



Monday, 15 October 2018

Rates: European stock markets lost key support

Risk sentiment will remain the key trading theme today, overshadowing US eco data. European equity markets lost key support last week, suggesting more downside. Core bonds profited only marginally from last week's risk aversion though. Portuguese bonds could outperform after Moody's reinstated the investment grade rating.

Currencies: Dollar shows no clear trend even as risk sentiment remains fragile

The dollar wasn't able to profit from last week a risk-off correction. The US currency again shows no clear trend this morning even as equity selling resumes in Asia. For now, we see no trigger for EUR/USD to break out of the 1.1432/1.1815 trading range. Sterling declines (moderately) as EU-UK negotiations this weekend didn't yield any progress.

Calendar

Headlines

- **US equity markets** bounced back up on Friday, recovering some of its losses made earlier that week. **Asian markets** opened this week's session in red, with Japan underperforming.
- **Brexit negotiations are in deadlock.** Brexit secretary Raab returned from Brussels yesterday after UK PM May sent him to make clear the UK cannot get on board with the current terms for Brexit.
- In Bavaria, one of Germany's most populous states, **the Christian Social Union (CSU), Merkel's ally party, has lost major ground** with only 37,4% of the votes (worst result since 1950). The leftist Green party becomes the 2nd largest party.
- **Rating agency Moody's has lifted Portugal's sovereign credit rating back to investment-grade** rating from Ba1 to Baa3 with its outlook "stable" from "positive". Moody's had rated the country as junk bond since 2011.
- **Saudi Arabia has pushed back against US President Trump's threat of "severe punishment"**, saying it would retaliate with stronger actions. The US is accusing them of involvement in the disappearance of Washington Post writer Khashoggi.
- **The European Union will commence the budget review of all members of the euro zone this week.** Focus will of course be on Italy, with the Italian budget proposal possibly sent straight back, as it far exceeds the EU budget rules.
- **Today's eco calendar** is very meagre in Europe. In the US, Retail Sales for September and the Empire Manufacturing index for October will be published. The release of Q3 earnings continues, with the Bank of America today's eye catcher.

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

	US yield	-1d
2	2,85	0,00
5	3,00	0,01
10	3,16	0,01
30	3,32	0,01

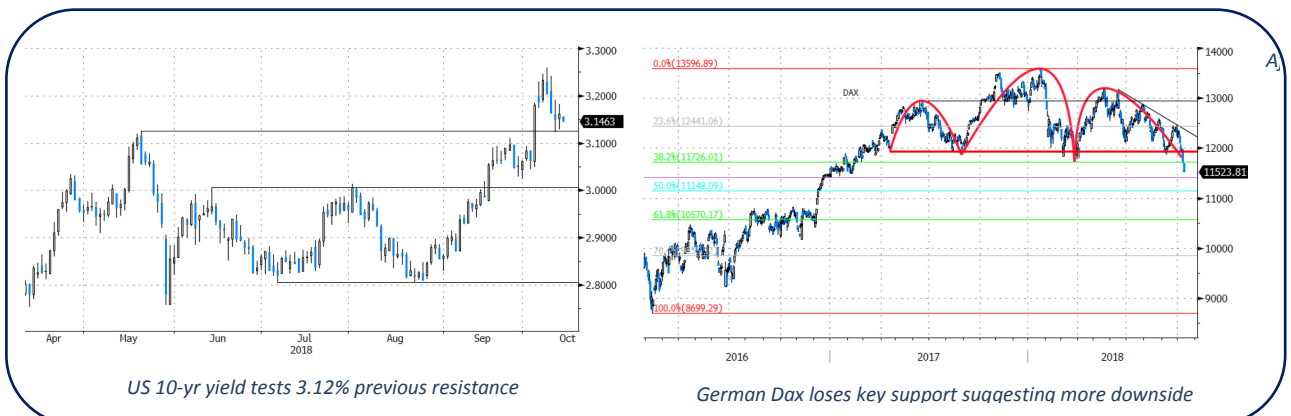
	DE yield	-1d
2	-0,56	-0,02
5	-0,10	-0,03
10	0,50	-0,02
30	1,12	-0,01

