



Wednesday, 13 February 2019

## Rates: Spanish budget vote trigger for snap elections?

Risk sentiment remains positive overnight as US President Trump shows wiliness to extend the Chinese trade deal deadline (March 1). Core bonds trade a tad weaker. Peripheral spreads might see some widening today given Italian/Portuguese supply and the Spanish parliament's budget vote. The latter might be voted down, prompting a case for snap election.

## Currencies: EUR/USD rebound, but picture remains fragile

Yesterday, the overall risk rebound also triggered a short squeeze on the recent EUR/USD decline. EUR/USD rebounded off the 1.1270 support. For now, a better risk sentiment might give the euro downside protection. However, a sustained rebound probably needs a solution for on pending global/EMU event risks or better EMU eco data.

## 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 equities** spurred higher with gains over 1% yesterday on the tentative border deal and trade hopes. **Asian markets** are trading in green as well. Chinese indices outperforming with gains up to 2%.
- **US President Trump signalled he's open to extending the China tariff deadline** (March 1) if an agreement is near while Xi Jinping is scheduled to meet the US trade delegation, with US Treasury Secretary Mnuchin, in Beijing on Friday.
- **US President Trump will likely sign the preliminary border security deal** this week into legislation that will avoid a new government shutdown. However, he is said to use his executive authority to fund additional border measures.
- Olly Robbins, UK's chief Brexit negotiator, was overheard saying **the UK is seeking a long extension to the Brexit deadline** if Parliament refuses to pass PM May's deal. However, May repeated that extending Article 50 makes no sense.
- **New Zealand's central bank left the official cash rate at 1.75%**, as expected. The RBNZ pushed out its forecast for a rate hike to early 2021, disappointing investors that were looking for signs of policy easing. The kiwi edged higher.
- **Japan's producer prices** declined more than expected in January (-0.6% M/M vs. -0.2%). **Australian Westpac consumer confidence rebounded sharply** in February, from 99.6 to 103.8.
- **Today's eco calendar** contains US and UK CPI inflation. The Swedish Riksbank meets. An avalanche of Fed governors speak, as does ECB governor Lane. Spanish parliament votes on the budget. PT, IT and GE tap the bond market

# Rates

## Spanish budget vote trigger for snap elections?!

	US yield	-1d
2	2,51	0,02
5	2,51	0,03
10	2,69	0,03
30	3,03	0,03

	DE yield	-1d
2	-0,57	0,01
5	-0,34	0,01
10	0,13	0,01
30	0,77	0,01

**Global core bonds lost some additional ground yesterday.** The main move occurred early on after **US Congress reached a tentative border security deal, suggesting no new government shutdown after Friday.** US Treasuries underperformed German Bunds. **Mixed ECB headlines caused minor intraday volatility. Risk sentiment flourished with main European indices gaining up to 1% and their US counterparts even up to 1.5%.** The German yield curve bear steepened slightly with yields rising by 0.4 bps (2-yr) to 1.3 bps (30-yr). US yields added 1.9 bps (2-yr) to 3.4 bps (10-yr). 10-yr yield spread changes vs Germany narrowed marginally with Greece (-8 bps) and Italy (-7 bps) outperforming.

**Asian stock markets join yesterday's European/US rally after Chinese media reported that President Xi Jinping will join high-level trade talks** on Friday. Additionally, US President Trump showed willingness to extend the March 1 deadline in order to seek a "real deal". Without deal, the US vowed to automatically impose import tariffs on the remaining Chinese goods by that date. Chinese and Japanese bourses outperform this morning. The German Bund and US Note future trade a tad softer with positive risk sentiment expected to last into the European start of trading.

