



Sunrise

Thursday, 14 June 2018

Rates: US Treasuries limit losses despite the Fed's message

The Fed hiked its policy rate to 1.75%-2% while median rate forecasts for 2018 and 2019 increased, suggesting a quarterly rate hike pace at least until mid-next year. Strong growth and a positive outlook support this scenario, while inflation is allowed to temporarily move above the symmetric 2% target. US Treasuries took the news quiet well, limiting losses.

Currencies: Dollar doesn't profit from 'hawkish' Fed. ECB to propel the euro?

The dollar couldn't maintain modest gains yesterday as the Fed raised its policy rate. Powell also suggested that more is to come. The focus turns to the ECB today. The ECB will probably prepare markets for the end of APP at the end of this year. This symbolic move to policy normalization might support further euro gains.

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	↗

- The **US equity markets** reacted negatively to the Fed news, with the DOW JONES leading the pack lower (-0.47%). **Asian markets** follow the US example and open with losses of around -0.50%.
- **The Federal Reserve has without surprise lifted rates by a quarter point to 1.75%-2%** and signalled that two more interest rate hikes are expected in 2018. FED chairman Powell supported it with a bullish assessment of the US economy.
- **China's new economic numbers indicate a slight setback in economic momentum.** Retail Sales YoY (8.5%), Industrial Production YoY (6.8%) and Investment (6.1%) were below the expected the 9,6%, 7% and 7% in May.
- **The US has released the list of products that it imports from China that will be targeted for tariffs,** for a total value of \$50bn. The move came despite China's pledge to buy \$70bn in US farm and energy exports.
- **Greece has accelerated its reform debate to pass measures for receiving a final tranche of international bailout funds.** It said to be preparing the country's exit of the stability support programme.
- **Australia created 12k jobs in May (19k expected),** mostly by increases in part time jobs (+32k). The RBA remains concerned with the only marginal increase in average wages and a high household debt to impose risks on its economy.
- The **US** will release its weekly update on Jobless Claims today together with its Retail Sales for May. In the **UK** the Retail Sales Ex Auto Fuel MoM/YoY (May) are given. In the **EU**, it is looking forward to **ECB's announcements.**

Rates

No stopping the Fed from getting to neutral rates

	US yield	-1d
2	2,57	0,03
5	2,82	0,02
10	2,97	0,01
30	3,07	-0,01

Global core bonds traded with a marginal upward bias going into the FOMC meeting. **The Fed as expected hiked its policy rate from 1.5%-1.75% to 1.75%-2%**. Both the accompanying statement and the new dot plot changed in a hawkish way. **The new dot plot shows 1 additional rate hike in 2018 (4 in total this year) and 2019 (3 from 2). The Fed dropped its accommodative forward guidance and Powell suggested that the central bank is 4 rate hikes away from hitting a neutral level. We expect quarterly steps between now and June next year. The eco outlook remains bright, but Powell stressed the symmetric inflation target** indicating no intention to step up the rate hike pace. [Click here](#) for a full review of the Fed-meeting.

	DE yield	-1d
2	-0,59	0,00
5	-0,15	-0,01
10	0,48	-0,01
30	1,17	0,00

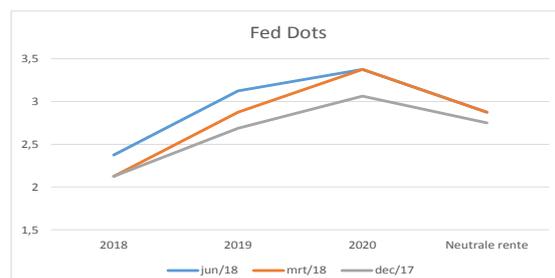
US Treasuries lost ground after the release of the statement and dots with the US yield curve bear flattening. **However, we must say that the market reaction was rather muted.** US yield changes varied between +2.9 bps (2-yr) and -0.8 bps (30-yr). **The US 10-yr yield tested the psychological 3% mark, but a break didn't occur.** Changes on the German yield curve varied between +0.2 bps (2-yr) and -0.9 bps (10-yr). 10-yr yield spread changes vs Germany narrowed 3 to 5 bps with Greece (+5 bps) underperforming.

