



Sunrise

Thursday, 24 January 2019

Rates: Balancing act for the ECB

EMU January PMI's are expected to marginally rebound following last year's nearly uninterrupted decline. We expect the ECB to keep policy unchanged without altering the risk outlook of the eco scenario. Hints on a new TLTRO would support risk sentiment. Otherwise, we think today's overall reaction will be muted.

Currencies: EUR/USD traders are watching EMU PMI's and ECB

Recent USD rebound ran into resistance yesterday as there was little news on pending topics that should guide FX trading. The EMU PMI's might bottom today and we expect the ECB to keep a guarded positive assessment. Such a scenario shouldn't be that negative for the euro. The sterling short-squeeze continues.

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 stock indices** ended yesterday's choppy trading day with modest gains. The Dow Jones Index (+0.70%) outperformed. **Asian equities** hover between flat and +0.5% with South Korea being the regional winner (+1%)
- US House speaker (and Dem.) **Pelosi blocked US President Trump's State of the Union address**. Trump said he'll give it after the shutdown ends. The US Senate votes on two measures to end the shutdown today, both likely to fail.
- **Venezuelan President Maduro is under pressure to step down** as the US and other nations recognized opposition leader **Juan Guaido** as the country's head of state, while thousands of Venezuelans are on the streets to protest Maduro.
- **Australia** added 21.6k jobs in Dec, **pushing the unemployment rate to 5%**, down from 5.1%. Next, a major Australian bank raised interest rates on variable home loans for owners/investors. The Aussie dollar loses on the news.
- German Economy Minister Altmaier and French EU Affairs Minister Loiseau officially said **they wouldn't oppose a request from the UK to extend the Brexit deadline**, in a response to the growing support by MP's for a 'Brexit delay'.
- **The Nikkei Japan PMI for manufacturers fell in January to 50.0**, the turning point between an expansion and a contraction, and down from 52.6 a month before. The lowest reading since August 2016 confirms global growth concerns.
- **The ECB and Norges bank meet today. Eco data include EMU January PMI's and US weekly jobless claims**. The EIA releases its 2019 energy outlook and France sells bonds.

Rates

Balancing act for the ECB

	US yield	-1d
2	2,58	0,00
5	2,58	0,00
10	2,74	0,00
30	3,06	0,00

	DE yield	-1d
2	-0,58	0,01
5	-0,29	0,07
10	0,23	-0,01
30	0,83	-0,01

Global core bonds ended close to unchanged yesterday. They lost ground during European dealings as stock markets recovered from opening weakness. An intraday turnaround occurred around the time when **US Council of Economic Advisers Chair Hasset** warned in a CNN interview for a very low Q1 growth number as a combination of typical Q1 weakness and the extended shutdown. He added though that it could be followed by a “humongous” Q2. Core bonds didn’t find additional support from a swoon on stock and oil markets during US trading. A distorted EMU consumer confidence left no traces either. The German yield curve flattened with changes ranging between +0.8 bps (2-yr) and -1.1 bp (30-yr). The US yield curve steepened slightly, with changes varying between -0.3 bps (2-yr) and +0.2 bps (30-yr). 10-yr yield spread changes vs Germany ended close to unchanged with Greece (+6 bps) underperforming.

Asian stock market fluctuate between flat and +0.5% this morning. Core bond futures are choppy near yesterday’s opening levels. We expect a neutral start for today’s trading session.

Today’s eco calendar heats up with EMU January PMI’s and the ECB meeting. **PMI’s are forecast to stabilize after last year’s nearly uninterrupted decline.** Consensus expects a small uptick in the composite gauge, from 51.1 to 51.4. **We side with these expectations. From a market point-of-view, it will be interesting to see the reaction in case of a positive surprise.** Will investors already take it as a sign that global growth worries are somewhat exaggerated, pushing core bonds lower? **The European central bank will keep its monetary policy unchanged this afternoon and refrain from downgrading its economic risk outlook.** [Click here](#) for an extended preview. It will again be an exercise in linguistics for ECB President Draghi to avoid creating panic in either direction (amplifying growth slowdown woes or standing firm with policy normalization). **Any hints on preparing for new TLTRO’s is a wildcard and could support markets from a risk-on perspective** (lower Bund & tighter peripheral spreads). Overall, in the above-plotted scenario, we expect a muted market reaction to today’s events without technically significant moves.

