



Monday, 15 April 2019

Rates: Q1 earnings, Chinese growth and EMU PMI's

Chinese lending data kickstarted a significant profit taking move on core bond markets last Friday, temporary shelving economic doom thoughts. Q1 earnings season, Chinese growth data and EMU PMI's will prove whether or not this is warranted. Medium term technical pictures of the German/US 10-yr yield are about to turn more neutral.

Currencies: Cautious sentiment turnaround to further support the euro?

The euro showed remarkable resilience over the last few days. EUR/USD shifted further away from key support close at the 1.12 area, to regain the 1.13 barrier currently as global growth sentiment cautiously turned for the better. This week's event calendar might prove a litmus test for that sentiment turnaround.

Calendar

Headlines

S&P	↔
Eurostoxx 5C	↔
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 on Friday as Q1 earnings season kicked off well. The DJI (+1.03%) outperformed. **Asian equities** are largely trading with gains this morning with Japanese and Chinese indices outperforming.
- **PM May's government continues talks with the Labour party, though there are little signs of progress.** They seek to combine the benefits of a customs union, whilst holding the flexibility to pursue an independent trade policy.
- **US President Trump criticized the Fed again**, saying that both the stock market and GDP would be higher if it hadn't been for the central bank's tightening cycle. **ECB chief Draghi said he is worried about central bank's independence.**
- **US Treasury Secretary Steven Mnuchin said that the talks with China are edging closer to an accord.** He said that the US is open for an enforcement mechanism and added that the mechanism could work 'in both directions'.
- **The Swiss National Bank could further reduce its already ultra-low interest rates if necessary**, according to SNP chief Thomas Jordan. He added that the country's tiering system, to soften negative rates for banks, is still appropriate.
- **Finland's Social Democrats are close to win the Finnish general elections**, though very narrowly. The leftist party is said to have 17.7% of the votes, more than the Finns Party (17.5%), an anti-immigration and Eurosceptic movement.
- **Today's US eco calendar** only contains the Empire Manufacturing gauge for April. The EMU calendar is empty. ECB's Villeroy and Fed's Evans speak. Q1 earnings season continues with Goldman Sachs and Citigroup.

Rates

Earnings, Chinese growth figures and EMU PMI's

	US yield	-1d
2	2.39	0.04
5	2.37	0.07
10	2.57	0.07
30	2.97	0.05

	DE yield	-1d
2	-0.56	0.02
5	-0.37	0.05
10	0.06	0.06
30	0.71	0.07

Global core bonds suffered significant damage last Friday. Better-than-expected Chinese lending data were the unusual trigger of a significant profit taking move which lasted into the US close. They lifted the risk mood and shelved economic doom scenarios, at least for now. Q4 earnings season kicked off with better-than-expected results for JP Morgan. University of Michigan consumer confidence printed just below consensus and didn't impact trading. The German yield curve bear steepened in a daily perspective with yields adding 1.9 bps (2-yr) to 7.2 bps (30-yr). Changes on the US yield curve ranged between +3.8 bps (2-yr) and +6.9 bps (5-yr) with the belly of the curve underperforming the wings. 10-yr yield spread changes vs Germany ended broadly unchanged with Greece (-12 bps) outperforming.

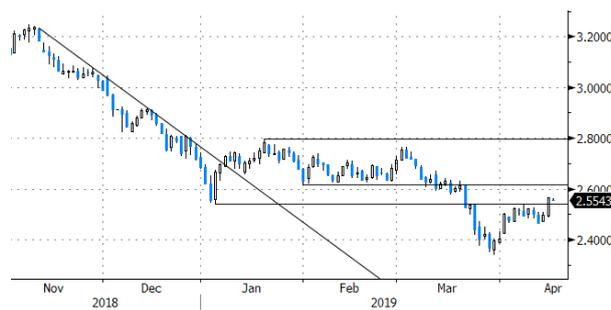
Asian risk sentiment is positive this morning with China and Japan outperforming, gaining over 1%. US Treasury Secretary Mnuchin delivered positive trade comments while Reuters reports that the US eased demands that China should cut industrial subsidies. The US Note future slightly outperforms the Bund this morning.

Today's eco calendar is extremely thin with only the April US Empire Manufacturing survey. Consensus expects a rebound from 3.7 to 8, undoing the decline from March. We endorse the idea of a rebound, but fear it won't be that big. **Speeches by ECB Villeroy and Fed Evans are wildcards for trading.** Goldman Sachs and Citigroup are amongst the firms reporting Q1 earnings today. **Earnings might play an important market-driving role in coming weeks depending on whether or not firms downwardly adjust their outlook given slowing growth momentum.** Apart from earnings, we eye Chinese growth data (Wednesday), EMU PMI's and US retail sales (both on Thursday). **We start the week with a neutral bias following Friday's significant correction.**

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 fell closed above the lower bound of the previous 2.5%-2.79% trading range. A confirmation this week would turn the technical picture more neutral again.



German 10-yr yield: downtrend remains in place so far. Upward break turns the picture more neutral with -0.1%-0.15% new trading range



US 10-yr yield manages to regain previous support after several failed tests. Confirmation suggests return to old trading band.

Currencies

R2	1.1815	-1d
R1	1.1621	
EUR/USD	1.1299	0.0046
S1	1.1187	
S2	1.1119	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8641	0.0020
S1	0.8500	
S2	0.8314	

Sentiment turnaround to further support the euro?

