

Monday, 25 March 2019

Rates: Global 10-yr yields fall below key levels

Disastrous EMU PMI's pushed the German 10-yr yield into negative territory for the first time since October 2016, while the US 10-yr yield broke through key support of 2.50%. Today's German IFO Business sentiment will likely confirm Friday's PMI's. Risk off remains today's sentiment, setting core bonds up for more gains.

Currencies: Poor EMU data and global risk-off are weighing on the euro

Fears on global growth dominated global (FX) trading on Friday. Poor EMU PMI's pushed the euro off a cliff. However, US yield curve moves also suggests investor uncertainty on US growth. The euro remains vulnerable to negative news (e.g from today's Ifo), but we don't expect a break of the 1.12 area. Keep a close eye at the 124.30/123.40 EUR/JPY support area.

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 stocks** slid on global growth concerns Friday undoing all post Fed gains. The Nasdaq underperformed (-2.50%). The equity selloff rolls into **Asian markets**, with Japan significantly lagging its peers (3%).
- Special counsel Robert Mueller found **no evidence of president Trump colluding with Russia** to win the 2016 election. Regarding the investigation on obstruction of justice, Attorney General Barr concluded that the evidence "is not sufficient".
- **Spain's Socialist party increased their lead in the run-up to the April 28 elections**, according to a freshly concluded poll. Sanchez' party would still fall short of a majority however, as would a coalition of the three right-wing parties.
- China's industry minister Miao said the **direct government intervention in the industrial sector will gradually be reduced**. His comments came days ahead of a new round of high-level trade talks starting in Beijing on Thursday.
- Chicago Fed Evans understands markets are nervous about the US10y and US3m curve inversion but added the US eco outlook is solid. **Evans considers current interest rates neutral and expects no hike until the second half of 2020**.
- **Italy's Five Star Movement** remains the top-voted party in Basilicata's local elections but its **support slid considerably** compared with last year. League surged but the vote won't affect the stability of the government, PM Conte said.
- **Economic data** is scant at the start of this week. We watch for Germany's IFO confidence. Fed's Harker is scheduled to speak, marking the start of this week's avalanche. UK parliament votes to take control of the agenda for one day.

Rates

Global 10-yr yields fall below key levels

	US yield	-1d
2	2,32	-0,09
5	2,24	-0,10
10	2,44	-0,10
30	2,88	-0,09

	DE yield	-1d
2	-0,57	-0,02
5	-0,39	-0,04
10	-0,02	-0,06
30	0,61	-0,08

Global core bonds rallied higher on Friday with US Treasuries outperforming German bunds. Yields across the globe tumbled last week as the Japanese 10-yr yield fell to its lowest level since 2016, New Zealand's dropped below 2% for the first time and Australia's is nearing historical lows. In Europe, **German Bunds jumped higher after dreadful EMU PMI's**, adding to growth slowdown fears. Both the ECB and the Fed already took a U-turn and positioned itself much more dovish, hammering on patience as black clouds are nestling above the global economy. The German yield curve bull flattened with changes ranging from -1.6 bps (2-yr) to -7.8 bps (30-yr). **The German 10-yr yield fell below zero for the first time since October 2016.** The US Note future followed the move higher and even outperformed as **the US 10-yr yield broke through the key 2.5% support area.** The US yield curve declined heavily with changes varying between -9.0 bps (2-yr) to -10.3 bps (5-yr). **The US 3-month/10-yr yield spread turned negative for the first time since 2007.** EMU yield spreads over the German 10-yr yield widened with Greece (+9 bps) and Italy (+5 bps) underperforming.

The risk-off sentiment that gripped markets on Friday is continuing across Asia with all major indices trading heavily in red. Japanese indices are underperforming with losses up to 3.0%. US equity futures point to further losses at start of the week. **Fed governor Evans said it is natural for yield curves to be flatter** at an event in Hong Kong this morning. Global core bonds will likely maintain the upward bias of late given the risk-off environment.

Today's eco calendar contains **German IFO Business sentiment for March.** Consensus expects a small recovery in the forward-looking sub-component, but a small decline in the current assessment. We tend to side with consensus. However, given the disastrous PMI's from Friday, we see risks of a surprise rather on the downside. Fed's Harker and ECB's Costa and Coeuré speak today, but are likely to repeat the dovish messages of late. Later this week, the US sends a delegation to Beijing to continue trade talks with China. Latest messages signal laborious negotiations are ahead as China is refusing to concede to US demands on digital trade. Brexit saga continues with PM May seeking ways to bring her Brexit deal to a new vote in Parliament this week, despite the Speaker's rejection of last week.

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. 2.30% may serve as new key support level. This week's US supply will be interesting to see investors' appetite for US Treasuries at current yield levels. The German 10-yr fell to negative levels again, the first time since October 2016.