Today's eco calendar contains **January US CPI inflation data.** The headline reading is forecast to show an oil-related deceleration from 1.9% Y/Y to 1.5% Y/Y while the core readings probably shows a smaller slowdown (2.2% Y/Y to 2.1% Y/Y). This would strengthen the Fed's view that they can stay sidelined to assess the situation without having to fear inflation moving away from target. We don't expect big deviations from consensus or a market reaction. **Peripheral spreads could see some widening vs Germany given supply (Italy/Portugal) and the budget vote in Spanish parliament.** The latter is projected to be voted down, prompting a case for snap elections in April. **Central bank speakers include ECB Lane, Fed Mester, Fed Bostic and Fed Harker. Most of them recently spoke and Fed governors are non-voters.**

**Technically,** the German 10-yr yield fell through the lower bound of the 0.15%-0.31%, 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.



# Currencies

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1326</b>	<b>0,0050</b>
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8786</b>	<b>0,0017</b>
S1	0,8620	
S2	0,8314	

## EUR/USD rebound off 1.1270 support area

The recent **euro decline/USD rally fell prey to profit taking** yesterday. EUR/USD rebounded as global sentiment improved on a tentative US budget deal and investor hopes that the US-China trade talks are heading in the right direction. ECB speakers including Weidmann, Lane, Nowotny and Knot didn't sound overly dovish. EUR/USD briefly filled bids below the 1.1270 support, but the test was rejected and EUR/USD staged a protracted intraday rebound to close at 1.1326. USD/JPY confirmed its 110+ break, but given the rise in US yields and the positive sentiment, gains were modest (close at 110.48).

**Overnight**, Asian equities also rally on the positive headlines on the US-China trade talks. The yuan strengthens (USD/CNY 6.7550 area). USD/JPY (111.65) continues drifting higher. EUR/USD (1.1335 area) is gaining a few ticks. **The kiwi dollar** rebounded sharply as the RBNZ failed to meet dovish market expectations (rates are expected stable through 2019 & 2020, a tentative rise is pencilled from 2021). The kiwi dollar gained more than a full big figure (NZD/USD 0.6845 area). The Aussie dollar (AUD/USD 0.7130 area) also regained modest ground on decent confidence data and constructive RBA talk.

US CPI inflation is expected to ease to 1.5% (headline) and 2.1% (core) today. If anything, the report might justify the Fed's wait-and-see stance. This might be neutral to tentatively soft for the USD. Headlines on the Spanish budget are a wildcard. **Yesterday, the euro profited from a better risk sentiment.** However, EMU political event risk is still in play and the fragile eco picture questions the room for the ECB policy normalisation. **EUR/USD tested the 1.1270 area, but the test is rejected. However a sustained euro rebound probably needs some of the global (trade) and EMU political event risks to be solved and more comforting EMU eco data. This condition isn't met yet. We look out for more convincing signs of a bottoming process. EUR/USD 1.1216 (Nov low) low remains next high profile support.**

**EUR/GBP gained a few more ticks yesterday.** The move was mainly caused by the overall EUR/USD rebound. UK PM May as expected tried to convince Parliament to give her more time to reach a better deal/agreement on the Irish backstop arrangement. Today UK inflation data will be published a modest easing is expected. However, markets will mainly look forward to the developing Brexit story, starting with tomorrow's vote in the UK Parliament. As we don't see signs of a break-through yet, more technical driven EUR/GBP trade might be expected.



EUR/USD rebounds off 1.1290/67 support, but picture remains fragile.



NZD/USD: kiwi dollar rebound as RBNZ fails to meet soft market expectations.

