



Sunrise

Tuesday, 19 February 2019

Rates: Looking for clues from the ECB

US investors return after the long weekend, but the US eco calendar is razor-thin. EMU investors look for signs of improvement in the forward-looking German ZEW expectations index and for hints on possible future policy changes in speeches by ECB de Guindos and Praet. Current very dovish market positioning probably limits market moving potential.

Currencies: Sentiment data (ZEW) to ease euro downside pressure?

EUR/USD tried to extend gains beyond 1.13, but the move had no strong momentum yesterday. Today and in the coming days, EMU sentiment indicators will give a new update on the health of the EMU economy. The jury is still out, but better data might give EUR/USD some downside protection. BoJ's Kuroda signals the banks stays alert on yen strength.

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** were closed yesterday for US Presidents' Day, but reopen today. **Asian equity markets** are trading mixed this morning with Chinese indices underperforming.
- **EU Commission president Juncker is confident** US president Trump will keep his promise of **not imposing car tariffs** for the time being. Otherwise, **he threatened to retaliate immediately** with less purchases of soy and liquid gas.
- **Sixteen US states, led by California, have filed a federal lawsuit challenging President Trump's national-emergency declaration** to finance the wall on the Mexican border, setting the stage for more bickering in US Congress.
- **UK Attorney General Cox proposed amendments to the delicate Irish border backstop.** Brexit Secretary Barclay will hold more talks with EU chief negotiator Barnier this week, while UK manufacturers warn of 'catastrophic' no-deal Brexit.
- **Bank of Japan governor Haruhiko Kuroda**, speaking to parliament, said the bank would have to consider **additional monetary stimulus** if a stronger Japanese yen affects Japan's inflation and economy too much.
- **ECB chief economist Peter Praet showed concern over the economic slowdown**, adding to the dovish shift of the ECB lately. He said **the bank could delay to raise interest rates** as a first response against a deeper downturn.
- **Today's eco calendar** contains the NAHB Housing Market Index in the US and labour data for the UK. Germany prints the ZEW investor confidence gauge, while Sweden releases inflation data. ECB de Guindos and Praet speak.

Rates

Looking for clues from the ECB and Fed

	US yield	-1d
2	2,51	0,00
5	2,50	0,00
10	2,66	0,00
30	3,00	0,00

	DE yield	-1d
2	-0,57	-0,01
5	-0,35	0,00
10	0,11	0,01
30	0,74	0,02

Global core bonds ended a tad softer in yesterday's low-volume trading session. US Presidents' Day kept US investors at home while the EMU eco calendar didn't contain any noteworthy releases. **The downtick occurred after France announced the near term launch of a 30-yr syndicated deal.** The fact that such "news" has an impact on intraday gyrations says it all. The German yield curve steepened with changes ranging between -1.1 bp (2-yr) and +2.3 bps (30-yr). **ECB chief economist Praet repeated governor Villeroy's message that the central bank could adapt its rate guidance if the economy sharpens slowly,** explaining the outperformance of the front end of the curve. A new downgrade of the eco outlook at the March 7 meeting could for example prompt the ECB to delay its current communication of unchanged rates at least through the Summer. 10-yr yield spread changes vs Germany narrowed by 4 bps for Italy and by 6 bps for Greece and Portugal.

Asian stock markets trade mixed this morning. China underperforms slightly. **US-Sino trade talks restart in Washington** with Vice Premier Liu He meeting with US Trade Representative Lighthizer and Treasury Secretary Mnuchin. The German Bund and US Note future suggest a neutral opening for trading.

Today's eco calendar contains **German ZEW investor sentiment.** The forward looking expectations component is expected to rebound from -15 to -13.6, but we see upside risks given the January stock market comeback. The more important PMI (Thursday) and Ifo business sentiment (Friday) indicators will be released later this week. **Speeches by ECB vice-governor de Guindos and chief economist Praet will be scrutinized** for hints on fresh TLTRO's and the likelihood of near term forward guidance changes. **The market's very dovish positioning probably limits market moving potential** on such news. Cleveland Fed's Mester speech could offer more insights on the US central bank's plans with regard to the BS run-off. Rumours suggested that changes (pace, end date, composition) could already be announced at the March 20 meeting.

Technically, the German 10-yr yield fell through the lower bound of the 0.15%-0.31% range, suggesting a return to the psychological 0% mark or even to negative levels. The US 10-yr yield trades in a 2.49%-2.78% sideways range.



German 10-yr yield: break below 0.15% suggests return to 0%.



US 10-yr yield: 2.49%-2.78% sideways range

Currencies

Better sentiment data to support EUR/USD?

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1311	0,0015
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8752	-0,0010
S1	0,8620	
S2	0,8314	

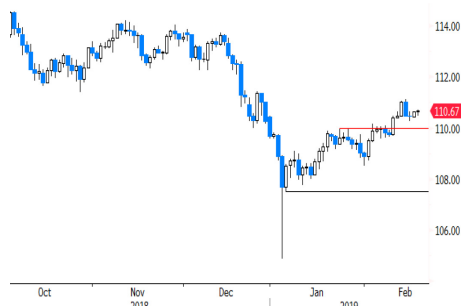
EUR/USD rebounded further off Friday’s correction low yesterday as mixed US data last week tempered the USD positive bias. There were no important data and US markets were closed (Presidents’ Day). Later in the session, **soft ECB comments also capped the upside of the euro**. EUR/USD settled in the lower part of the 1.13 big figure for most of the day to close at 1.1311. USD/JPY gained a few ticks as risk sentiment remained constructive and finished the day at 110.62.

