

Monday, 21 October 2019

Rates: All eyes remain directed on Westminster

Core bond trading was lackluster last Friday ahead of the extraordinary parliamentary session in the UK. As discussions continue, we expect more of the same at the start of the new trading week. The eco/event calendar is backloaded with EMU PMI's, the ECB meeting and a speech by US VP Pence on China all scheduled on Thursday.

Currencies: Letwin wins, sterling loses (mildly)

Saturday's crucial Brexit vote paralyzed markets on Friday. PM Johnson's Brexit deal eventually did not even make it to a vote as the Letwin amendment got approved, requiring the government to get key Brexit legislation passed first. Brexit will dominate today's trading given the lack of important data. Johnson will try to secure a vote on his deal again.

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	→

- **WS** ended the week on a down note (up to -0.95%). **Asian markets** are trading mixed as investors digest the latest trade/Brexit developments and are waiting for a slew of earnings reports. Singapore outperforms (0.93%).
- **UK's PM Boris Johnson is set to make a fresh bid today to win parliamentary backing for his Brexit deal** amid growing confidence that he now has the support of 320 MPs needed to secure victory.
- **Chinese VP Liu He boosted optimism as he said on Friday that the US and China are working to address each other's concerns** and that the nations "have made substantial progress" on the foundation for a phase 1 deal.
- **On Friday, the Fed's Clarida left the door open to a further rate cut** and remarked that the US economy is in good shape but that geopolitical tensions remain unresolved and are spreading through the domestic economy.
- **At the IMF and World Bank's annual meetings, finance ministers and central bankers from around the globe gave momentum to the idea of fiscal policy** to rekindle a slipping world economy.
- **Japan's exports contracted for a tenth straight month in September (-5.7%) (consensus at -3.7%)** amid a bitter Sino-US trade war and slowing Chinese growth. The weak data could push the BoJ to ease as soon as next week.
- **Today's economic calendar** is little inspiring. Sentiment will be driven by Brexit developments and key events later this week (central banks' rate decision, Q3 earnings reports, trade developments).

Rates

All eyes remain on Westminster

	US yield	-1d
2	1.57	-0.03
5	1.57	-0.01
10	1.75	0.00
30	2.26	0.02

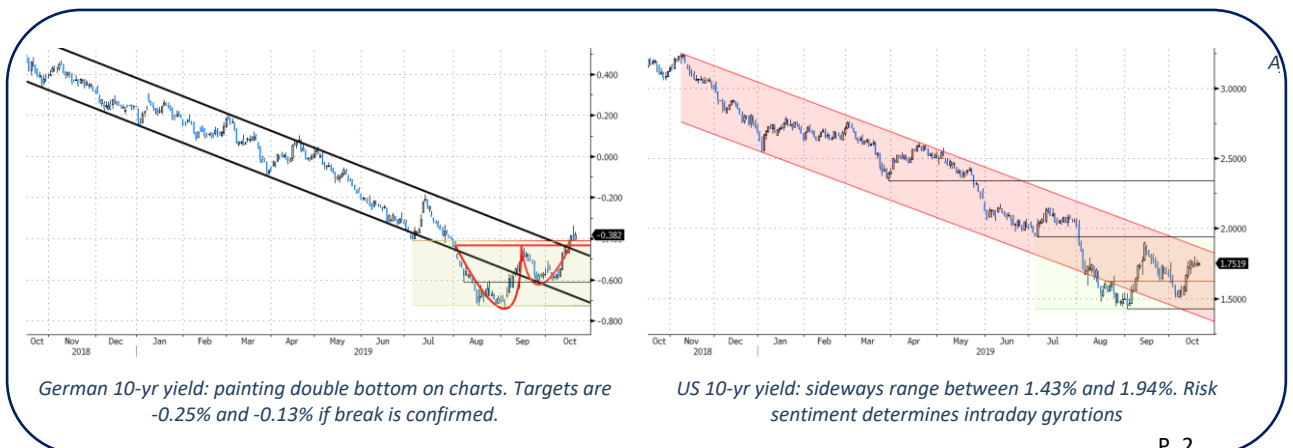
Global core bonds drifted lower last Friday in low-volume circumstances. Investors were reluctant to adapt/add positions ahead of UK parliament's extraordinary Saturday session. The German yield curve bear steepened with yields rising by 0.3 bps (2-yr) to 3.3 bps (30-yr). 10-yr yield spread changes vs Germany ended narrowly mixed with Greece (-10 bps) outperforming. The US yield curve steepened as well with daily changes varying between -2.6 bps (2-yr) and +1.5 bps (30-yr). **The outperformance of the front end of the curve probably had something to do with Fed Vice-Chair Clarida's comments.** He said that the US central bank will act as appropriate to sustain the economic expansion as risks remain evident. With the black period now kicking in, his comments were interpreted as **a final nod for a third consecutive policy rate cut at the October Fed meeting.**