From a technical point of view, the German 10-yr yield bounced off 0.15% support, but the picture didn’t change yet. Therefore, the 10-yr yield needs to clear the 0.31% hurdle. The US 10-yr yield lost the 2.75%-2.8% area by the end of last year. This zone now works as resistance in a trading band floored by 2.5%. **In both Germany and the US, we think that sufficient bad news is discounted at current levels. Policy normalization expectations in the US and EMU have become extremely/too dovish. However, a clear trigger is needed before declaring a sustained turnaround.**



German 10-yr yield bounced off 0.15% support, but no change to technical picture yet. 0.31% is first resistance



US 10-yr yield. No clear trigger available to regain 2.75%-2.8% area. Sideways action ahead, floored by 2.5%?

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1381	0,0021
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8708	-0,0059
S1	0,8700	
S2	0,862	

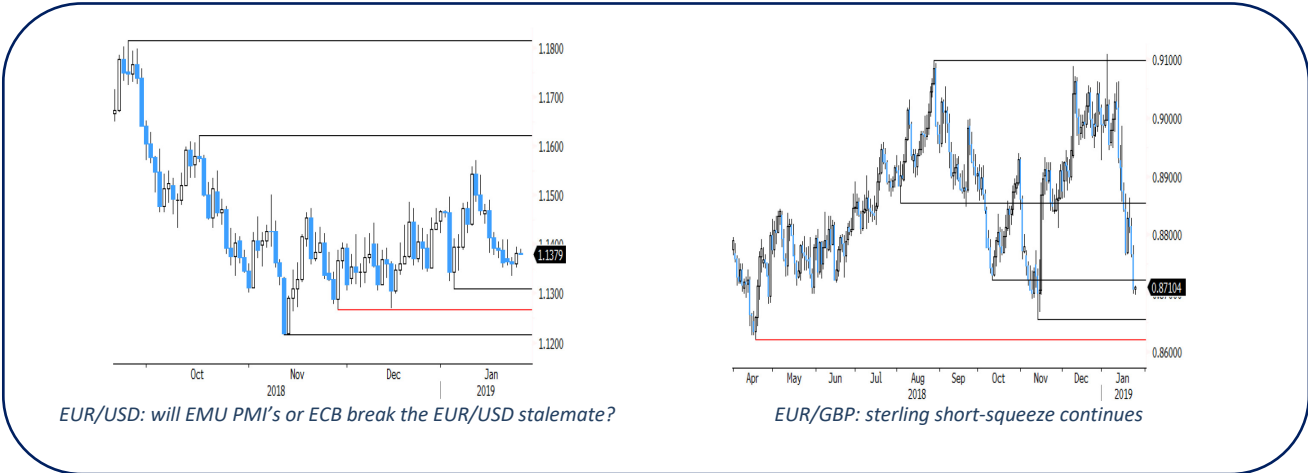
EUR/USD traders are watching PMI's and ECB

USD trading was still guided by technical considerations and by global sentiment **yesterday**. EUR/USD initially hovered in the mid 1.13 area but finally succeeded a modest gain to finish at 1.1381. US yields and the dollar initially rose on a good start of US equities, but momentum eased. USD traders were looking for news on the US-China trade talks, on a solution to the US government shutdown or at corporate earnings, but there was **no important news on these themes to put the dollar on a directional trajectory**. USD/JPY briefly tested the 110 mark, but couldn't sustain the intraday uptick and closed little changed at 109.60.

Asian equities are mostly trading cautiously higher **this morning** as key topics are still pending. The Aussie dollar initially profited from solid labour data, but (more than) reversed the initial gain as a major local bank raised mortgage rates. This rise is causing uncertainty on spending power of highly indebted Australian consumers. AUD/USD dropped to the low 0.71 area. EUR/USD trades currently near 1.1375. USD/JPY is trading little changed near 109.60.

