



**Tuesday, 27 February 2018**

## Rates: Powell to confirm Fed's path to policy normalization

Over the previous days, core bonds staged a cautious technical rebound as investors were looking forward to today's hearing of Fed's Powell before Congress. We expect the Fed chairman to hold a positive tone on the US economy, in line with the previous Fed minutes. If so, it probably doesn't leave that much room for further gains of US Treasuries.

## Currencies: Will Powell give the dollar some downside protection

Yesterday, the dollar hovered up and down as investors awaited today's hearing of Fed's Powell on Capitol Hill. Will the Fed chairman signal a big enough Fed engagement on policy normalization to provide the USD some downside protection. UK labour leader Corbyn's preference for the UK to stay in a customs union with the EU doesn't help sterling for now.

## 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 started the week on a strong footing**, extending the rally from the end of last week. Major US indices closed 1.15% (Nasdaq) to 1.58% (Dow) higher. Asian markets join the rebound from the US. China underperforms, trading in negative territory.
- At the last policy meeting of Governor Lee Ju-yeol, **the Bank of Korea kept its policy rate unchanged**. Lee said that the BoK was not obliged to follow a global withdrawal of stimulus. The Bank of Korea is expected to tighten policy only in a gradual way after its hike to 1.50% in November.
- **The EU is said to publish a draft Brexit treaty on Wednesday** in which it will set out in legal detail how it expects the U.K. to depart from the EU and the terms of a transition period that will follow, according to sources. The report probably won't meet the UK's demand on several key issues.
- According to Bloomberg, **Apple is preparing to release a trio of new smartphones later this year**: the largest iPhone ever, an upgraded handset the same size as the current iPhone X and a less expensive model with some of the flagship phone's key features. With the new line-up, Apple wants to appeal to consumers who crave the multitasking attributes of so-called phablets while also catering to those looking for a more affordable version of the iPhone X..
- **Today's eco calendar is heavily packed** containing, amongst others, **German CPI data**, EMU economic confidence and money supply data. In the **US, the advance goods trade balance**, US inventory data, **durable goods orders**, Housing data, the Richmond Fed manufacturing index and **Consumer confidence (Conference Board) will be published**. ECB's Merch and Weidmann are scheduled to speak. The focus of markets will be on the hearing of Fed Chairman Powell before the House Financial Services Committee

# Rates

## Powell to confirm Fed's path to policy normalization

	US yield	-1d
2	2.22	-0.02
5	2.61	-0.01
10	2.86	0.00
30	3.15	0.00

	DE yield	-1d
2	-0.54	0.00
5	0.03	0.00
10	0.65	0.00
30	1.30	-0.02

**Global core bonds took a slow start to the week, recording minor gains.** The Bund came close to 159.75 resistance but a test didn't occur. US yields declined by 1.6 bps (2-yr) to 0.2 bps (30-yr). The German yield curve was unchanged (5-yr) to 1.5% bps (30-yr) lower. 10-yr yield spread changes versus Germany were nearly unchanged with Italy (-5 bps), Spain (-4 bps) and Portugal (-4 bps) outperforming. **The Kingdom of Belgium launched its debut green OLO via syndication.** The 15-yr bond (€4.5bn Apr2033) was priced to yield MS -14 bps, compared to initial price takings in the MS -11 bps area.

**This morning,** the US Note future hovers near yesterday's closing levels even as global sentiment on risk remains positive in Asia. We expect a neutral to marginally negative opening for the Bund.

**Today's eco calendar is heavily packed** containing, amongst others, **German CPI data,** EMU economic confidence and EMU money supply. **In the US,** the advance trade balance, inventory data, durable goods orders, housing data, Richmond Fed manufacturing index and Consumer confidence (Conference Board) will be published. ECB's Merch and Weidmann will speak. Fed Chairman Powell will attend its first hearing before the House Financial Services Committee

**German HICP** is expected to rise 0.6% M/M, but the Y/Y measure is expected to ease from 1.4% to 1.3%. So, the inflation picture in EMU probably remains soft. The market reaction to the (US) eco data might be guarded **as the investors' focus will go to the hearing of Fed Chairman Powell on Capitol Hill.** Fed chairs traditionally hold close to the official policy line (as mirrored in the Minutes) at these semi-annual hearings. **He will probably confirm that solid US growth requires further policy normalization.** We look out what he says on fiscal stimulation at this point in the economic cycle. Will he give any (hidden) hint that the Fed should counterbalance rising deficits? His message will be balanced, but in the end we expect him to indicate higher yields. **In this context, we don't see much room for a further upward correction in US Treasuries.** The ST picture for the Bund is a bit more constructive than for the US 10-y Note future.