Asian stock markets lose ground overnight in line with yesterday's WS losses. The US Note future trades positive, already returning to post-FOMC levels. We expect a neutral opening for the Bund.

Today's eco calendar contains US retail sales, import/export prices and weekly jobless claims. Data are expected to confirm US Q2 GDP strength and building inflation pressure. That should be negative for US Treasuries with yesterday's message from the Fed in mind, though the lackluster market reaction suggests otherwise. **The main focus goes to the ECB meeting. We expect the central bank to take the next step in its normalization process by mapping the end of its asset purchase programme.** Draghi may announce that the ECB will taper its asset purchases by €10bn/month to conclude APP by December 2018. The forward guidance on interest rates and QE reinvestments are both likely to remain unchanged. [Click here](#) for a full preview of the ECB-meeting. **Final guidance on APP would be a significant development and should soon put a firm bottom below European interest rates. We have a downward bias for the Bund today with a likely underperformance vs the US Note future. The German 10-yr yield should regain the 0.5% mark, opening the way for a return to this year's highs.**



US 2-yr yield tests 2.6% cycle high after FOMC meeting



Another hawkish shift in the Fed's new dot plot

Currencies

Dollar doesn't profit from 'hawkish' Fed rate hike

R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1791	0,0046
S1	1,1554	
S2	1,1453	

The dollar traded with a cautious negative bias yesterday going into the Fed decision, with EUR/USD nearing 1.18. USD/JPY eased to the mid 110 area. The Fed as expected raised the Fed fund target range by 0.25%. The dots suggest two additional rate hikes this year and Fed's Powell remained positive on the economy. On the other hand, Powell reiterated that the inflation target is symmetric and that policy shouldn't react to short-term deviations from target. **Yields and the dollar spiked temporary higher upon the Fed decision, but the gains couldn't be sustained.** EUR/USD closed the session at 1.1791 (from 1.1745). USD/JPY finished the session little changed at 110.34 after a temporary post-Fed trip towards the 110.85 area.

R2	0,9033	-1d
R1	0,8968	
EUR/GBP	0,8817	0,0034
S1	0,8628	
S2	0,8548	

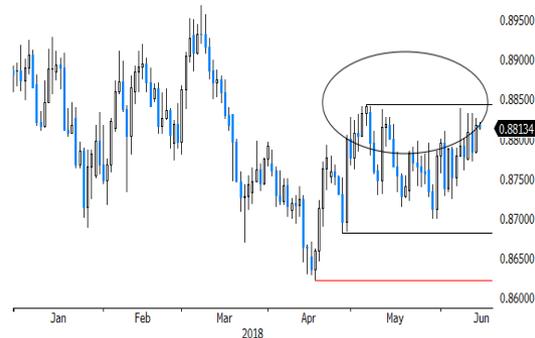
Asian stocks mostly show moderate losses overnight. Disappointing Chinese data and a moderately hawkish Fed yesterday are weighing on regional markets. **The dollar also fails to capitalize on yesterday's hawkish Fed message.** EUR/USD returned to the 1.18 area. USD/JPY eases back to the low 110 area. The Aussie dollar continues trading soft (AUD/USD 0.7560 area) after mediocre Australian labour market data.

US retail sales and import prices will be published today. Retail sales are expected solid (0.4% M/M) and import prices will probably maintain an upward trajectory. **However, a big surprise is probably needed to trigger a USD reaction with the Fed rate hike path more or less cemented.** The dollar might be more sensitive to weaker rather than to strong data. Still, the focus will be on the ECB. [For an in depth analysis see our ECB flash.](#) We expect the ECB to prepare markets to stop APP end of this year. **This might cause a further repositioning in favour of the euro.** Over the previous days, we held the working hypothesis that the downside of EUR/USD had become better protected even with a more hawkish Fed. **We maintain that view.** A return of EUR/USD below 1.1510 has probably become difficult. First resistance in EUR/USD stands at 1.1830/40. A break would open the way to the 1.20 area.

