

**Thursday, 25 April 2019**

## Rates: Core bonds regain momentum

The correction lower on the core bond rally during the first two weeks of April seems to be put to bed after yesterday's strong rally. We embrace core bond's new momentum with markets preparing for a more profound growth slowdown. Investors keep next week's Fed meeting in the back of their minds.

## Currencies: Dollar jumps beyond key resistance

The dollar extended gains yesterday. The trade-weighted dollar surpassed the 97.70 resistance and EUR/USD dropped below the 1.1177 range bottom. The dollar continues to profit from the relative US economic outperformance. Today, economic data are probably of second tier importance. For now there is no reason to row against the US positive momentum.

## 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** lost modest ground yesterday (-0.2%) after setting all-time closing highs on Tuesday. **Asian equities** are trading mixed this morning with Japanese indices outperforming and Chinese indices underperforming.
- **The Bank of Japan left its policy rate unchanged at -0.10% and pledged to keep interest rates ultra-low through at least the spring of 2020** as the BoJ forecast that inflation won't hit the 2% target for at least another three years.
- **The Bank of Canada abandoned previous indications about future rate rises** and left the benchmark overnight rate unchanged at 1.75%. The BoC also reduced its 2019 domestic growth outlook. The loonie weakened on the news.
- **Influential hardliners of UK PM May's conservative party urged PM May to provide a clear timetable for her departure.** However, the lawmakers decided, for now, not to change party rules so the PM could be ousted more easily.
- **North Korean leader Kim Jong Un arrived in Russia and met with Russian president Putin** for the first time. North Korea is seeking diplomatic support for backing in nuclear negotiations with US President Donald Trump.
- **South Korea's GDP growth shrank 0.3% (QoQ) in the first quarter of the year, the biggest fall since 2009,** as exports contracted by 2.6% suffering from the US-China trade war. In year on year terms, growth fell from 3.1% to 1.8%.
- **Today's US eco calendar** contains durable goods orders and capital goods shipments (excl. air) for March. Sweden's Riksbank meets. The ECB publishes its Economic Bulletin, while ECB de Guindos speaks. Q1 earnings season continues.

# Rates

## Core bonds regain momentum

	US yield	-1d
2	2,32	-0,05
5	2,31	-0,05
10	2,52	-0,05
30	2,94	-0,05

Core bonds rallied yesterday in a move which lasted the complete session. Disappointing German Ifo Business confidence caused a temporary acceleration. Yesterday's move calls an end to the core bond correction lower in the first half of April, suggesting a return to the end of March highs. The US \$41bn 5-yr Note auction went plain vanilla. There was no other specific news to guide trading with investors simply preferring cautiousness given that global economic growth is significantly slowing. Next week's Fed meeting probably also plays in the back of investors' minds. The dollar gained across the board while stock markets remain stubbornly resilient. The German yield curve bull flattened with yields 1.4 bps (2-yr) to 6.2 bps (30-yr) lower. The German 10-yr yield is back in negative territory. US yields declined by 4.7 bps across the curve. 10-yr yield spreads vs Germany widened marginally.

	DE yield	-1d
2	-0,59	-0,02
5	-0,43	-0,04
10	-0,01	-0,05
30	0,63	-0,06

Asian stock markets are mixed this morning with Japan outperforming (+0.5%) and China underperforming (-0.75%). South Korean Q1 GDP growth disappointed (-0.3% Q/Q). The country's economic performance is often seen as a proxy for global exports. The BoJ this morning followed the BoC's example from yesterday by providing a dovish policy statement. Core bonds hover near yesterday's intraday highs.

Today's US eco calendar contains March Durable goods orders and weekly jobless claims. Durables are expected to reflect the ongoing soft patch. Aircraft orders will probably distort part of the report, shifting focus to shipments and inventory details. We think the bar (consensus) is rather low. Weekly jobless claims are forecast to continue hovering near multidecade lows. We don't think that better-than-expected data will be able to break bond momentum. Companies reporting earnings include 3M, Intel, Ford and Amazon. These are wildcards for trading. The ECB's economic bulletin and a speech by vice-governor de Guindos are worth watching as well.

Long term view: markets concluded that the ECB missed out on this cycle. They even start pondering the possibility of an additional deposit rate cut. The downtrend in the German 10-yr remains in place so far. Regarding Fed policy, markets now discount a 60% probability of a Fed rate cut by December. The US 10-yr yield closed last week above the lower bound of the previous 2.5%-2.79%. This turned the picture more neutral again, but the move lacks conviction.



German 10-yr yield: downtrend remains in place so far.



US 10-yr yield manages to regain previous support area after several failed tests, but move lacks conviction.

# Currencies

## Dollar jumps beyond important resistance

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1155</b>	<b>-0,0072</b>
S1	1,1187	
S2	1,1119	

The USD jumped beyond important resistance levels yesterday (DXY 97.75 area). There were no US data and US yields were downwardly oriented. Even so, the dollar enjoyed a 'by default' bid as other major currencies suffered from an ongoing economic underperformance. In this respect, German IFO confidence disappointed again, suggesting ongoing sluggish growth in Europe's major economy. EUR/USD initially hovered in the 1.12 area but fell below the 1.1187/77 support later to close at 1.1155. USD/JPY closed above the 112 mark (112.19). **Overall dollar strength also weighed on most emerging markets currencies.**

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8644</b>	<b>-0,0034</b>
S1	0,8500	
S2	0,8314	

Asian equities show a mixed picture this morning with China and Korea underperforming. The Korean won suffers a substantial loss as Korea Q1 growth unexpectedly contracted (0.3% Q/Q). The BOJ left policy unchanged and committed to keep rates at current low levels at least through the spring of 2020. Still, the yen reversed most of yesterday's loss against the dollar as investors adapt positions ahead of the golden week holidays. USD/JPY returned to the 112 area. EUR/USD consolidates after yesterday's break lower (1.1155 area).

