

Wednesday, 14 March 2018

Rates: US political uncertainty takes the upper hand

The bar to beat today's US eco data isn't that high. However, we don't think that investors are willing to set up big new short positions in core bonds ahead of the Fed meeting given increased US political risk. The latter took the upper hand yesterday. ECB heavyweights Draghi, Constancio and Praet are scheduled to speak. Will they give more details on the end of APP?

Currencies: US political noise weighs on the dollar

US president Trump firing Secretary of State Tillerson blocked any further USD gains. Today's eco calendar contains US PPI and retail sales. Several ECB members speak in Frankfurt. The eco data and the ECB message might be USD supportive/euro negative. However, it uncertain whether this will be enough to counterbalance the US political news flow.

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 ended 0.65% to 1% (Nasdaq) lower after President Trump fired Secretary of State Tillerson.** Asian stock markets lose around 0.5% overnight.
- Democrat Lamb and Republican Saccone were locked in **a virtual dead heat with nearly all of the votes counted in Pennsylvania's special election for a US House seat.** Mr. Lamb carried a lead yet the margin was so tight the race won't be decided until local officials finish counting absentee ballots
- **US President Trump is seeking to impose tariffs on up to \$60bn of Chinese imports** and will target the technology and telecommunications sectors, two people who had discussed the issue with the Trump administration said.
- **China's factory output (7.2% Y/Y) and investment growth (7.9% Y/Y) unexpectedly accelerated** in the first two months of the year amid robust global demand. **Retail sales (9.7% Y/Y YTD) were near consensus.**
- **G20 financial leaders will pledge to fight unfair trade practices and stress the role of global trade rules when they meet** on March 20, as the US raises the threat of a global trade war by imposing import tariffs on steel and aluminium.
- Most **BoJ policymakers** shared the view that the central bank should "persistently" pursue powerful monetary easing, though **some called for the need to scrutinise the potential drawbacks of massive stimulus.**
- **Today's eco calendar** contains EMU industrial production, US retail sales and US PPI data. Several ECB members speak. Germany and Portugal tap the market.

Rates

Trump's decisions take upper hand

	US yield	-1d
2	2,25	-0,01
5	2,61	-0,02
10	2,84	-0,03
30	3,08	-0,03

	DE yield	-1d
2	-0,58	0,00
5	0,00	-0,01
10	0,62	-0,01
30	1,27	0,00

Core bonds eked out some more gains yesterday with US Treasuries outperforming German Bunds after US President Trump sacked Secretary of State Tillerson. It's the second dismissal in short succession of a more moderate profile in the US government following economic advisor Gary Cohn. **The latest (negative) US political surprise overshadowed US CPI data. Inflation was in line with forecasts, rising from 2.1% Y/Y to 2.2% Y/Y. Risk sentiment on European and US stock markets gradually deteriorated, creating additional safe haven flows.** The US yield curve bull flattened in a daily perspective with a solid 30-yr Bond auction contributing to the curve move. Yields declined by 0.7 bps (2-yr) to 3.1 bps (30-yr). German yields dropped 0.2 bps (30-yr) to 1.3 bps (10-yr) with the 10-yr yield testing 0.62% support again. 10-yr yield spread changes versus Germany ended virtually unchanged.

The US Note future continues trading with a small upward bias overnight even if damage on Asian stock markets remains limited, partly supported by constructive Chinese eco data. We expect a neutral opening for the Bund.

Today's eco calendar is interesting with US retail sales & PPI data and several ECB governors speaking. The bar for US eco data seems rather low, but **we don't think that investors are willing to set up new short positions ahead of next week's Fed meeting given the increased uncertainty created by US President Trump's policy.** At best, those two factors could cancel each other out. ECB heavyweights Draghi, Constancio and Praet are all scheduled to speak. We're eager to find out whether they confirm/deny last week's rumours about tapering asset purchases in Q4 2018 before the rate lift-off at the end of Q2 2019. Comments by ECB Smets and Coeuré earlier this week suggest a rather dovish bias, **which could trigger another test of 0.62% support in the German 10-yr yield.**

Technically, the trading band for the US 10-yr yield is 2.64%-3.05%. Short term, we expect a test of 2.8% intermediate support. The German 10-yr yield's trading band is 0.62%-1.06%. **The downside survived on two separate occasions last week, including after the dovish interpreted ECB meeting. That strengthens the support and our belief in setting up short Bund positions around this level.**



German Bund tests 157.43/69 resistance which coincides with 0.62% support in the German 10-yr yield



US Note future (YTD): Trump's volatile policy slightly takes the upper hand

Currencies

US political noise weighs on the dollar

R2	1,2598	-1d
R1	1,2555	
EUR/USD	1,2390	0,0056
S1	1,2165	
S2	1,2055	

Dollar sentiment was neutral (USD/EUR) to modestly positive yesterday in the run-up to the **US CPI release**. CPI was exactly as expected. However, the market reaction was disturbed by President Trump firing Secretary of State Tillerson. Markets hesitated, but sentiment turned risk-off. US yields, equities and the dollar all declined. This was both due to a soft interpretation of the CPI and as a reaction to US political tensions. EUR/USD closed the session at 1.2390. USD/JPY reversed a big part of the intraday rebound and finished at 106.58.