# Calendar

Wednesday, 13 February		Consensus	Previous
<b>US</b>			
14:30	CPI MoM/YoY (Jan)	0.1%/1.5%	0.0%R/1.9%
<b>14:30</b>	<b>CPI Ex Food and Energy MoM/YoY (Jan)</b>	<b>0.2%/2.1%</b>	<b>0.2%/2.2%</b>
14:30	Real Avg Hourly/Weekly Earning YoY (Jan)	--/--	1.3%R/1.4%R
<b>Japan</b>			
00:50	PPI MoM/YoY (Jan)	-0.6%A/0.6%A	-0.6%/1.5%
<b>UK</b>			
10:30	CPIH YoY (Jan)	1.9%	2.0%
10:30	CPI MoM/YoY (Jan)	-0.7%/1.9%	0.2%/2.1%
<b>10:30</b>	<b>CPI Core YoY (Jan)</b>	<b>1.9%</b>	<b>1.9%</b>
10:30	RPI MoM/YoY (Jan)	-0.8%/2.6%	0.4%/2.7%
10:30	PPI Input NSA MoM/YoY (Jan)	0.2%/3.8%	-1.0%/3.7%
10:30	PPI Output NSA MoM/YoY (Jan)	0.0%/2.2%	-0.3%/2.5%
10:30	House Price Index YoY (Jan)	2.5%	2.8%
<b>EMU</b>			
11:00	Industrial Production SA MoM/WDA YoY (Dec)	-0.4%/-3.3%	-1.7%/-3.3%
<b>New Zealand</b>			
<b>02:00</b>	<b>RBNZ Official Cash Rate</b>	<b>1.75%A</b>	<b>1.75%</b>
<b>Sweden</b>			
<b>09:30</b>	<b>Riksbank Interest Rate</b>	<b>-0.25%</b>	<b>-0.25%</b>
<b>Events</b>			
2018Q4 earnings	Cisco Systems (aft-mkt), American International Group (aft-mkt) ...		
<b>00:30</b>	<b>Fed's Mester Speaks on Economic Outlook and Monetary Policy (non-voter)</b>		
<b>01:30</b>	<b>Fed's George Speaks on the U.S. Economy (voter)</b>		
<b>09:55</b>	<b>ECB Governing Council Member Philip Lane Speaks in Dublin</b>		
11:00	Italy to Sell Up to 2.25b Euros of 2.3% 2021 Bonds and 2.25b Euros of 2.5% 2025 Bonds		
11:00	ECB's Villeroy Speaks in Paris		
11:30	Germany to Sell 1.5b Euros of 2.5% 2046 Bonds		
11:30	Portugal to Sell 2.25% 2034 Bonds and 1.95% 2029 Bonds		
<b>14:50</b>	<b>Fed's Mester Speaks on Economic Outlook and Monetary Policy (non-voter)</b>		
<b>14:50</b>	<b>Fed's Bostic to Speak to European Financial Forum in Dublin (non-voter)</b>		
15:00	ECB Gov. Council Member, Bank of Italy Governor Visco in Milan		
<b>18:00</b>	<b>Fed's Harker Speaks on Economic Outlook (non-voter)</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,69	0,03	US	2,51	0,02	DOW	25425,76	372,65	
DE	0,13	0,01	DE	-0,57	0,01	NASDAQ	7414,619	106,71	
BE	0,72	0,00	BE	-0,43	0,01	NIKKEI	21144,48	280,27	
UK	1,19	0,01	UK	0,73	0,00	DAX	11126,08	111,49	
JP	-0,01	0,01	JP	-0,16	0,00	DJ euro-50	3190,75	25,14	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,08	2,59	1,10	Eonia	-0,3670	-0,0010	Libor-1	2,4979	0,0000
5y	0,13	2,58	1,19	Euribor-1	-0,3680	0,0000	Libor-3	2,6880	0,0000
10y	0,67	2,71	1,36	Euribor-3	-0,3080	0,0000	Libor-6	2,7336	0,0000
				Euribor-6	-0,2310	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1326	0,0050	EUR/JPY	125,12	0,62	CRB	178,21	1,09	
USD/JPY	110,48	0,10	EUR/GBP	0,8786	0,0017	Gold	1314,00	2,10	
GBP/USD	1,2892	0,0037	EUR/CHF	1,1401	0,0079	Brent	62,42	0,91	
AUD/USD	0,7095	0,0033	EUR/SEK	10,4885	-0,0068				
USD/CAD	1,3238	-0,0064	EUR/NOK	9,7971	-0,0319				

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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
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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