Asian equities are trading mixed. Markets are looking for concrete results from the China-US trade talks. At the same time, investors are keen to know the content of the US security report on auto tariffs and what conclusion president Trump will draw. EUR/USD is losing a few ticks, returning to the 1.13 area. **BOJ’s Kuroda** indicated that the BOJ could ease policy further if needed. It can also be used **if yen strength would affect Japan’s inflation or the economy**. USD/JPY reversed an earlier decline and trades again in the 110.65 area. The Aussie dollar (AUD/USD 0.7115 area) eased as the RBA Minutes showed the bank is closely watching the impact of declining house prices on the economy.

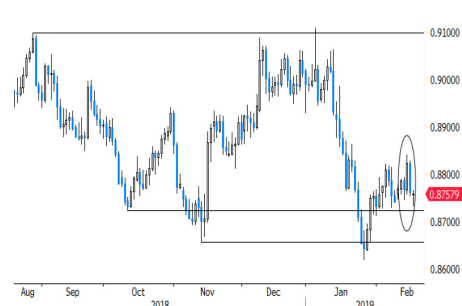
US markets reopen today, but the US eco calendar is thin. In Europe, ZEW investor sentiment is expected to ease from 27.6 to 21.0. Other EMU sentiment indicators including the PMI’s on Thursday and the IFO on Friday are more important to assess the health of the economy. Still, markets are keen to see whether recent EMU downturn slows or accelerates. Signs of improvement might be modestly euro supportive.

At the end of last week, poor US retail sales and production data capped the USD rebound. We started the week with a cautious/rather balanced EUR/USD bias. An **improvement in the global trade picture** and better EMU data are needed to improve sentiment on EUR/USD. There are **hopeful signs on trade, but the jury is still out**. EUR/USD 1.1216 marks the Nov low. EUR/USD 1.1287 is 61% retracement (2016 low/2018 top). The EUR/USD downside looks a bit more solid versus last week.

EUR/GBP hovered in a tight range in the mid 0.87 area yesterday. There was plenty of analysis on 7 Labour MP’s leaving the party, but the direct consequences for Brexit were unclear. **Today, UK labour market data are expected solid**. Additional wage rises and solid employment growth would reinforce the BOE’s case to raise the policy rate in case a disorderly Brexit is avoided. However, any positive reaction of sterling will be guarded as Brexit uncertainty still reigns.



USD/JPY: BoJ’s Kuroda signals the BOJ stays alert on potential excessive yen strength.



EUR/GBP: sterling still awaits clearer sign on Brexit scenario. UK labour data might be sterling supportive

Calendar

Tuesday, 19 February		Consensus	Previous
US			
16:00	NAHB Housing Market Index (Feb)	59	58
Japan			
05:00	Tokyo Condominium Sales YoY (Jan)	-1.8%A	15.2%
UK			
10:30	Claimant Count Rate (Jan)	--	2.8%
10:30	Jobless Claims Change (Jan)	--	20.8k
10:30	Average Weekly Earnings 3M/YoY (Dec)	3.5%	3.4%
10:30	Weekly Earnings ex Bonus 3M/YoY (Dec)	3.4%	3.3%
10:30	ILO Unemployment Rate 3Mths (Dec)	4.0%	4.0%
10:30	Employment Change 3M/3M (Dec)	151k	141k
EMU			
10:00	ECB Current Account SA (Dec)	--	20.3b
11:00	Construction Output MoM/YoY (Dec)	--/--	-0.1%/0.9%
11:00	ZEW Survey Expectations (Feb)	--	-20.9
Germany			
11:00	ZEW Survey Current Situation (Feb)	20.0	27.6
11:00	ZEW Survey Expectations (Feb)	-13.6	-15.0
Italy			
10:00	Industrial Orders MoM/NSA YoY (Dec)	--/--	-0.2%/-2.0%
Sweden			
09:30	CPI MoM/YoY (Jan)	-0.7%/2.2%	0.4%/2.0%
09:30	CPIF MoM/YoY (Jan)	-0.7%/2.3%	0.4%/2.2%
Events			
19FEB	EU General Affairs Council discusses 2019 budget		
11:15	ECB Vice-President Guindos Speaks in Brussels		
15:30	Bank of Portugal's Costa Speaks at Capital Markets Event		
16:00	ECB's Praet Speaks in Berlin		
14:50	Fed's Mester Speaks on Economic Outlook and Monetary Policy (non-voter)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,66	0,00		US	2,51	0,00	DOW	25883,25	0,00
DE	0,11	0,01		DE	-0,57	-0,01	NASDAQ	7472,41	0,00
BE	0,68	0,01		BE	-0,43	0,00	NIKKEI	21302,65	20,80
UK	1,17	0,01		UK	0,73	0,00	DAX	11299,2	-0,60
JP	-0,03	-0,01		JP	-0,18	0,00	DJ euro-50	3244,79	3,54
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,60	1,09	Eonia	-0,3710	-0,0020	Libor-1	2,4804	0,0000
5y	0,13	2,58	1,19	Euribor-1	-0,3680	0,0000	Libor-3	2,6829	0,0000
10y	0,66	2,70	1,36	Euribor-3	-0,3080	0,0000	Libor-6	2,7538	0,0000
				Euribor-6	-0,2320	0,0000			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1311	0,0015		EUR/JPY	125,11	0,33	CRB	181,33	0,00
USD/JPY	110,62	0,15		EUR/GBP	0,8752	-0,0010	Gold	1322,10	0,00
GBP/USD	1,2924	0,0035		EUR/CHF	1,1361	0,0008	Brent	66,50	0,25
AUD/USD	0,713	-0,0011		EUR/SEK	10,4796	-0,0066			
USD/CAD	1,324	-0,0004		EUR/NOK	9,7394	-0,0180			

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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	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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