Sterling traded with a slightly negative bias (against the euro) yesterday as UK CPI remained soft as Brexit noise persisted. May retail sales are expected to rise modestly (0.3% M/M core). **We maintain the view that a substantial positive surprise is needed to support a sustained rebound of sterling.** Brexit uncertainty persists. We expect EUR/GBP to hold in the upper part of the 0.8700/0.8850 consolidation pattern.



EUR/USD: will ECB propel euro beyond 1.1830/40 resistance



EUR/GBP: sterling continues trading soft

Calendar

Thursday, 14 June		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (May)	0.4%	0.2% R
14:30	Retail Sales Ex Auto MoM (May)	0.5%	0.3%
14:30	Retail Sales Ex Auto and Gas (May)	0.4%	0.3%
14:30	Retail Sales Control Group (May)	0.4%	0.5% R
14:30	Import Price Index MoM / YoY (May)	0.5%/3.9%	0.3%/3.3%
14:30	Import Price Index ex Petroleum MoM (May)	0.2%	0.1%
14:30	Export Price Index MoM / YoY (May)	0.3%/--	0.6%/3.8%
14:30	Initial Jobless Claims	223k	222k
14:30	Continuing Claims	1732k	1741k
16:00	Business Inventories (Apr)	0.3%	0.0%
Japan			
06:30	Industrial Production MoM / YoY (Apr F)	0.5%/2.6% A	0.3%/2.5%
06:30	Capacity Utilization MoM (Apr)	1.8% A	0.5%
UK			
01:01	RICS House Price Balance (May)	-3.0% A	-7.0% R
10:30	Retail Sales Ex Auto Fuel MoM / YoY (May)	0.3%/2.5%	1.3%/1.5%
10:30	Retail Sales Inc Auto Fuel MoM / YoY (May)	0.5%/2.4%	1.6%/1.4%
EMU			
13:45	ECB Main Refinancing Rate	0.000%	0.000%
13:45	ECB Marginal Lending Facility	0.250%	0.250%
13:45	ECB Deposit Facility Rate	-0.400%	-0.400%
China			
04:00	Retail Sales YoY / YTD YoY (May)	8.5%/9.5% A	9.4%/9.7%
04:00	Industrial Production YoY / YTD YoY (May)	6.8%/6.9% A	7.0%/6.9%
04:00	Fixed Assets Ex Rural YTD YoY (May)	6.1% A	7.0%
Sweden			
08:00	PES Unemployment Rate (May)	--	3.6%
09:30	CPIF MoM / YoY (May)	0.2%/2.1%	0.4%/1.9%
Events			
11:30	Ireland to Sell 500 Million Euros of 364-day Bills		
14:30	ECB President Draghi Holds Press Conference in Riga		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,97	0,01	US	2,57	0,03	DOW	25201,2	-119,53	
DE	0,48	-0,01	DE	-0,59	0,00	NASDAQ	7695,699	-8,10	
BE	0,85	-0,04	BE	-0,50	0,00	NIKKEI	22771,52	-194,86	
UK	1,37	-0,03	UK	0,75	-0,01	DAX	12890,58	48,28	
JP	0,04	-0,01	JP	-0,13	-0,01	DJ euro-50	3479,56	3,98	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,05	2,92	1,16	Eonia	-0,3620	0,0000	Libor-1	2,0573	0,0000
5y	0,39	2,98	1,34	Euribor-1	-0,3700	0,0010	Libor-3	2,3356	0,0000
10y	1,00	3,03	1,59	Euribor-3	-0,3210	0,0000	Libor-6	2,4988	0,0000
				Euribor-6	-0,2680	-0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1791	0,0046	EUR/JPY	130,11	0,47	CRB	200,09	-0,05	
USD/JPY	110,34	-0,03	EUR/GBP	0,8817	0,0034	Gold	1301,30	1,90	
GBP/USD	1,3376	0,0004	EUR/CHF	1,1620	0,0031	Brent	76,74	0,86	
AUD/USD	0,7578	0,0005	EUR/SEK	10,149	-0,0045				
USD/CAD	1,2987	-0,0028	EUR/NOK	9,4455	-0,0122				

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