



**Thursday, 03 January 2019**

### Rates: Core bonds start year on strong footing

A dismal Chinese manufacturing PMI set the tone for risk-off trading in Asia/Europe yesterday with Bunds and US Treasuries surging. Liquidity remained rather low. Both contracts extended gains overnight despite heavily overbought conditions as Apple guidance hit stocks. US data will be watched today with especially the US manufacturing ISM grabbing attention.

### Currencies: FX flash-crash in Asia this morning. Yen jumps sharply

The yen is the star performer at the start of 2019. EUR/JPY, USD/JPY and EUR/USD declined in a classic risk-off repositioning yesterday. Overnight, the yen jumped again sharply higher in the wake of the Apple warning. FX traders will closely monitor the eco data for clues on US growth going forward. The USD looks vulnerable despite yesterday's EUR/USD decline.

### Calendar

## Headlines

- **WS ended modestly higher yesterday (+0-0.5%)** after a volatile trading session. Oil shares led the gains. **Most Asian indices opened with losses**, as Apple cut its quarterly sales outlook. Japanese bourses are closed today.
- **Apple has lowered its revenue outlook for the first time in almost 20 years.** The company has cut revenue expectations for Q4 from \$89bn/\$93bn to \$84bn. CEO Tim Cooke points at weakness in China's economy and supply constraints.
- **US President Trump failed to reach an agreement with congressional Democrats on border security funding yesterday**, leaving the government in a partial shutdown. Leaders are said to meet again on Friday.
- **The People's Bank of China announced it will ease the calculation rules for some banks' reserve ratios**, to further boost the impact of a previous easing measure to support loans to small- and micro-sized enterprises.
- **UK PM May starts a round of talks with EU leaders today, as she still seeks answers to sell her Brexit deal back in Westminster.** Starting on Monday, she'll discuss the deal with MP's, to eventually take a vote on it the week after.
- **Oil data showed that OPEC countries have started to cut oil output earlier than announced.** December output fell by the most in almost two years, led by Saudi Arabia. Oil prices gained modest ground on the news.
- **Today's US economic calendar** contains employment data (ADP Employment Change, Initial Jobless Claims) and the ISM Manufacturing gauge for December. The calendar in the EMU remains empty, apart from Spanish bond supply.

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

	US yield	-1d
2	2,47	-0,02
5	2,46	-0,05
10	2,62	-0,06
30	2,96	-0,06

	DE yield	-1d
2	-0,61	0,00
5	-0,38	-0,06
10	0,17	-0,08
30	0,80	-0,08

## Core bonds start year on strong footing

Asian and European markets started the new trading year with a hangover. A disappointing Chinese manufacturing PMI (below boom/bust mark) amplified the growth worries drums and sent stock markets tumbling. Final EMU PMI's couldn't turn risk sentiment. **The German Bund outperformed the US Note future**, but nevertheless had some catching up to do (closed on Dec 31 unlike US). **Liquidity remained rather poor too. The introduction of US traders marked a seachange, with US stock markets rapidly overturning opening losses and Brent crude temporary spiking \$3/barrel. Safe haven flows into Bunds and especially US Treasuries dried with markets stabilizing.** A meeting between US Congressional leaders and President Trump to end the partial government shutdown ended fruitless, but parties agreed to reconvene tomorrow. **Apple had the final say in yesterday's trading session. The tech giant's revenue warning, blaming cooling Chinese demand, caused flash crash like moves on (mainly) FX markets.** Low liquidity exaggerated changes after US trading with Japanese markets still closed for New Year holidays. The German yield curve bull flattened with yields declining by 0.3 bps (2-yr) to 7.5 bps (30-yr). US yields dropped by 2 bps (2-yr) to 6.4 bps (10-yr). Peripheral yield spreads vs Germany widened by 3 bps (Italy) to 7 bps (Greece).