European stock markets lose key support

Global core bonds ended mixed on Friday with German Bunds outperforming US Treasuries. Risk sentiment on stock markets remained fragile, especially in Europe. The German Dax closed the week below key support (11.726; 38% retracement from 2016-2018 rally and neckline triple top), suggesting that the downside isn't exhausted yet. German yields dropped 1.3 bps (30-yr) to 2.7 bps (5-yr). Daily changes on the US yield curve varied between +0.4 bps (2-yr) and +1.2 bps (10-yr). 10-yr peripheral yield spread changes vs Germany widened 3 to 5 bps with Greece (-7 bps) outperforming. Portugal regain investment grade by Moody's after Friday's market close. The rating agency argued that the country's elevated general government debt has moved to a sustainable, albeit gradual, downward trend with limited risks of reversal. Additionally, Portugal's growth drivers have broadened with a structural improvement of the external position which has increased economic resilience. Portuguese bonds are expected to outperform today on peripheral bond markets."

Asian stock markets lose ground overnight despite WS's decent performance. The US Note future is a tad higher. ECB Villeroy stated the obvious by saying that the central bank will bring more clarity on the start of the tightening cycle by the summer of next year. ECB President Draghi warned that the key threat facing the economy is a jump in interest rates. Bavarian elections ended with a defeat for Merkel's coalition partner CSU. We expect a stronger opening for the Bund, also taking into account stalled brexit talks and hawkish trade rhetoric by US president Trump against China.

Today's eco calendar contains US retail sales and empire manufacturing business sentiment. Consensus expects a 0.6% M/M increase for the headline retail sales and +0.4% M/M for the core reading. Even if this bar is already rather high, we still see risks for an upward surprise. The question is whether it will filter through to markets. We fear so. **Risk sentiment on stock markets will again be key. Technical charts suggest more losses, especially in Europe. The Bund profited at the end of last week, but its performance could have been better given circumstances, especially when adding the decline of oil prices. So, we start the week with a positive bias on the back of fragile risk sentiment, but add that core bonds only profited marginally last week.**



Currencies

USD facing mixed signals

R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1560	-0,0033
S1	1,1510	
S2	1,1448	

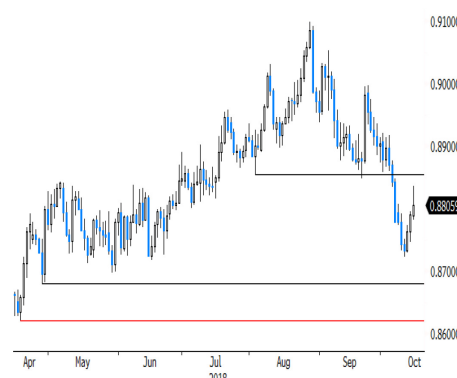
R2	0,91	-1d
R1	0,9052	
EUR/GBP	0,8791	0,0028
S1	0,8628	
S2	0,8548	

On Friday, global (equity) markets entered calmer waters, but it didn't provide a clear directional bias for global FX/ trading. **The dollar recently failed to profit from market turmoil.** The US dollar on Friday was still looking for a clear trend as sentiment improved, at least temporarily. USD/JPY hovered in a relatively tight 111.88/112.50 sideways range. EUR/USD tested the 1.16 area early in the session, but the US currency finally regained some traction as US equities rebounded and as Fed's Evans reiterated that the Fed might have to raise the policy rate above the neutral rate as the economy continues to perform strongly. Even so, EUR/USD remained within in the established ranges. The pair finished the day at 1.1560 (from 1.1593). **This morning,** Asian equities fail to build on Friday's rebound in the US, recording losses of 1%, or even slightly more. Comments from US policy makers this weekend suggest that trade relations between the US and China haven't improved yet. The valuation of the yuan remains a source of dispute. Investors are pondering the potential impact of ongoing trade frictions on growth. **For now, the impact on the USD is modest.** USD/CNY trades little changed in the 6.92 area. The yen records modest gains. USD/JPY is testing the 112 big figure. EUR/USD is also little changed in the 1.1550 area. Today, **US eco calendar contains the Empire manufacturing survey and retail sales.** September sales are expected solid (0.6% M/M). Question is whether solid US eco data will help to restore confidence on US/global equity markets. At least for now sentiment looks still fragile. **Of late, we left our ST USD positive bias and turned neutral on EUR/USD.** The pair rebounded off the 1.1432 correction low. Italy remains a source of uncertainty as the country presents its budget to the EC. For now, we see no clear trigger for the EUR/USD to break out of the 1.1432/1.1815 ST range. We look out whether the dollar comes under pressure again if the correction on (US) equity markets were to resume.

