



Monday, 17 December 2018

Rates: Equity sell-off eases, but sentiment remains fragile

Global core bonds gained ground on Friday as fear of a global slowdown overshadowed ongoing progress in US-Sino trade talks and strong US data. Today, core bonds opened neutral with a cautious downward bias as the equity sell-off eased in Asia. Only second tier data on the economic calendar today, with investors already eying the Fed meeting of Wednesday.

Currencies: Dollar to maintain benefit of the doubt going into the Fed meeting

The euro suffered from poor EMU PMI's on Friday. At the same time, the dollar enjoyed strong US retail sales. EUR/USD dropped to the 1.13 area. This morning, the dollar stabilizes. We expect the US currency to remain well bid going into the Fed decision as there is still a big discrepancy between market positioning and (expected) Fed dots.

Calendar

Headlines

- **Wall Street** nosedived Friday, registering losses to 2%+. Tech equities underperformed. **Asian markets** are trading mixed this morning with China underperforming.
- **The Australian government presented the strongest budget outlook in a decade.** The country expects a budget surplus in 2019/20 of 4.1b Australian dollar compared to 2.2b projected in May. Growth expectations (2018-19) have been lowered however, from 3% to 2.75%
- **The Italian government has found an agreement on the “numbers and contents” of the revamped budget** it will propose to Brussels, in an attempt to reach a final deal. The initial proposal had been rejected by the EC back in October.
- **Demonstrations in Hungary grow** as opposition parties, students and trade unions revolted by the thousands on Sunday against PM Viktor Orban's increasingly authoritarian reign.
- In its Q4 review, **the BIS warned for more selloffs as markets are adjusting to a world of monetary tightening** against the backdrop of increasing fears for an escalating trade war and world economic growth. Rising inflation, lower-rated US corporate debt and EU banking sector weakness a.o. are listed as challenges.
- **The White House's musical chairs following the midterms continues** as Secretary of Interior is set to leave the Trump administration by the end of the year. People familiar hinted Homeland Security's Nielsen and Commerce Secretary Wilbur Ross could be next on the list.
- **Today's economic calendar** contains the US Empire Manufacturing index. The NAHB Housing Market Index is worth eyeballing after last month's steep decline. The EMU publishes final November inflation data.

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	→

Rates

Equity sell-off eases, but sentiment remains fragile

	US yield	-1d
2	2,73	-0,03
5	2,73	-0,02
10	2,89	-0,02
30	3,15	-0,03

	DE yield	-1d
2	-0,61	-0,03
5	-0,30	-0,03
10	0,25	-0,03
30	0,89	-0,01

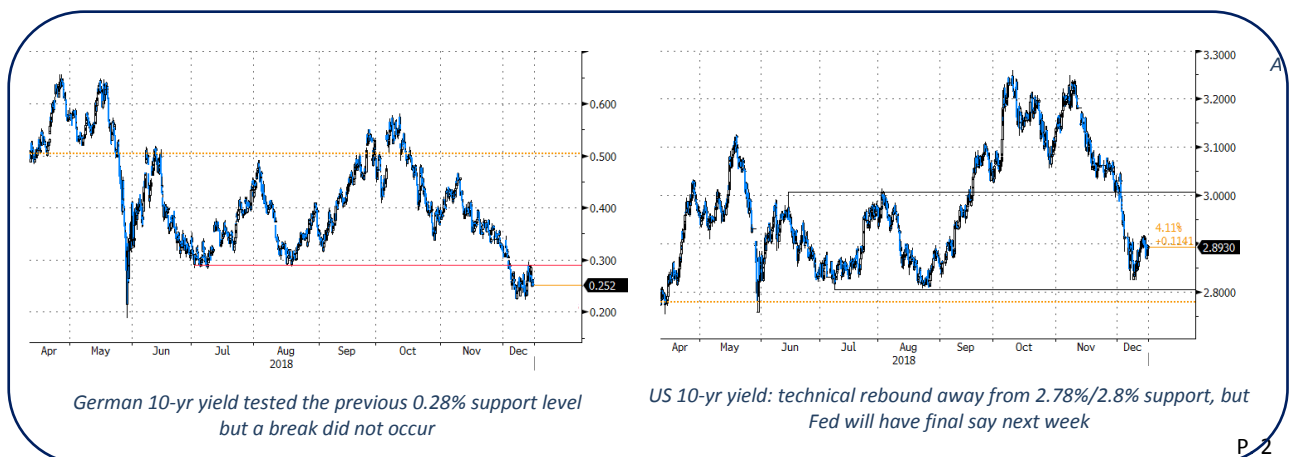
Global core bonds gained ground on Friday as risk sentiment soured again.