	DE yield	-1d
2	-0.66	0.01
5	-0.62	0.02
10	-0.38	0.03
30	0.16	0.04

An effective vote on Johnson's Brexit deal eventually didn't occur with MP's voting instead for amendments that slow the process. The government added a meaningful vote on Johnson's Brexit deal again on today's parliamentary agenda, but the House speaker is expected to block it for judicial reasons. **Tomorrow, the government will try to seek a majority when legislation implementing the deal is put to a vote. The FT suggests that Johnson might win the vote with an extremely narrow 5-seat majority.**

Most stock Asian markets are trading with small gains this morning with India closed. The German Bund and US Note future tread water. Today's eco calendar is razor thin. **We expect trading action to resemble the one on Friday with all eyes directed on the UK parliament. PM Johnson.** Markets remain positioned for a positive outcome. **This week's eco calendar is more backloaded with Thursday probably key.** ECB President Draghi attends his final ECB meeting while US VP Pence gives a key speech on China. On the data front, we get October EMU PMI's. Q3 Earnings remain a wildcard.

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Risk sentiment and eco data drove action within sideways ranges since. The German 10-yr yield broke above -0.41% as Brexit deal hopes surged. Target of this double bottom formation are -0.25% and -0.13%. The 38% retracement level of the steady decline between October and August stands at -0.24%. **A sustained break however requires the Brexit deal to be approved in UK parliament.**



Currencies

Letwin wins, sterling loses (mildly)

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1167	0.0042
S1	1.0864	
S2	1.0778	

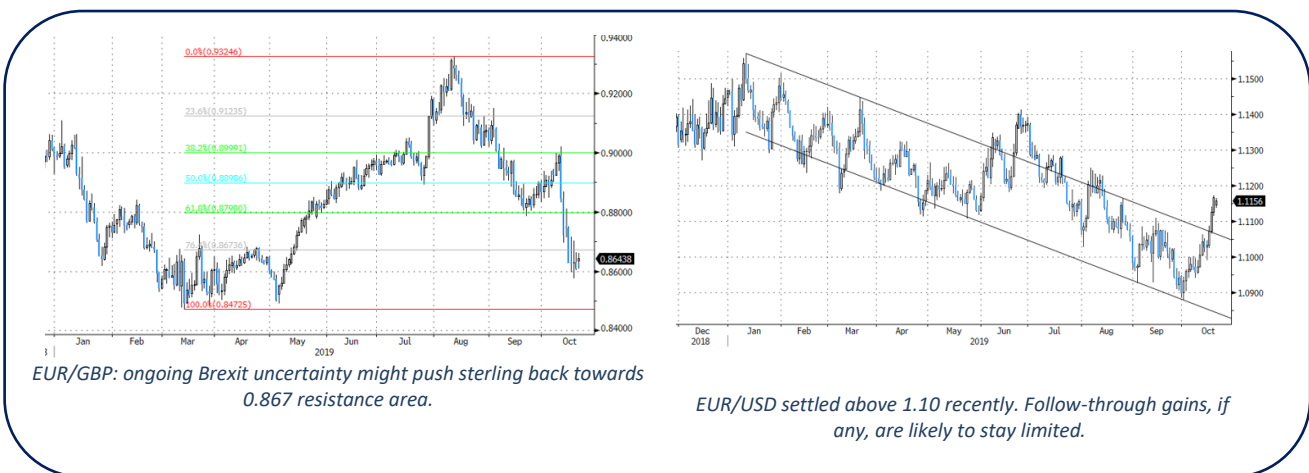
After a mixed bag of Chinese (GDP, retail and industrial) figures, Friday's news and data flow was very limited and of secondary importance only. **Markets engaged in technical trading under (very) low volumes ahead of a key Brexit vote in UK Parliament (see below).** EUR/USD extended recent gains despite a cautious risk environment as US/EMU spreads narrowed. The currency pair closed at 1.1167, up from 1.1125. USD/JPY drifted south and finished the week at 108.45 vs. 108.66 at opening.