Both the Bund and the US Note future stabilize after the Apple-induced spike higher. We are keen to see developments with liquidity gradually returning to normal. **Risk sentiment linked to growth worries will remain the dominant trading theme in Europe. Focus turns to eco data during US trading** with ADP employment, weekly claims and the ISM manufacturing survey up for release. **The ISM is expected to decline from 59.3 to 57.5 in December, with risks tilted to the downside** of expectations after mostly disappointing regional manufacturing surveys. **Job growth is forecast to stabilize around 180k. We side with consensus as employment components from the same business surveys were the bright lights. A weaker ISM will grab most headlines in such scenarios and could keep core bonds underpinned.** We don't call a turnaround yet, but add that both the Bund and US Note future are in heavily overbought territory with a lot of bad news discounted during holiday-thinned trading.

Technically, the German 10-yr yield **tested the 2017 low (0.15%) which is the final hurdle before a return towards 0%/negative levels. The US 10-yr yield's drop below 38% retracement from the 2017-2018 rally (2.78%) suggests a further decline towards the 2.5% handle. Markets priced out all Fed rate hikes in 2019 with the balance of risks currently even tilting to a rate cut by December. We don't buy into such a soft scenario.**



German 10-yr yield tests 2017 low. Final technical hurdle before returning to (sub) zero levels.



US 10-yr yield lost 38% retracement level suggesting room for a further technical decline towards 2.5%

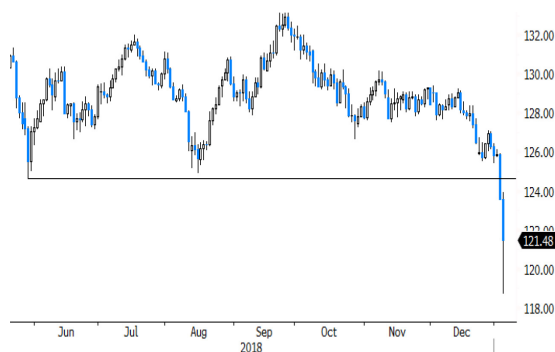
# Currencies

## FX flash-crash. Yen jumps sharply

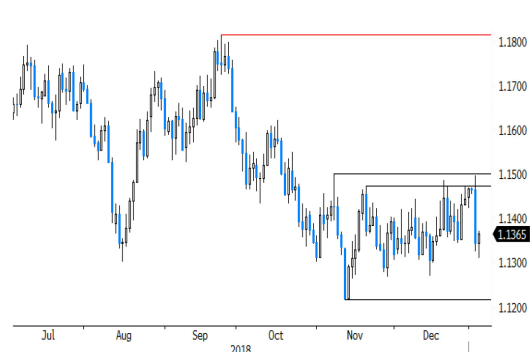
R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1344</b>	<b>-0,0121</b>
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8997</b>	<b>0,0009</b>
S1	0,8700	
S2	0,862	