Signs of a further slowdown of the Chinese economy and disappointing EMU PMI's strengthened the fear of a global slowdown, pushing equity markets down. Ongoing progress in the US-Sino trade talks and better than expected US retail sales could not turn the tide. US equity markets even underperformed with losses in the order to 2%. **Safe haven flows lifted core bonds.** Both the US and German yield curve edged lower on Friday, with the former declining by -2.3 bps (10-yr) to -2.9 bps (2-yr). German yield curve changes varied between -0.7 bps (30-yr) and -3.2 bps (5-yr).

The equity sell-off of Friday eases on Asian markets as most equity indices color green this morning with China fluctuating between gains or losses. Nonetheless, risk sentiment remains very fragile. **Both the German Bund and US Note future tread water.** European equity futures hint a positive opening for European trading, putting Friday's core bond gains at stake.

Today's eco calendar appears very meagre with in the US the Empire Manufacturing gauge for December and the NAHB Housing Market Index. Housing data have most market moving potential. The past month's data point to a cooling of the housing market and add to markets' worries about a nearby end to the economic cycle. Markets expect a stabilization in the NAHB index following last month's steep drop. A downward surprise won't go unnoticed and could benefit US Treasuries. Traded volumes might be lower though with **investors eying Wednesday's final Fed meeting.** The Fed will most probably raise its policy rate for the fourth time this year, but investors will eye the Fed's so-called 'dot plot'. The plot, that shows the Fed member's expectations for growth, inflation and interest rates. The median 2019 rate forecasts indicated three rate hikes. **As fears of a global growth slowdown are growing, market expectations fell to only one rate hike for next year. It remains to be seen if the Fed will shift lower as well.** We don't expect dramatic downgrades in the growth- and inflation assessment, suggesting the 2019 median forecast (3 interest rate hikes) will remain unchanged. However, risks are clearly tilted to the dovish side (ie 2 hikes).

From a technical point of view, the German 10-yr yield tested the previous 0.28% support level last week. A break higher would suggest that the recent downward momentum is gone, but it bounced back on Friday. The US 10-yr yield remains at ease above the 2.78%/2.8% support level.



Currencies

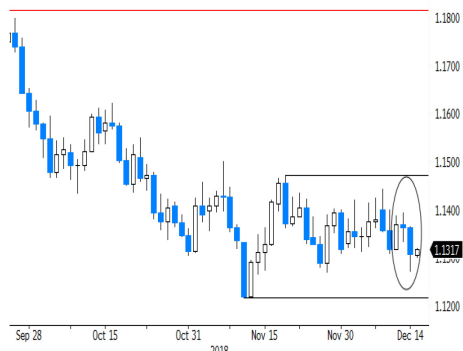
R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1306	-0,0055
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8984	0,0010
S1	0,8700	
S2	0,862	

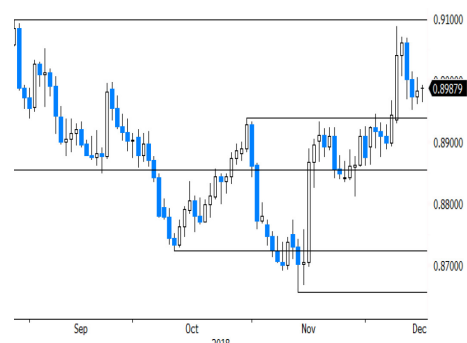
USD to keep benefit of the doubt ahead of the Fed

Data favoured euro bears and dollar bulls on Friday. A poor French PMI (49.3) kickstarted a EUR/USD selling-wave. The German and EMU PMI's confirmed that the poor performance of France wasn't a country-specific exception. An ongoing risk-off sentiment also didn't help the single currency. EUR/USD slipped below the 1.13 level. In US trading, the **news flow turned further USD positive** with strong (core) US retail sales. US yields and the dollar rose modestly after the retail sales, but it wasn't able to remove market uncertainty on global growth.

