



**Thursday, 15 November 2018**

### Rates: Fed chair Powell strikes note of caution

US stock markets couldn't hold on to opening gains, sliding throughout the session and pulling US yields lower as well. Fed chair Powell said he is very positive about the US economy, but for the first time stroke a note of caution on growth abroad and the housing market. US eco data will probably confirm his bullish view on the current state of the economy today.

### Currencies: dollar eases of recent top

There were plenty of topics with potential to move global USD trading yesterday. In the end, the dollar lost slightly ground off this week's peak. However, the global picture on the US currency hasn't changed. Sterling hardly profited as UK PM May convinced her Cabinet on a Brexit deal. GBP traders are already counting down to the vote in Parliament.

### 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** couldn't hold on to opening gains and closed yesterday's session with marginal losses. **Asian stock markets** opened in green with the exception of Japan. China outperforms on trade talk progress with the US.
- **UK PM May won approval of her ministers for the brexit draft deal.** However, many ministers are in discontent proving that it will be fiercely contested in Parliament. A special EU-brexit summit will be held Nov 25.
- **Bill Pascrell, a key US Democrat, threatened that the USMCA** (the new trade agreement with Canada and Mexico, or Nafta 2.0) **needs some changes** if the Trump administration wants to secure the support from Democrats .
- **Fed chairman Powell repeated the very strong state of the US economy** but added that the Fed sees **potential headwinds** including slowing growth abroad. He also warned for a slowing housing industry and high corporate debt levels.
- **Australia printed a solid market report.** Net employment gained 32.8k in October, primarily driven by full time jobs (+42.3k). The unemployment rate remained unchanged at 5.0%, but the participation rate rose to 65.6%.
- **EU's trade commissioner Malmström said she is working on a list of US goods that would face retaliatory measures** if the US proceeded with import tariffs on EU cars. The move comes after renewed tariff threats of US President Trump.
- **Today's US eco calendar** heats up with US & UK retail sales, Philly Fed business outlook, empire manufacturing survey and weekly jobless claims. ECB Coeuré, Praet, de Guindos and multiple Fed governors speak.

# Rates

## Fed Powell strikes note of caution

	US yield	-1d
2	2,87	-0,02
5	2,96	-0,03
10	3,13	-0,01
30	3,37	0,01

	DE yield	-1d
2	-0,57	0,00
5	-0,20	-0,01
10	0,40	-0,01
30	1,05	0,00

Core bonds gained more modest ground yesterday with US Treasuries outperforming German Bunds. The US inflation readings were almost spot on forecasts and didn't influence trading. Risk sentiment soured in the US after a positive opening and dragged US yields lower. US yield changes ranged between -2.7 bps (5-yr) and +0.7 bps (30-yr). German yields declined by 0.2 bps (2-yr) to 1.3 bps (10-yr). 10-yr yield spreads vs Germany widened by 5 to 6 bps (Greece/Italy). Italian BTP's didn't really suffer from the government's decision to let the EU deadline pass without an altered 2019 budget proposal.

Asian stock markets eke out small gains overnight with China outperforming and Japan underperforming. Signals on US trade range between negative (USMCA) over mixed (EU) to positive (China). The US Note future treads water. **Fed chair Powell remains very positive on the US economy, but added that a previous tailwind, global growth, is losing strength and needs close monitoring.** It's the first time that he issues such a warning. Another one of his concerns is the recent slowdown in the US housing market, while the US must also take into account that the fiscal stimulus boost won't last forever. **So overall, he stroked a note of caution for the future. We don't expect them to interfere with a December rate hike, but the Fed's new guidance for 2019 will be worth watching.** More Fed speakers line up today with vice-president Quarles, Atlanta Fed Bostic and Minneapolis Fed Kashkari. Will they send similar warnings?

Today's eco calendar heats up in the US with retail sales, weekly jobless claims, empire manufacturing survey and Philly Fed business outlook. We expect them to confirm Fed Powell's bullish view on the current state of the economy. **That could inflict some losses on core bonds especially if the improvement in risk sentiment lasts.** We'll scan speeches by ECB heavyweights de Guindos, Praet and Coeuré, looking for clues on the likelihood of a new set of TLTRO's next year and on changes to the current playbook for reinvestments. Both probably feature high on the central bank's December agenda and can potentially influence peripheral bond markets.

**Technically,** the US 10-yr yield sits in a narrow 3.06%-3.26% trading range. We continue to expect a break higher going into year-end because of the Fed's tightening cycle. The German 10-yr yield trades in the middle of the 0.3%-0.6% sideways range with no immediate risks of a break-out in either direction.



German 10-yr yield going nowhere in the 0.3%-0.6% range



US 10-yr yield hovers in the middle of the 3.06%-3.26% trading range

# Currencies

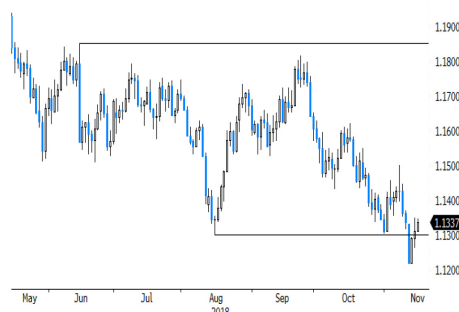
R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1310	0,0020
S1	1,1187	
S2	1,1119	