Sterling lost slightly ground Friday, after a good rebound due to brexit hopes earlier last week. During the weekend, negotiations between UK's Raab and EU's Barnier couldn't solve the issue of the Irish border ahead of this week's EU summit. This failure weighs on sterling this morning. However, the damage is not excessive. EUR/GBP trades in the 0.88 area. The news might be slightly negative for sterling, but we expected sterling traders to keep a wait-and-see bias.



EUR/USD: dollar shows no clear trend as sentiment on risk deteriorates again



EUR/GBP: sterling ceding ground as EU-UK negotiations failed to make any progress this weekend

Calendar

Monday, 15 October		Consensus	Previous
US			
14:30	Empire Manufacturing (Oct)	20.0	19.0
14:30	Retail Sales Advance MoM (Sep)	0.6%	0.1%
14:30	Retail Sales Ex Auto MoM (Sep)	0.4%	0.3%
14:30	Retail Sales Ex Auto and Gas (Sep)	0.4%	0.2%
14:30	Retail Sales Control Group (Sep)	0.4%	0.1%
16:00	Business Inventories (Aug)	0.5%	0.6%
Japan			
06:30	Capacity Utilization MoM (Aug)	2.2%A	-0.6%
06:30	Industrial Production MoM/YoY (Aug F)	0.2%A/0.2%A	0.7%/0.6%
UK			
01:01	Rightmove House Prices MoM/YoY (Oct)	1.0%A/0.9%A	0.7%/1.2%
China			
12OCT-15OCT	Money Supply M2 YoY (Sep)	8.3%	8.2%
12OCT-18OCT	Foreign Direct Investment YoY CNY (Sep)	--	1.9%
Events			
Q3 earnings	Bank of America (12:45) ...		
11:15	ECB's Angeloni Speaks in Brussels		
18:00	ECB's Nouy Speaks in Brussels		
20:00	ECB Vice President de Guindos Speaks in Madrid		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	3,16	0,01		US	2,85	0,00	DOW	25339,99	287,16
DE	0,50	-0,02		DE	-0,56	-0,02	NASDAQ	7496,894	167,83
BE	0,89	-0,02		BE	-0,49	-0,02	NIKKEI	22271,3	-423,36
UK	1,63	-0,04		UK	0,84	-0,04	DAX	11523,81	-15,54
JP	0,14	-0,01		JP	-0,11	0,00	DJ euro-50	3194,41	-14,78
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	0,08	3,11	1,31	Eonia	-0,3680	-0,0020			
5y	0,42	3,14	1,49	Euribor-1	-0,3690	0,0000	Libor-1	2,2798	0,0002
10y	1,03	3,21	1,72	Euribor-3	-0,3180	0,0000	Libor-3	2,4364	0,0001
				Euribor-6	-0,2670	0,0000	Libor-6	2,6521	0,0169
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1560	-0,0033		EUR/JPY	129,69	-0,35	CRB	197,94	1,31
USD/JPY	112,21	0,05		EUR/GBP	0,8791	0,0028	Gold	1222,00	-5,60
GBP/USD	1,3153	-0,0077		EUR/CHF	1,1475	0,0001	Brent	80,43	0,17
AUD/USD	0,7114	-0,0010		EUR/SEK	10,3588	-0,0454			
USD/CAD	1,3024	-0,0008		EUR/NOK	9,4787	-0,0455			

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