Global sentiment didn't improve at the start of 2019. Poor Chinese (and EMU) PMI's reinforced investor worries on the global economy. The US dollar lost interest rate support of late as markets priced out further Fed rate hikes. It looked that more EUR/USD gains were possible yesterday morning. The pair came close to 1.15, but **a poor start of European equities and a sharp decline of German yields blocked the euro upside.** USD/JPY, EUR/JPY and EUR/USD declined in lockstep, with EUR/JPY taking the lead in a classic risk-off move. Sentiment improved temporarily in US dealings, but a (China related) profit warning from Apple after US close, recharged the risk-off trade. EUR/JPY closed at 123.55 (open at 125.87). EUR/USD (close 1.1344) lost more than a big figure. USD/JPY closed at 108.88. In thin markets **early in Asian trade** (Japanese markets still closed), the post-Apple repositioning triggered **a violent run to the yen. EUR/JPY and USD/JPY were temporarily in free-fall.** The likes of the Aussie dollar were also hit very hard. The move eased later in Asian trading, but yen gains remain impressive (USD/JPY trades currently below 107, EUR/JPY is trading in the mid 121 area). Contrary to yesterday's losses, EUR/USD reacted rather calmly in Asia (currently 1.1360 area). FX traders will closely monitor European markets (Asian equities are holding up relatively well, but US equity futures show heavy losses). The jury is still out, but this price action suggests a repositioning out of US assets/equities as the impact from the trade war is also weighing on (parts of) the US economy. In this context, markets will eagerly look out for **the first 2019 US data** with the ADP labour report and the manufacturing ISM. Especially the latter might be important as investors try to make up their mind on the health of the US economy. A weak ISM will probably weigh on USD/JPY. **The reaction in Asia suggests that US equities and maybe the dollar, are vulnerable, despite yesterday's EUR/USD decline.** EUR/USD is holding in the established 1.12/1.15 trading range. Even in case of a further risk-off repositioning, the 1.1265/70 area might provide first important support. EUR/GBP hovered mostly in the low 0.90 area yesterday. The UK manufacturing PMI unexpectedly improved, but didn't help sterling as the rebound was mostly driven by stock-building ahead of Brexit. **This morning, the temporary sell-off of risky currencies also hit sterling. EUR/GBP trades currently in the mid 0.90 area.** Today's UK construction PMI is probably of second tier importance. The combination of global market stress and uncertainty on brexit remains sterling negative.



EUR/JPY: yen jumps as uncertainty on global growth intensifies



EUR/USD: topline this of 1.15 area rejected

# Calendar

Thursday, 3 January		Consensus	Previous
<b>US</b>			
14:15	ADP Employment Change (Dec)	180k	179k
14:30	Initial Jobless Claims	220k	216k
14:30	Continuing Claims	1689k	1701k
16:00	ISM Manufacturing (Dec)	57.5	59.3
16:00	ISM Employment (Dec)	--	58.4
16:00	ISM Prices Paid (Dec)	57.7	60.7
16:00	ISM New Orders (Dec)	--	62.1
<b>UK</b>			
10:30	Markit/CIPS UK Construction PMI (Dec)	52.9	53.4
<b>EMU</b>			
10:00	M3 Money Supply YoY (Nov)	3.8%	3.9%
<b>Norway</b>			
08:00	Unemployment Rate AKU (Oct)	4.0%	4.0%
<b>Events</b>			
10:30	Spain to Sell Bonds		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,62	-0,06	US	2,47	-0,02	DOW	23346,24	18,78	
DE	0,17	-0,08	DE	-0,61	0,00	NASDAQ	6665,938	30,66	
BE	0,71	-0,07	BE	-0,52	0,01	NIKKEI	20014,77	0,00	
UK	1,21	-0,07	UK	0,72	-0,04	DAX	10580,19	21,23	
JP	0,00	0,00	JP	-0,14	0,00	DJ euro-50	2993,18	-8,24	
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,11	2,57	1,16	Eonia	-0,3680	-0,0120			
5y	0,14	2,53	1,24	Euribor-1	-0,3620	0,0010	Libor-1	2,5027	0,0000
10y	0,75	2,65	1,39	Euribor-3	-0,3100	-0,0010	Libor-3	2,8076	0,0000
				Euribor-6	-0,2380	-0,0010	Libor-6	2,8756	0,0000
Currencies	<u>Close</u>	<u>-1d</u>	Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>	
EUR/USD	1,1344	-0,0121	EUR/JPY	123,55	-2,32	CRB	170,39	0,59	
USD/JPY	108,88	-0,86	EUR/GBP	0,8997	0,0009	Gold	1284,10	2,80	
GBP/USD	1,2607	-0,0133	EUR/CHF	1,1231	-0,0033	Brent	54,91	1,11	
AUD/USD	0,6985	-0,0068	EUR/SEK	10,2289	0,0578				
USD/CAD	1,3579	-0,0052	EUR/NOK	9,8881	-0,0211				

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