US and German yields cleared resistance levels earlier this year and are moving towards next targets. The trading band for the US 10-yr yield is 2.64%-3.05%. The German 10-yr yield's trading band is 0.62%-1.06%. **A move to the lower bound of this range could be used to put up new Bund short positions.**



German Bund: sentiment turns more neutral. 159.75/78 should be strong resistance and coincides with 0.62% support in 10y yield



US Note future: decline slowed ahead Fed's Powell hearing before Congress.

# Currencies

R2	1.2598	-1d
R1	1.2555	
EUR/USD	1.2317	0.0022
S1	1.2206	
S2	1.2165	

R2	0.9307	-1d
R1	0.9033	
EUR/GBP	0.8818	0.0014
S1	0.8690	
S2	0.8657	

## Will Powell give USD some downside protection

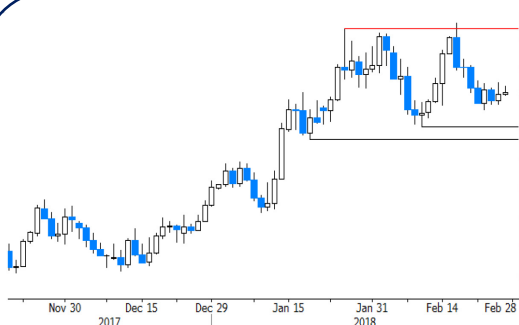
The dollar started the week on a soft footing, but gradually received a better bid later in the session despite soft comments from Fed’s Bullard. (FX) Markets were looking forward to today’s hearing of Fed Chairman Powell on the Hill and to plenty of eco data scheduled later this week. Investors apparently didn’t want to be too much short dollar going into these events. USD/JPY rebounded back to the high 106/low 107 area. EUR/USD reversed early gains and returned to the 1.23 area.

**This morning**, Asian equities join the rally from WS, with China underperforming. The dollar is losing a few ticks against the euro (EUR/USD currently 1.2330) and the yen (USD/JPY currently 106.85).

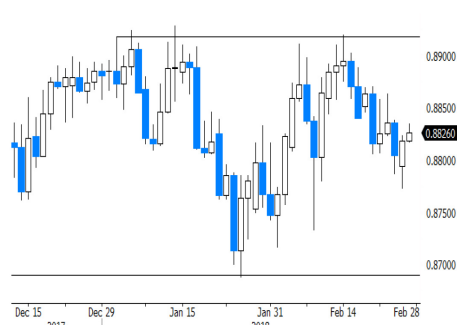
**Today**, there are plenty of data including German CPI, the US goods trade balance, durable goods orders and consumer confidence. However, the data will likely be overshadowed by the first semi-annual hearing of Fed Chairman Powell before the House financial services Committee. His testimony will probably be balanced. Even so, he will likely confirm that solid US growth requires further normalization of monetary policy. In the end, his message might be (mildly) USD supportive. Soft German inflation data might be a slightly negative for the euro.

Of late, we advocated some further consolidation of EUR/USD in the 1.25/1.2165 consolidation pattern. We maintain that view for now. We look out whether a positive assessment of Powell on the US economy and markets anticipating further US policy normalization might cause EUR/USD to go for a test of the 1.2165/1.2206 range bottom.

**Yesterday**, sterling initially profited from hawkish comments from BoE’s Ramsden this weekend and from UK Labour Party leader Corbyn supporting the case for the UK to enter a customs union with the EU after Brexit. However, for now his approach doesn’t break the UK political stalemate on Brexit. Sterling returned earlier gains. EUR/GBP rebounded north of 0.88. Today, there are no UK eco data. However, headlines suggest more headwinds from the EU to the Brexit agenda of the UK government. Over the previous days, sterling received a slightly better bid, but the move had no strong momentum. For now, the 0.8690 range bottom still looks a very solid support/GBP resistance.



EUR/USD: dollar going nowhere. Will Powell provide the clue for a next directional move?