The rise in US yields and the dollar did run into resistance. EUR/USD closed the day at 1.1306 (from 1.1361). USD/JPY gained a few ticks after the retail sales but any gains soon evaporated as equities were sold again. The pair closed at 113.39 (from 113.3). Asian equities are trading mixed **overnight**. Australia and Japan are outperforming. China is struggling to prevent further losses. The dollar is trading little changed from Friday evening (EUR/USD 1.1310 area; DXY 97.45 area; USD/JPY gains a few ticks 113.45 area). The eco calendar is only modestly interesting **later today**. **EMU final November CPI** is expected to be confirmed at 1.0% (core) and 2.0% headline. In the US, the **Empire manufacturing** survey and **NAHB housing market** sentiment are interesting. The manufacturing index is expected to ease from 23.3 to 20.0. NAHB is expected at 61 (from 60) after last month's steep decline. We have no reason to take a different view from the consensus. **Decent US eco data might still be slightly USD supportive going into Wednesday's Fed policy decision.** The **Fed policy decision** is the key topic for (USD) trading this week. Currently, there is still an immense gap between the (September) Fed dots and market pricing. We still see a good chance of the Dec Fed dots still signalling 3 additional rate hikes next year. Anyway, the risk is for the Fed to remain much more hawkish than the market. Investors will probably take a cautious stance going into the Fed meeting. **However, we expect some by default USD bid to persist.** If so, EUR/USD could drift further south with 1.1216 (correction low) and 1.1187 (62% retracement) as obvious supports. **Sterling entered calmer waters end of last week.** EUR/GBP hovered in the upper half of the 0.89 big figure as **euro softness (poor EMU PMI's) and sterling caution kept each other in balance.** During the weekend, the PM rejected the idea of a second referendum and will probably continue to do so today. **We still avoid sterling long**



EUR/USD drifting lower in the established range going into the Fed meeting



EUR/GBP: sterling (temporary) enters calmer waters as market awaits next step in the Brexit saga

Calendar

Monday, 17 December		Consensus	Previous
US			
14:30	Empire Manufacturing (Dec)	20.0	23.3
16:00	NAHB Housing Market Index (Dec)	61	60
22:00	Total Net TIC Flows (Oct)	--	-\$29.1b
22:00	Net Long-term TIC Flows (Oct)	--	\$30.8b
Japan			
05:00	Tokyo Condominium Sales YoY (Nov)	-2.8%A	2.8%
UK			
01:01	Rightmove House Prices MoM/YoY (Dec)	-1.5%A/0.7%A	-1.7%/-0.2%
EMU			
11:00	CPI Core YoY (Nov F)	1.0%	1.0%
11:00	CPI MoM/YoY (Nov F)	-0.2%/2.0%	0.2%/2.2%
Italy			
10:00	Trade Balance Total (Oct)	--	1274m
Belgium			
15:00	Consumer Confidence Index (Dec)	--	-1

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,89	-0,02	US	2,73	-0,03	DOW	24100,51	-496,87	
DE	0,25	-0,03	DE	-0,61	-0,03	NASDAQ	6910,665	-159,67	
BE	0,74	-0,02	BE	-0,54	-0,02	NIKKEI	21506,88	132,05	
UK	1,24	-0,05	UK	0,72	-0,05	DAX	10865,77	-58,93	
JP	0,04	0,01	JP	-0,15	0,00	DJ euro-50	3092,6	-19,57	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,02	2,85	1,23	Eonia	-0,3620	-0,0010	Libor-1	2,4550	-0,0001
5y	0,26	2,83	1,31	Euribor-1	-0,3680	0,0000	Libor-3	2,8007	0,0125
10y	0,86	2,92	1,45	Euribor-3	-0,3110	0,0000	Libor-6	2,9006	-0,0003
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1306	-0,0055	EUR/JPY	128,19	-0,87	CRB	180,31	-2,72	
USD/JPY	113,39	-0,24	EUR/GBP	0,8984	0,0010	Gold	1241,40	-6,00	
GBP/USD	1,2583	-0,0060	EUR/CHF	1,1281	-0,0010	Brent	60,28	-1,17	
AUD/USD	0,7172	-0,0055	EUR/SEK	10,2435	-0,0469				
USD/CAD	1,3384	0,0029	EUR/NOK	9,7413	0,0207				

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