German 10-yr yield returns to negative levels after disastrous EMU PMI's add to growth slowdown fears



US 10-yr yield breaks the 2.5% support area with 2.30% serving as new support level

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1302	-0,0072
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8559	-0,0119
S1	0,8500	
S2	0,8314	

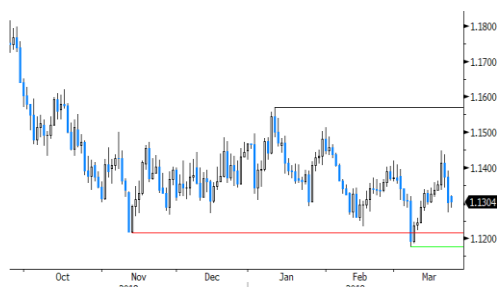
Growth fears weighing more on euro than on USD

Last week both the dollar and the euro faced headwinds as investors pondered mounting signs of a global growth slowdown. On Wednesday, the Fed cemented its wait and see bias, taking time to assess incoming eco data and sending the dollar substantially lower. However, on Friday the euro also fell off a cliff. Awful EMU PMI's confirmed the scenario of a regional and global slowdown. The euro was hammered but the EMU PMI's also triggered a global risk-off repositioning. EUR/USD dropped and (more than) reversed the post-Fed rally. EUR/USD closed at 1.1302 (from 1.1374). The yen attracted safe haven flows. USD/JPY declined to close at 109.92. EUR/JPY finished at 124.24, testing a key support area.

This morning, Asian markets are also hit hard as fears on a growth persist. The Mueller report removing some uncertainty on the political fate of US President Trump and hope a further progress on the China US trade talks currently can't alleviate fears on growth. **Chicago Fed Evans** wasn't that negative on the US economy. Still, US yields stay close to last week's low levels. The major currency cross rates consolidate Friday's repositioning. The yen stays strong. USD/JPY hovers in in the 110 area. EUR/USD struggles not to fall back below the 1.13 handle.

Today, FX markets will focus on pointers for growth. In the US, the Chicago Fed activity index and Dallas Fed manufacturing activity will be published. However, the German IFO business climate will take centre stage. Will the negative PMI's from Friday be confirmed? The reaction to IFO will probably be more muted than after Friday's PMI's. Markets are uncertain on global growth, but the euro is probably more vulnerable to more bad news compared to the dollar. **We also keep a close eye at the EUR/JPY technical chart.** The pair dropped below the 124.38 neckline and a sustained drop below 123.40 might have (profound) consequences for other euro cross rates. On Friday, the euro upside potential was blocked. EUR/USD remains in the 1.12/1.15 trading range. We still assume no outright break of this range but a downside test is becoming more likely, if EMU data disappoint or global risk sentiment deteriorates further.

The EUR/GBP declined in lockstep with the post PMI overall decline of the euro Friday. This weekend, headlines indicated that the political process of managing Brexit might be heading to an outright chaos. The political survival of PM May is also again at stake. Sterling is losing modest ground (EUR/GBP 0.8580 area). Last week's EUR/GBP decline was euro weakness. We don't see a reason for sterling outperformance if Brexit uncertainty persists.



EUR/USD: holding in the 1.12/1.16 range. As risk aversion and worries on global growth persist, EUR/USD risks have tilted to the downside



EUR/JPY testing key 124.28/123.40 support area

Calendar

Monday, 25 March		Consensus	Previous
US			
13:30	Chicago Fed Nat Activity Index (Feb)	-0.38	-0.43
15:30	Dallas Fed Manf. Activity (Mar)	9.0	13.1
Japan			
05:30	All Industry Activity Index MoM (Jan)	-0.2%A	-0.4%
Germany			
10:00	IFO Business Climate (Mar)	98.5	98.5
10:00	IFO Expectations (Mar)	94.0	93.8
10:00	IFO Current Assessment (Mar)	102.9	103.4
Belgium			
15:00	Business Confidence (Mar)	-2.0	-1.7
Spain			
09:00	PPI MoM/YoY (Feb)	--/--	0.2%/1.8%
Events			
25-29MAR	UK Parliament gets a third vote on the brexitdeal		
02:45	Fed's Evans Speaks on a Panel in Hong Kong (voter)		
06:00	Fed's Evans Gives Speech in Hong Kong (voter)		
09:45	Bank of Portugal, IMF Conference on Reform and Growth		
10:15	ECB's Costa Speaks in Lisbon		
10:30	ECB's Coeure Speaks in Lisbon		
11:00	Fed's Harker Speaks in London on Economic Outlook (non-voter)		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,44	-0,10	US	2,32	-0,09	DOW	25502,32	-460,19	
DE	-0,02	-0,06	DE	-0,57	-0,02	NASDAQ	7642,667	-196,29	
BE	0,44	-0,04	BE	-0,49	-0,02	NIKKEI	20977,11	-650,23	
UK	1,01	-0,05	UK	0,66	-0,04	DAX	11364,17	-185,79	
JP	-0,08	-0,02	JP	-0,18	-0,01	DJ euro-50	3305,73	-61,67	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,12	2,31	0,99	Eonia	-0,3690	0,0020			
5y	0,05	2,29	1,06	Euribor-1	-0,3670	0,0000	Libor-1	2,4989	0,0134
10y	0,50	2,42	1,20	Euribor-3	-0,3090	0,0000	Libor-3	2,6099	0,0084
				Euribor-6	-0,2280	0,0010	Libor-6	2,6760	-0,0014
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1302	-0,0072	EUR/JPY	124,24	-1,80	CRB	184,15	-1,22	
USD/JPY	109,92	-0,90	EUR/GBP	0,8559	-0,0119	Gold	1318,70	5,10	
GBP/USD	1,3209	0,0102	EUR/CHF	1,1228	-0,0057	Brent	67,03	-0,83	
AUD/USD	0,7083	-0,0029	EUR/SEK	10,4888	0,0548				
USD/CAD	1,3429	0,0065	EUR/NOK	9,6746	0,0585				

If you no longer wish to receive this mail, please contact us: "kbcmarketresearch@kbc.be" to unsubscribe

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	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	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