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8874	0,0003
S1	0,8690	
S2	0,8657	

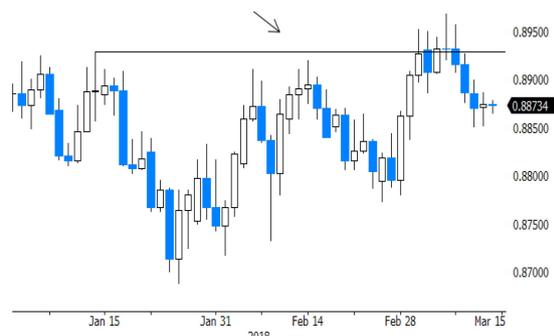
Chinese eco data (retail sales, production, Fixed assets investments) were OK overnight, but insufficient to balance the negative spill-over effects from the US. Core yields are holding near yesterday's lows. The dollar remains in the defensive. EUR/USD hovers in the 1.24 area. USD/JPY is changing hands in the 106.50 area. For now, the moves both in equities and on the FX market still develop in an orderly way.

US retail sales and PPI take center stage today. Markets will also keep a close eye on a conference in Frankfurt. Several ECB board members, including President Draghi, are scheduled to speak. US retail sales are expected to rebound after a poor January reading. Base effects might also be supportive for the PPI data. **We see a good chance for both series to meet or even exceed the consensus**. Question is whether this will be enough to counterbalance the US political noise. In Frankfurt, we expect the ECB to confirm a gradual approach on policy normalization. If Draghi and Co back the scenario of a gradual scaling back of APP beyond September, it should in theory be a euro negative. Yesterday, US political risk was the dominant factor for USD trading. Eco data and ECB talk might be EUR/USD negative, but it is far from sure that it will change fortunes for the dollar. We expect more nervous EUR/USD trading near current levels. A break beyond intermediate resistance at 1.2450 would open the way for a retest of the 1.2550/1.26 area. A break of the 1.2155 support looks difficult short-term.

Yesterday, sterling initially traded with a cautious upward bias as the half year budget update contained some cautiously positive news. However, in the end EUR/GBP closed little changed. **There are again no UK eco data today. A global risk-off sentiment is no help for sterling. So EUR/GBP might hold close to or even return north of 0.89.**



EUR/USD: US political uncertainty blocks USD gains. Will US data be strong enough to change fortunes for the dollar.



EUR/GBP: sterling still going nowhere

Calendar

Wednesday, 14 March		Consensus	Previous
US			
13:30	Retail Sales Advance MoM (Feb)	0.3%	-0.3%
13:30	Retail Sales Ex Auto MoM (Feb)	0.4%	0.0%
13:30	Retail Sales Ex Auto and Gas (Feb)	0.3%	-0.2%
13:30	Retail Sales Control Group (Feb)	0.4%	0.0%
13:30	PPI Final Demand MoM / YoY (Feb)	0.1%/2.8%	0.4%/2.7%
13:30	PPI Ex Food and Energy MoM / YoY (Feb)	0.2%/2.6%	0.4%/2.2%
13:30	PPI Ex Food, Energy, Trade MoM / YoY (Feb)	0.2%/--	0.4%/2.5%
15:00	Business Inventories (Jan)	0.6%	0.4%
EMU			
11:00	Industrial Production SA MoM / WDA YoY (Jan)	-0.5%/4.4%	0.4%/5.2%
11:00	Employment QoQ / YoY (4Q)	--/--	0.4%/1.7%
Germany			
08:00	CPI EU Harmonized MoM / YoY (Feb F)	0.5%/1.2%	0.5%/1.2%
Italy			
10:00	Retail Sales MoM / YoY (Jan)	--/--	-0.3%/-0.1%
China			
03:00	Retail Sales YTD YoY (Feb)	A: 9.7%	10.2%
03:00	Industrial Production YTD YoY (Feb)	A: 7.2%	6.6%
03:00	Fixed Assets Ex Rural YTD YoY (Feb)	A: 7.9%	7.2%
Sweden			
09:30	CPIF MoM / YoY (Feb)	0.7%/1.7%	-0.9%/1.7%
Events			
08:30	ECB's Coeure meets fintech companies in Berlin		
09:00	ECB President Draghi speaks in Frankfurt		
09:45	ECB's Peter Praet to speak in Frankfurt		
09:45	ECB's Angeloni speaks in Rome		
11:30	Germany to Sell €1.5bn 1.25% 2048 Bonds		
11:30	Portugal to Sell 2.125% 2028 & 4.1% 2045 Bonds		
11:45	ECB Vice President Constancio speaks in Frankfurt		
14:30	Bank of France Governor Villeroy de Galhau speaks in Frankfurt		
17:15	ECB's Coeure speaks in Berlin		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,84	-0,03	US	2,25	-0,01	DOW	25007,03	-171,58	
DE	0,62	-0,01	DE	-0,58	0,00	NASDAQ	7511,012	-77,31	
BE	0,91	-0,01	BE	-0,52	-0,01	NIKKEI	21777,29	-190,81	
UK	1,49	-0,01	UK	0,84	0,01	DAX	12221,03	-197,36	
JP	0,05	0,00	JP	-0,14	0,00	DJ euro-50	3397,35	-32,13	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,06	2,69	1,19	Eonia	-0,3640	-0,0010	Libor-1	1,7650	0,0000
5y	0,43	2,78	1,37	Euribor-1	-0,3710	-0,0010	Libor-3	2,1069	0,0000
10y	1,05	2,89	1,60	Euribor-3	-0,3270	0,0000	Libor-6	2,2868	0,0000
				Euribor-6	-0,2710	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2390	0,0056	EUR/JPY	132,05	0,79	CRB	194,28	-0,25	
USD/JPY	106,58	0,16	EUR/GBP	0,8874	0,0003	Gold	1327,10	6,30	
GBP/USD	1,3962	0,0056	EUR/CHF	1,1697	0,0008	Brent	64,64	-0,31	
AUD/USD	0,786	-0,0013	EUR/SEK	10,1805	0,0154				
USD/CAD	1,2966	0,0124	EUR/NOK	9,5851	0,0326				

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Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
		Institutional Desk	+32 2 417 46 25
		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		
Petr Baca	+420 2 6135 3570		
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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