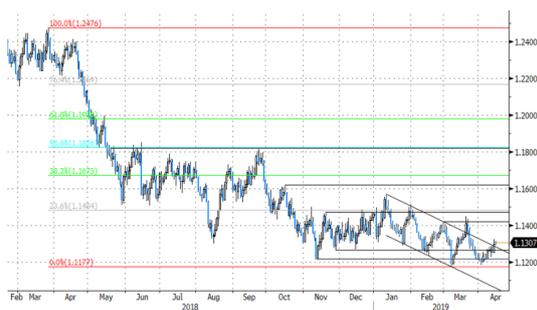
The euro has been trading surprisingly resilient over the last few days. The common currency withstood a dovish ECB on Wednesday and was propelled by strong Chinese data on Friday. Global growth concerns eased further on the first and decent Q1 2019 (bank) earnings. EUR/USD did retreat from its intraday high at 1.323 on news that the EU had listed US imports worth €20 bn that it could hit with tariffs after president Trump's tariff threat earlier. The U. of Michigan consumer confidence (96.9) in the US missed estimates (98.2) slightly, but with little impact on trading. The couple closed just short of the 1.13 barrier, up from 1.1253. USD/JPY regained the 112-level for the first time since December.

Risk sentiment during Asian trading hours is constructive. Virtually all equity markets follow WS's upbeat Friday session. Sentiment might also have been boosted by Mnuchin's positive comments related to the US-Sino trade talks. EUR/USD is cautiously creeping higher in the low 1.13's. USD/JPY fell below, but is still trading close to, 112.

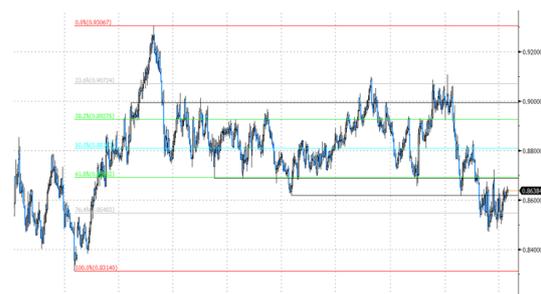
Today's event calendar is meagre. The NY Empire Manufacturing received a hit in March and is expected to recover from 3.7 to 8 in April. We side with consensus, but doubt whether today's data will have a major impact on trading, even in the case of a (limited) surprise. Q1 earnings are likely to set the tone for sentiment and trading the following days. China's Q1 GDP and EMU PMI's are this week's apex.

The euro drifted further away from the 1.1177/87 support last week and came close to a recovery of the 1.13 barrier despite a soft ECB. Global economic sentiment has turned for the better recently. Last week's price actions shows the euro is still net benefiter of such circumstances. We watch for Q1 earnings/guidance and EMU PMI's to confirm that turnaround. We maintain the view that a EUR/USD break lower ST isn't evident given the Fed's wait-and-see bias. It would require strong negative EMU news or surprisingly strong US data. **In case of a break above 1.13, next high-profile EUR/USD resistance comes in at 1.1448.**

Lack of data and relevant Brexit news resulted in a choppy, narrow trading day for EUR/GBP on Friday. EUR/GBP closed higher at 0.8641. Brexit has been postponed, but with a clear lack of solution(s) to resolve the current impasse. Domestic (political) uncertainty is expected to keep sterling at a (technical and headline driven) leash. **We see little reasons to turn more positive on the Queen's money and assume the EUR/GBP 0.85 support area to be solid.**



EUR/USD escapes the downward trend channel and regains the 1.13-level as growth sentiment turned for the better.



EUR/GBP set for more technical and headline driven trading as the Brexit impasse persists.

Calendar

Monday, 15 April		Consensus	Previous
US			
14:30	Empire Manufacturing (Apr)	8	3.7
22:00	Net Long-term TIC Flows (Feb)	--	-\$7.2b
22:00	Total Net TIC Flows (Feb)	--	-\$143.7b
UK			
01:01	Rightmove House Prices MoM/YoY (Apr)	1.1%/-0.1%	0.4%/-0.8%
Belgium			
15:00	Trade Balance (Feb)	--	-1278.4m
Sweden			
06:00	PES Unemployment Rate (Mar)	3.6%	3.7%
Events			
2019Q1 earnings	Goldman Sachs (13:30), Citigroup (14:00) ...		
18:00	BOE's Haskel Speaks on Panel in Warwick		
18:30	ECB's Villeroy Speaks in New York		
19:00	Fed's Evans Discusses Economy and Monetary Policy (voter)		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>		Stocks	<u>Close</u>	<u>-1d</u>
US	2.57	0.07		US	2.39	0.04		DOW	26412.3	269.25
DE	0.06	0.06		DE	-0.56	0.02		NASDAQ	7984.164	36.80
BE	0.49	0.06		BE	-0.47	0.03		NIKKEI	22169.11	298.55
UK	1.21	0.06		UK	0.78	0.05		DAX	11999.93	64.73
JP	-0.04	0.02		JP	-0.16	0.00		DJ euro-50	3447.83	12.49
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>-1d</u>	<u>-2d</u>
3y	-0.13	2.43	1.12	Eonia	-0.3640	0.0030				
5y	0.06	2.41	1.23	Euribor-1	-0.3670	0.0000		Libor-1	2.4774	0.0048
10y	0.55	2.55	1.40	Euribor-3	-0.3100	0.0000		Libor-3	2.6010	0.0042
				Euribor-6	-0.2320	0.0000		Libor-6	2.6378	0.0065
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>		Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1299	0.0046		EUR/JPY	126.57	0.91		CRB	188.36	1.04
USD/JPY	112.02	0.36		EUR/GBP	0.8641	0.0020		Gold	1295.20	1.90
GBP/USD	1.3074	0.0016		EUR/CHF	1.1327	0.0035		Brent	71.55	0.72
AUD/USD	0.7173	0.0049		EUR/SEK	10.4736	0.0206				
USD/CAD	1.3323	-0.0060		EUR/NOK	9.5895	-0.0167				

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