big figure.

The eco calendar contains EMU retail sales and the final PMI's **today**. In the US, new home sales and the non-manufacturing ISM are scheduled for release. It is unlikely that (final) EMU PMI's will restart last week's 'EMU-reflation' trade. Decent data might help to put a floor for the euro. Still ECB meeting will be the key feature for EUR/USD trading this week. The US ISM is expected to rebound from 56.2 to 57.4. Even a slight miss shouldn't hurt the dollar too much short-term.

Of late, EUR/USD rebounded gradually as EMU data showed signs of bottoming. The ECB also kept the door open for policy normalisation. This narrative supported EUR/USD. Last week, **the EUR/USD rebound stalled on (some) constructive US data. We started this week with a balanced bias on EUR/USD.** The 1.14 area looks quite a solid resistance and more EUR/USD gains in the 1.12/15 range probably need more good EMU news or poor US data. For now, we see no trigger for such a break. So, some consolidation on recent EUR/USD gains might be on the cards.

Sterling mainly remained in **consolidation modus** yesterday. The UK May's Brexit roadmap was set out last week. There are still several high profile meetings planned in Brussels today/this week, but we doubt they will change the overall picture on Brexit. **Today, the UK services PMI is expected to ease close to contraction territory. If so, it might be a mildly negative for sterling.**



EUR/USD: correction off 1.14 resistance as markets await ECB decision



EUR/GBP: sterling falling prey to profit taking as Brexit headlines are moving temporarily to back ground.

Calendar

Tuesday, 5 March		Consensus	Previous
US			
16:00	ISM Non-Manufacturing Index (Feb)	57.4	56.7
16:00	New Home Sales / MoM (Dec)	600k/-8.7%	657k/16.9%
China			
02:45	Caixin China PMI Composite (Feb)	50.7A	50.9
02:45	Caixin China PMI Services (Feb)	51.1A	53.6
Japan			
01:30	Nikkei Japan PMI Composite (Feb)	50.7A	50.9
01:30	Nikkei Japan PMI Services (Feb)	52.3A	51.6
Australia			
04:30	RBA Cash Rate Target	1.50%A	1.50%
UK			
01:01	BRC Sales Like-For-Like YoY (Feb)	-0.1%A	1.8%
10:00	New Car Registrations YoY (Feb)	--	-1.6%
10:30	Markit/CIPS UK Services PMI (Feb)	49.9	50.1
10:30	Markit/CIPS UK Composite PMI (Feb)	50.1	50.3
EMU			
10:00	Markit Eurozone Services PMI (Feb F)	52.3	52.3
10:00	Markit Eurozone Composite PMI (Feb F)	51.4	51.4
11:00	Retail Sales MoM / YoY (Jan)	1.3%/2.1%	-1.6%/0.8%
Germany			
09:55	Markit Germany Services PMI (Feb F)	55.1	55.1
09:55	Markit/BME Germany Composite PMI (Feb F)	52.7	52.7
France			
09:50	Markit France Services PMI (Feb F)	49.8	49.8
09:50	Markit France Composite PMI (Feb F)	49.9	49.9
Italy			
09:45	Markit/ADACI Italy Services PMI (Feb)	49.5	49.7
09:45	Markit/ADACI Italy Composite PMI (Feb)	48.6	48.8
10:00	GDP WDA QoQ / YoY (4Q F)	-0.2%/0.1%	-0.2%/0.1%
Spain			
09:15	Markit Spain Services PMI (Feb)	54.3	54.7
09:15	Markit Spain Composite PMI (Feb)	53.9	54.5
Sweden			
08:30	Swedbank/Silf PMI Services (Feb)	54.5	54.1
08:30	Swedbank/Silf PMI Composite (Feb)	--	53.3
Events			
05MAR	Greece likely to issue new 10y Bond		
11:15	Austria to Sell 0.5% 2029 & 1.5% 2047 Bonds		
11:30	Germany to Sell €0.75bn 0.1% 2026 Linkers		
14:00	Fed's Rosengren Speaks on Current Economic Outlook (voter)		
15:30	Fed's Kashkari Testifies Before Minnesota Senate Finance Panel (non-voter)		
16:35	BOE Governor Mark Carney Testifies to House of Lords		
17:30	Fed's Barkin Speaks at the Rural Economy		
23:10	RBA Governor Lowe gives speech in Sydney		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,72	-0,03	US	2,54	-0,01	DOW	25819,65	-206,67	
DE	0,16	-0,03	DE	-0,51	0,00	NASDAQ	7577,567	-17,79	
BE	0,69	-0,01	BE	-0,40	-0,01	NIKKEI	21726,28	-95,76	
UK	1,27	-0,02	UK	0,78	-0,02	DAX	11592,66	-9,02	
JP	0,01	0,00	JP	-0,14	0,00	DJ euro-50	3317,12	5,02	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,58	1,19	Eonia	-0,3700	-0,0020	Libor-1	2,4819	0,0000
5y	0,16	2,58	1,30	Euribor-1	-0,3670	0,0010	Libor-3	2,5985	0,0000
10y	0,69	2,73	1,48	Euribor-3	-0,3090	0,0010	Libor-6	2,6821	0,0000
				Euribor-6	-0,2300	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1340	-0,0025	EUR/JPY	126,72	-0,46	CRB	181,09	-0,40	
USD/JPY	111,75	-0,14	EUR/GBP	0,8605	-0,0002	Gold	1287,50	-11,70	
GBP/USD	1,318	-0,0022	EUR/CHF	1,1328	-0,0030	Brent	65,67	0,60	
AUD/USD	0,7092	0,0013	EUR/SEK	10,5889	0,0525				
USD/CAD	1,3303	0,0006	EUR/NOK	9,8019	0,0448				

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Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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