



Thursday, 11 April 2019

Rates: ECB sends more dovish signals

Core bonds retain positive momentum after yesterday's soft message from ECB President Draghi. He stressed readiness to adjust parameters of the central bank's policy if needed to fight the economic downturn. Today's EMU eco calendar is empty while the US one only contains second tier numbers. Markets will start looking out for Q1 earnings season.

FX: Euro doesn't decline despite soft ECB. More by-default USD weakness to come?

EUR/USD showed remarkable swings yesterday. The euro declined during the ECB press conference, but at the end of the day, USD-weakness still prevailed. The US-German interest rate differential didn't widen despite the soft ECB. Has the US more leverage to keep its currency weaker than the ECB? Sterling hardly reacted to the Brexit delay.

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** edged higher yesterday with technology shares outperforming (Nasdaq +0.69%). Most **Asian equities** are losing ground this morning with Chinese indices underperforming.
- **The EU has offered the UK an extension of the Brexit deadline to October 31**, but with the possibility for the UK to leave sooner if the UK Parliament ratifies the divorce deal. UK PM May will now continue cross-party talks with Labour.
- US Treasury Secretary Steven Mnuchin said that **the US and China nearly completed the currency agreement and agreed on an enforcement mechanism** for a potential trade deal, both key elements in the final negotiations.
- **The Fed Meeting Minutes of March show that FOMC members are pleading for the wait-and-see approach** as risks of a global slowdown are increasing and inflation readings are weaker-than-expected.
- Chuck Grassley, US Senate Fin. Cmte chair, said that **the US government report that could lead to tariffs on cars, will likely not be released** as the report contains many shortcomings, possibly delaying Trump's decision to beyond May.
- **Australian PM Scott Morrison called the general election for May 18**. Latest polls show Morrison's Liberal-National coalition, who's seeking a third straight term, is trailing opposition party Labour by four points.
- **Today's eco calendar** contains producer inflation data (March) and this week's jobless claims in the US. Sweden prints its consumer inflation data (March). Fed giants Clarida, Williams and Quarles speak today. The US taps the bond market.

Rates

ECB sends more dovish signals

	US yield	-1d
2	2.32	-0.03
5	2.28	-0.03
10	2.46	-0.04
30	2.90	-0.02

	DE yield	-1d
2	-0.59	-0.01
5	-0.44	-0.02
10	-0.03	-0.02
30	0.62	0.00

Global core bonds with US Treasuries remarkably outperforming German Bunds even if the only real upleg of the day occurred around ECB President Draghi’s press conference following the policy meeting. The ECB didn’t alter policy or its forward guidance, but **the ECB chair stroke a particularly dovish tone by emphasizing readiness to alter parameters of the policy to counter the economic downturn.** Details on new TLTRO’s and the analysis/action against possible mitigating effects from the negative interest rate policy will be brought on forthcoming meetings. The next gathering takes place on June 6. **The US Treasury continued its mid-month refinancing operation with a strong \$24bn 10-yr Note auction. FOMC Minutes of the March meeting aligned with the dot plot, showing that** “A majority of participants expected that the evolution of the economic outlook and risks to the outlook would likely warrant leaving the target range unchanged for the remainder of the year”. US yields fell by 2.1 bps (2-yr) to 3.5 bps (10-yr) on a daily basis. The belly of the curve outperformed the wings. German yield declines ranged between -0.1 bp (30-yr) and -2.4 bps (5-yr). 10-yr yield spreads vs Germany narrowed up to 3 bps (Greece).

Asian stock markets most trade negative this morning despite the 6-month Brexit extension and despite comments by US Treasury Secretary Mnuchin that the US and China agreed on more unresolved issues in the trade deal (eg enforcement mechanisms). The reaction suggests that much trade deal optimism is already discounted. Core bonds tread water.

Today’s US eco calendar contains weekly jobless claims and March producer price inflation. Claims are expected to hover near historically low levels while PPI is expected to rise by 0.3% M/M and 1.9% Y/Y. We don’t expect them to impact trading. **The US Treasury ends its refinancing operation with a \$16bn 30-yr Bond auction. Speeches by Fed governors Clarida, Williams, Bullard, Kashkari and Bowman are wildcards for trading. Intraday core bond momentum remains positive.**

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 with the all-time low (-0.2%) in sight. **Regarding Fed policy, markets now discount a 60% probability of a Fed rate cut by December.** The US 10-yr yield fell through the lower bound of the 2.5%-2.79% trading range, continuing the downward trend since the beginning of March. The previous support was retested last week, strengthening the break lower. Next support levels are the 2.3% area (intermediate) and 2% zone (key).



German 10-yr yield: downtrend remains in place after soft ECB message



US 10-yr yield bounces back to test previous support levels. Failure to return higher is strong technical signal

Currencies

R2	1.1815	-1d
R1	1.1621	
EUR/USD	1.1274	0.0011
S1	1.1187	
S2	1.1119	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8612	-0.0017
S1	0.8500	
S2	0.8314	

Euro doesn't decline despite soft ECB

EUR/USD made some sharp swings yesterday. The pair traded near recent top close to 1.1280 at the start of the ECB press conference. Draghi admitted that the EMU growth slowdown is more profound than expected. In this context, EMU rates might stay (very) low for longer. The euro sank during the press conference. However, US yields also declined even as US inflation was close to expectations. **The US-German rate differential didn't widen despite a soft ECB.** EUR/USD soon reversed its post-ECB loss. US Treasury Secretary Mnuchin indicating that the US and China agreed on the FX part of a trade deal maybe was a USD negative, too. The Minutes of the March Fed meeting confirmed a balanced wait-and-see approach and didn't cause a further USD decline. EUR/USD closed at 1.1274 (from 1.1263). USD/JPY finished at 111.01.