The focus for global (FX) trading will probably turn to EMU **today**, with the January PMI's and the ECB policy meeting/press conference on the agenda. EMU PMI's are expected to bottom at low levels after a steep decline in Q4. Draghi will probably acknowledge recent soft spot in the economy, but maintain the ECB's assessment that conditions remain in place for inflation to move to target 'over time'. If so, the EMU news shouldn't be too bad for the euro. This week, EUR/USD settled again in the 1.12/1.15 range after an upside test was rejected. We turned **neutral on EUR/USD**. **Of late**, the dollar outperformed slightly, but we look out whether the EUR/USD decline might slow as technical support is lining up from 1.1309 to 1.1270 area.

The sterling rally/short squeeze continued yesterday as investors believe that the risk for a disorderly no-deal Brexit is declining, even as there is no formal consensus/majority in the UK Parliament yet. At the same time, **UK eco data of late remained fairly constructive** despite uncertainty on Brexit. The BoE will maintain a very cautious approach but a rate hike later this year might again come on the radar if the Brexit process develops orderly. **EUR/GBP dropped to the low 87 area. The 0.8656/21 support is come closer. For now we don't anticipate a sustained break of that area yet.**



Calendar

Thursday, 24 January		Consensus	Previous
US			
14:30	Initial Jobless Claims	218k	213k
14:30	Continuing Claims	1730k	1737k
15:45	Markit US Composite PMI (Jan P)	--	54.4
15:45	Markit US Manufacturing PMI (Jan P)	53.5	53.8
15:45	Markit US Services PMI (Jan P)	54.0	54.4
17:00	Kansas City Fed Manf. Activity (Jan)	3	3
Japan			
01:30	Nikkei Japan PMI Mfg (Jan P)	50.0A	52.6
EMU			
10:00	Markit Eurozone Manufacturing PMI (Jan P)	51.4	51.4
10:00	Markit Eurozone Services PMI (Jan P)	51.5	51.2
10:00	Markit Eurozone Composite PMI (Jan P)	51.4	51.1
13:45	ECB Deposit Facility Rate	-0.400%	-0.400%
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Jan P)	51.5	51.5
09:30	Markit Germany Services PMI (Jan P)	52.1	51.8
09:30	Markit/BME Germany Composite PMI (Jan P)	51.9	51.6
France			
09:15	Markit France Manufacturing PMI (Jan P)	50.0	49.7
09:15	Markit France Services PMI (Jan P)	50.5	49.0
09:15	Markit France Composite PMI (Jan P)	51.0	48.7
Norway			
08:00	Unemployment Rate AKU (Nov)	4.0%	4.0%
10:00	Deposit Rates	0.75%	0.75%
Sweden			
09:30	Unemployment Rate SA (Dec)	6.2%	6.1%
Events			
2018Q4 earnings	American Airlines Group (bef-mkt), Starbucks (aft-mkt), Intel (aft-mkt) ...		
24JAN	US Energy Information Administration releases its 2019 energy outlook		
10:50	France to Sell Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,74	0,00		US	2,58	0,00	DOW	24575,62	171,14
DE	0,23	-0,01		DE	-0,58	0,01	NASDAQ	7025,768	5,41
BE	0,68	-0,01		BE	-0,52	0,01	NIKKEI	20574,63	-19,09
UK	1,33	0,00		UK	0,80	0,01	DAX	11071,54	-18,57
JP	0,01	0,01		JP	-0,16	0,00	DJ euro-50	3112,13	-0,67
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,06	2,68	1,24	Eonia	-0,3680	0,0000	Libor-1	2,5190	0,0000
5y	0,18	2,66	1,34	Euribor-1	-0,3680	0,0000	Libor-3	2,7793	0,0000
10y	0,77	2,77	1,50	Euribor-3	-0,3080	0,0000	Libor-6	2,8536	0,0000
				Euribor-6	-0,2370	0,0000			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1381	0,0021		EUR/JPY	124,75	0,50	CRB	178,66	-0,33
USD/JPY	109,6	0,23		EUR/GBP	0,8708	-0,0059	Gold	1290,20	0,70
GBP/USD	1,3069	0,0115		EUR/CHF	1,1325	-0,0004	Brent	61,14	-0,36
AUD/USD	0,7142	0,0018		EUR/SEK	10,2672	0,0144			
USD/CAD	1,3343	-0,0012		EUR/NOK	9,7491	-0,0214			

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