R2	0,8997	-1d
R1	0,894	
EUR/GBP	0,8705	0,0004
S1	0,8700	
S2	0,862	

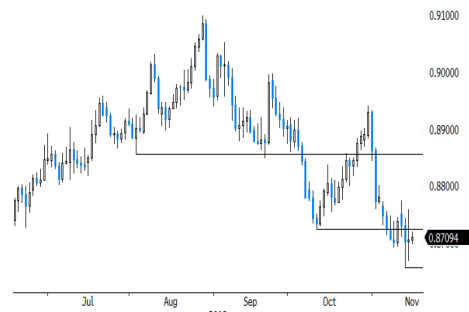
## Dollar eases of recent top

There were multiple topics with potential to move global FX/USD trading yesterday, including EMU and US data, Brexit, Italy, the oil price, global equity volatility and, last but not least a speech of Fed chairman Powell. The dollar slightly outperformed early in the session, but lost momentum later. US CPI and wage data were a bit softer than expected. UK PM May surpassing a first hurdle in the Brexit process also could be considered a tentative euro positive. **That said, there was again no unequivocal directional trend in the dollar, with several 'erratic' intraday swings.** EUR/USD finished the day at 1.1310. USD/JPY closed at 113.63. In a speech overnight, Fed Chairman Powell was pleased with the current state of the US economy, but admitted that there are risks to (global) growth. **For now, there is little reason to change expectations on the Fed rate hike path.** The reaction of the USD is limited. Asian equities initially traded soft but currently mostly show modest gains. The Aussie dollar is propelled by yet another strong labour report. AUD/USD is changing hands in the 0.7275 area. A tentative easing of global market tensions is maybe a slightly negative for the dollar. EUR/USD trades in the 1.1135 area. USD/JPY also fails to profit and trades near 113.50. **Later today, several ECB and Fed governors will speak.** The US eco calendar is well filled with the Empire manufacturing survey, the Philly Fed business outlook, retail sales and the jobless claims. US data are expected constructive/solid and we have no reason to expect really negative surprises. Oil and global market sentiment remain wildcards. For now, the impact of both factors on the dollar is ambiguous. The usual inverse correlation between the dollar and oil isn't that strong on a daily basis. Yesterday, we had a neutral bias on the dollar (EUR/USD), expecting more erratic trading in the 1.11/1.15 trading band. We maintain that view. **In somewhat longer perspective we see more downside risks in EUR/USD due to ongoing eco divergence and potential event risk.**

Yesterday, PM May defended the text of an EU-UK Brexit deal at Cabinet meeting. The UK PM at least surpassed this hurdle. The market reaction was modest as investors realize that the ultimate battle will be fought in Parliament, probably early December. The outcome remains highly uncertain. Today, UK Oct retail sales are expected modest (0.2% M/M) despite a poor September reading. We stay neutral on EUR/GBP. After the recent **rally, market positioning probably became more neutral (less sterling short).** So, further GBP-gains might be modest.



EUR/USD returns back above 1.13 but global picture on USD hasn't changed



EUR/GBP: sterling hardly profits even as PM 'convinces' cabinet on Brexit deal

# Calendar

Thursday, 15 November		Consensus	Previous
<b>US</b>			
14:30	Empire Manufacturing (Nov)	20.0	21.1
14:30	Philadelphia Fed Business Outlook (Nov)	20.0	22.2
14:30	Retail Sales Advance MoM (Oct)	0.5%	0.1%
14:30	Retail Sales Ex Auto MoM (Oct)	0.5%	-0.1%
14:30	Retail Sales Ex Auto and Gas (Oct)	0.4%	0.0%
14:30	Retail Sales Control Group (Oct)	0.4%	0.5%
14:30	Initial Jobless Claims	213k	214k
14:30	Continuing Claims	1625k	1623k
<b>UK</b>			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Oct)	0.2%/3.4%	-0.8%/3.2%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Oct)	0.2%/2.8%	-0.8%/3.0%
<b>EMU</b>			
11:00	Trade Balance SA (Sep)	16.3b	16.6b
<b>Sweden</b>			
09:30	Unemployment Rate SA (Oct)	6.4%	6.5%
<b>Events</b>			
00:00	Fed's Powell to Discuss Economy at Dallas Fed Event		
13:15	ECB's Coeure Speaks in Basel		
14:10	ECB's Praet Speaks in Brussels		
15:35	ECB Vice President de Guindos Speaks in Amsterdam		
16:00	Fed's Quarles to Appear before Senate Banking Panel		
17:30	Fed's Powell Reviews Post-Hurricane Harvey Recovery Efforts		
19:00	Fed's Bostic Speaks in Madrid		
21:00	Fed's Kashkari Speaks to Minnesota AgriGrowth Council		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,13	-0,01		US	2,87	-0,02	DOW	25080,5	-205,99
DE	0,40	-0,01		DE	-0,57	0,00	NASDAQ	7136,393	-64,48
BE	0,83	-0,01		BE	-0,51	-0,01	NIKKEI	21803,62	-42,86
UK	1,51	-0,01		UK	0,79	-0,02	DAX	11412,53	-59,69
JP	0,11	0,00		JP	-0,13	0,01	DJ euro-50	3205,36	-19,46
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,03	3,09	1,28	Eonia	-0,3600	0,0020			
5y	0,34	3,10	1,43	Euribor-1	-0,3690	0,0000	Libor-1	2,3065	0,0000
10y	0,95	3,19	1,63	Euribor-3	-0,3160	0,0000	Libor-3	2,6161	0,0000
				Euribor-6	-0,2570	0,0000	Libor-6	2,8550	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1310	0,0020		EUR/JPY	128,51	0,02	CRB	188,06	3,52
USD/JPY	113,63	-0,18		EUR/GBP	0,8705	0,0004	Gold	1210,10	8,70
GBP/USD	1,2992	0,0015		EUR/CHF	1,1381	0,0011	Brent	66,12	0,65
AUD/USD	0,7232	0,0014		EUR/SEK	10,2757	0,0508			
USD/CAD	1,3242	0,0004		EUR/NOK	9,6237	0,0307			

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