Asian equities mostly show **moderate losses** this morning with China underperforming. The dollar stays in the defensive (EUR/USD 1.1280 area; USD/JPY low 111.00 area). **Today**, the eco data in the US and Europe are second tier. US jobless claims are expected to remain low. Y/Y US PPI inflation is expected little changed from last month. Several Fed governors are scheduled to give their view on the economy.

Yesterday price action in EUR/USD was quite remarkable. The euro and the dollar both felt downside pressure. Despite a soft ECB, the dollar finally returned near this week's lows. The jury is still out, but the US and China reaching an agreement on FX might be a harbinger of the US pursuing a more active 'not-too-strong' dollar policy. Maybe the US has more leverage/means to keep its currency weak compared to the likes of the ECB and the BOJ. **Last week, EUR/USD came close to the 1.1177/87 support, but a real test/break didn't occur.** For that to happen, unexpected negative EMU news or surprisingly strong US data are needed. Recent data evidence doesn't support this scenario. We keep the view that a sustained EUR/USD break lower isn't evident. Yesterday and Tuesday, it looked that the EUR/USD rebound could lose momentum. However, looking at yesterday's price action, **some further by default USD-losses/euro gains are still possible.**

The EU gave the UK more time resolve the political statement on Brexit. A flexible time table allows the UK to stay in the EU to Oct 31. **The reaction of sterling was telling.** EUR/GBP hardly reacted. The pair continued to hover near the 0.86 pivot. With the UK heading for a new period of domestic political uncertainty, **we see no reason to turn more positive on sterling.** The BoE has also no reason to raise rates anytime soon. We assume the EUR/GBP 0.85 support area to be solid.



EUR/USD holding strong despite soft ECB



EUR/GBP: sterling fails to gain even as EU gives the UK time to solve Brexit till October 31

Calendar

Thursday, 11 April		Consensus	Previous
US			
14:30	PPI Final Demand MoM/YoY (Mar)	0.3%/1.9%	0.1%/1.9%
14:30	PPI Ex Food and Energy MoM/YoY (Mar)	0.2%/2.4%	0.1%/2.5%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Mar)	0.2%/--	0.1%/2.3%
14:30	Initial Jobless Claims	210k	202k
14:30	Continuing Claims	1735k	1717k
Japan			
01:50	Money Stock M3 YoY (Mar)	2.1%A	2.1%
04:00	Tokyo Avg Office Vacancies (Mar)	1.78A	1.78
UK			
01:01	RICS House Price Balance (Mar)	-24%A	-27%R
Germany			
08:00	CPI EU Harmonized MoM/YoY (Mar F)	0.5%/1.4%	0.5%/1.4%
France			
08:45	CPI EU Harmonized MoM/YoY (Mar F)	0.9%/1.3%	0.9%/1.3%
China			
03:30	CPI YoY (Mar)	2.3%A	1.5%
03:30	PPI YoY (Mar)	0.4%A	0.1%
Sweden			
09:30	CPI MoM/YoY (Mar)	0.2%/1.8%	0.7%/1.9%
09:30	CPIF MoM/YoY (Mar)	0.1%/1.8%	0.7%/1.9%
09:30	CPIF Excl. Energy MoM/YoY (Mar)	0.2%/1.4%	0.8%/1.4%
Events			
10:00	ECB Survey of Professional Forecasters		
11:00	Italy to Sell Bonds		
15:30	Fed's Clarida Speaks at Annual IIF Meeting in Washington (vice-president)		
15:35	New York Fed's Williams Speaks in New York (voter)		
15:40	Fed's Bullard Speaks on Economy and Monetary Policy (voter)		
17:50	Fed's Quarles Takes Part in FSB Roundtable (voter)		
19:00	US to Sell USD16 Bln 30-Year Bonds		
20:00	Fed's Kashkari to Hold Q&A Via Twitter (non-voter)		
22:00	Fed's Bowman Speaks on Community Banking (voter)		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	2.46	-0.04		US	2.32	-0.03		DOW	26157.16	6.58
DE	-0.03	-0.02		DE	-0.59	-0.01		NASDAQ	7964.244	54.97
BE	0.43	-0.03		BE	-0.50	-0.02		NIKKEI	21711.38	23.81
UK	1.10	-0.01		UK	0.70	0.00		DAX	11905.91	55.34
JP	-0.06	-0.01		JP	-0.17	0.00		DJ euro-50	3424.65	7.43
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.16	2.33	1.04	Eonia	-0.3670	0.0010		Libor-1	2.4840	0.0000
5y	0.00	2.30	1.13	Euribor-1	-0.3670	0.0000		Libor-3	2.5813	0.0000
10y	0.48	2.45	1.29	Euribor-3	-0.3100	0.0000		Libor-6	2.6285	0.0000
				Euribor-6	-0.2310	0.0000				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1274	0.0011		EUR/JPY	125.15	-0.02		CRB	189.66	1.10
USD/JPY	111.01	-0.13		EUR/GBP	0.8612	-0.0017		Gold	1313.90	5.60
GBP/USD	1.3091	0.0039		EUR/CHF	1.1303	0.0041		Brent	71.73	1.12
AUD/USD	0.7171	0.0047		EUR/SEK	10.4427	0.0151				
USD/CAD	1.3319	-0.0011		EUR/NOK	9.5792	-0.0576				

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