EUR/GBP: Corbyn’s call for a customs union doesn’t support further sterling gains

# Calendar

Tuesday, 27 February		Consensus	Previous
<b>US</b>			
14:30	<b>Advance Goods Trade Balance (Jan)</b>	<b>-\$72.3b</b>	<b>-\$71.6b</b>
14:30	Wholesale Inventories MoM (Jan P)	0.4%-	0.4%
14:30	Retail Inventories MoM (Jan)	--	0.2%
14:30	<b>Durable Goods Orders (Jan P)</b>	<b>-2.0%</b>	<b>2.8%</b>
14:30	Durables Ex Transportation (Jan P)	0.4%	0.7%
14:30	Cap Goods Orders Nondef Ex Air (Jan P)	0.5%	-0.6%
14:30	Cap Goods Ship Nondef Ex Air (Jan P)	0.3%	0.4%
15:00	House Price Purchase Index QoQ (4Q)	--	1.4%
15:00	FHFA House Price Index MoM (Dec)	0.4%	0.4%
15:00	<b>S&amp;P CoreLogic CS 20-City MoM SA / YoY NSA (Dec)</b>	<b>0.60%/6.35%</b>	<b>0.75%/6.41%</b>
16:00	<b>Richmond Fed Manufact. Index (Feb)</b>	<b>15</b>	<b>14</b>
16:00	<b>Conf. Board Consumer Confidence (Feb)</b>	<b>126.5</b>	<b>125.4</b>
16:00	Conf. Board Present Situation (Feb)	--	155.3
16:00	Conf. Board Expectations (Feb)	--	105.5
<b>EMU</b>			
10:00	<b>M3 Money Supply YoY (Jan)</b>	<b>4.6%</b>	<b>4.6%</b>
11:00	<b>Economic Confidence (Feb)</b>	<b>114.0</b>	<b>114.7</b>
<b>Germany</b>			
	CPI Baden Wuerttemberg MoM / YoY (Feb)	--/--	-0.7%/1.7%
09:00	CPI Saxony MoM / YoY (Feb)	--/--	-0.8%/1.4%
10:00	CPI Brandenburg MoM / YoY (Feb)	--/--	-0.5%/1.7%
10:00	CPI Hesse MoM / YoY (Feb)	--/--	-0.8%/1.3%
10:00	CPI Bavaria MoM / YoY (Feb)	--/--	-0.7%/1.8%
10:30	CPI North Rhine Westphalia MoM / YoY (Feb)	--/--	-0.6%/1.5%
14:00	CPI MoM / YoY (Feb P)	0.5%/1.5%	-0.7%/1.6%
14:00	<b>CPI EU Harmonized MoM / YoY (Feb P)</b>	<b>0.6%/1.3%</b>	<b>-1.0%/1.4%</b>
<b>France</b>			
08:45	Consumer Confidence (Feb)	103	104
<b>Italy</b>			
10:00	Consumer Confidence Index (Feb)	115.0	115.5
<b>Belgium</b>			
	CPI MoM / YoY (Feb)	--/--	0.29%/1.71%
<b>Spain</b>			
09:00	CPI EU Harmonised MoM / YoY (Feb P)	-0.2%/0.9%	-1.5%/0.7%
<b>Events</b>			
09:40	ECB's Merch speaks in Brussels		
11:00	Bundesbank's Weidmann Presents Institution's Annual Report		
14:30:	<b>Fed Powell's Congressional Testimony is Released</b>		
16:00:	<b>Fed's Powell Testifies to House Financial Services Committee</b>		
11:00	Italian BTP auction		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2.86	0.00	US	2.22	-0.02	DOW	25709.27	399.28	
DE	0.65	0.00	DE	-0.54	0.00	NASDAQ	7421.463	84.07	
BE	0.95	0.00	BE	-0.50	-0.01	NIKKEI	22389.86	236.23	
UK	1.51	-0.01	UK	0.80	0.10	DAX	12527.04	43.25	
JP	0.05	0.00	JP	-0.16	-0.01	DJ euro-50	3463.18	21.72	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0.08	2.61	1.20	Eonia	-0.3700	-0.0020	Libor-1	1.6312	0.0000
5y	0.47	2.72	1.38	Euribor-1	-0.3710	-0.0010	Libor-3	1.9563	0.0000
10y	1.09	2.86	1.60	Euribor-3	-0.3280	0.0000	Libor-6	2.1819	0.0000
				Euribor-6	-0.2710	0.0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.2317	0.0022	EUR/JPY	131.7	0.29	CRB	196.75	0.76	
USD/JPY	106.93	0.04	EUR/GBP	0.8818	0.0014	Gold	1332.80	2.50	
GBP/USD	1.3968	-0.0003	EUR/CHF	1.1554	0.0042	Brent	67.50	0.19	
AUD/USD	0.7855	0.0012	EUR/SEK	10.0402	-0.0057				
USD/CAD	1.2681	0.0048	EUR/NOK	9.6373	-0.0195				

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