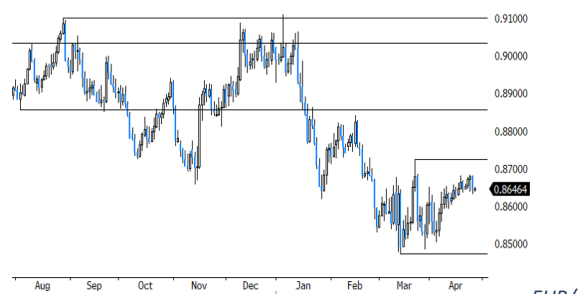
**Today**, there are few data in EMU. US durables orders are expected to rebound after a mediocre February performance. The series is volatile but the report (ex transportation) might confirm the outperformance of the US economy. US jobless claims are expected to stay low (200k).

Ongoing poor EMU data (PMI's) last week pushed EUR/USD back to the low 1.12 area. At the same time, **the dollar is supported by relative resilience of the US economy.** The continuation of this story **pushed EUR/USD yesterday below the 1.12/1.1177 MT range bottom.** The break higher in the trade-weighted dollar (DXY) above the 97.70 area confirms the overall positive USD momentum. We expect any further USD gains to develop in a gradual way. Even so, for now, there is no reason to row against the USD positive tide. Next support comes in at 1.1110/19 (May/June 2017 lows).

**EUR/GBP and cable flowed the broader price moves of the dollar and the euro yesterday.** EUR/GBP dropped from the 0.8680 area to close at 0.8644. There were plenty of Brexit rumours, but no clear sign of progress. Today, the CBI order data are interesting but probably won't have a lasting impact on sterling trading. The political pressure on UK PM May persists. Headlines on a potential new referendum on Scottish independence are also no help of for sterling. Euro and sterling weakness might keep each other in balance short-term.



DXY (USD-TW): dollar retains benefit of the doubt and breaks beyond key resistance



GBP declines off 0.87 area on broad euro weakness.

# Calendar

Thursday, 25 April		Consensus	Previous
<b>US</b>			
14:30	Durable Goods Orders (Mar P)	0.8%	-1.6%
14:30	Durables Ex Transportation (Mar P)	0.2%	-0.1%
14:30	Cap Goods Orders Nondef Ex Air (Mar P)	0.2%	-0.1%
14:30	<b>Cap Goods Ship Nondef Ex Air (Mar P)</b>	<b>0.1%</b>	<b>-0.1%</b>
14:30	<b>Initial Jobless Claims</b>	<b>200k</b>	<b>192k</b>
14:30	Continuing Claims	1682k	1653k
<b>Japan</b>			
	<b>BOJ Policy Balance Rate</b>	<b>-0.1%A</b>	<b>-0.1%</b>
	BOJ 10-Yr Yield Target	0%A	0%
<b>UK</b>			
12:00	CBI Retailing Reported Sales (Apr)	0	-18
12:00	CBI Total Dist. Reported Sales (Apr)	--	-6
<b>Spain</b>			
09:00	Unemployment Rate (1Q)	14.45%	14.45%
09:00	PPI MoM / YoY (Mar)	--/--	0.2%/1.9%
<b>Sweden</b>			
09:30	<b>Riksbank Interest Rate</b>	<b>-0.25%</b>	<b>-0.25%</b>
<b>Events</b>			
10:00	<b>ECB Publishes Economic Bulletin</b>		
14:30	<b>ECB Vice President Guindos Speaks in New York</b>		
19:00	US to Sell 7-yr Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,52	-0,05	US	2,32	-0,05	DOW	26597,05	-59,34	
DE	-0,01	-0,05	DE	-0,59	-0,02	NASDAQ	8102,015	-18,81	
BE	0,45	-0,05	BE	-0,50	-0,02	NIKKEI	22307,58	107,58	
UK	1,18	-0,05	UK	0,76	-0,04	DAX	12313,16	77,65	
JP	-0,03	0,01	JP	-0,15	0,00	DJ euro-50	3502,63	-1,22	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,14	2,35	1,10	Eonia	-0,3690	-0,0020			
5y	0,02	2,34	1,20	Euribor-1	-0,3680	-0,0010	Libor-1	2,4766	0,0000
10y	0,49	2,50	1,36	Euribor-3	-0,3120	-0,0010	Libor-3	2,5803	0,0000
				Euribor-6	-0,2310	-0,0010	Libor-6	2,6199	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1155	-0,0072	EUR/JPY	125,13	-0,45	CRB	186,49	-1,09	
USD/JPY	112,19	0,33	EUR/GBP	0,8644	-0,0034	Gold	1279,40	6,20	
GBP/USD	1,2902	-0,0036	EUR/CHF	1,1385	-0,0067	Brent	74,57	0,06	
AUD/USD	0,7015	-0,0087	EUR/SEK	10,5241	0,0254				
USD/CAD	1,3493	0,0070	EUR/NOK	9,6351	0,0422				

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