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8610	-0.0019
S1	0.8500	
S2	0.8314	

Asian stocks brush aside any Brexit disappointment and cling on to Chinese VP Liu He's upbeat comments on trade talks with the US. Markets show modest gains. EUR/USD suffers some small losses following this weekend's Brexit developments, trading in the 1.116 area. USD/JPY is changing hands near Friday's close. There's no important economic data scheduled for release today. We foresee technical trading in the run up to Thursday's ECB and PMI's. Popping headlines related to trade and Brexit are bound to cause some (intraday) volatility but are unlikely to cause any directional moves in EUR/USD or USD/JPY.

EUR/USD has settled above 1.10. Follow-through gains are rather modest though. **Brexit uncertainty hasn't been removed (yet?).** At the same time the dollar might lose some further momentum ahead of the Oct 30 Fed meeting after vice chair's Clarida final go for a third rate cut on Friday. **We expect more EUR/USD gains, if any, to stay limited.**

Sterling got caught in technical range trading last Friday as it awaited Parliament's meaningful vote on Saturday. It didn't come to a vote however. Lawmakers approved the Letwin amendment instead. **It requires the Brexit legislation to be incorporated in British law first.** Johnson was also **required to ask for another extension.** The EU has yet to decide. PM Johnson will give his deal another try today but it is unsure whether Commons Speaker Bercow will allow him. If blocked by the Speaker, the PM plans to push through the legislation in less than two weeks. **The pound holds up pretty well currently.** Still, it's hard to see sterling's recent rally continue. PM Johnson might have the numbers for his deal, but time is against him. We expect a nervous sterling with limited short term upside. EUR/GBP 0.867 is the first area of resistance.



EUR/GBP: ongoing Brexit uncertainty might push sterling back towards 0.867 resistance area.

EUR/USD settled above 1.10 recently. Follow-through gains, if any, are likely to stay limited.

Calendar

Monday, 21 October		Consensus	Previous
US			
18OCT-21OCT	Monthly Budget Statement (Sep)	\$83.0b	\$119.1b
Japan			
01:50	Trade Balance Adjusted (Sep)	-¥97.2bA	-¥116.7bR
01:50	Imports/Exports YoY (Sep)	-1.5%A/-5.2%A	-11.9%R/-8.2%
06:30	All Industry Activity Index MoM (Aug)	0.0%A	0.2%
UK			
01:01	Rightmove House Prices MoM/YoY (Oct)	0.6%A/-0.2%A	-0.2%/0.2%
Germany			
08:00	PPI MoM/YoY (Sep)	-0.1%/-0.2%	-0.5%/0.3%
Belgium			
15:00	Consumer Confidence Index (Oct)	--	-11
Events			
Q3 earnings	Halliburton (bef-mkt) ...		
17:00	BOE's Haldane Speaks on Diversity in Frankfurt		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.75	0.00		US	1.57	-0.03		DOW	26770.2	-255.68
DE	-0.38	0.03		DE	-0.66	0.01		NASDAQ	8089.543	-67.31
BE	-0.08	0.04		BE	-0.61	0.00		NIKKEI	22548.9	56.22
UK	0.71	0.03		UK	0.54	0.03		DAX	12633.6	-21.35
JP	-0.13	0.00		JP	-0.24	-0.01		DJ euro-50	3579.41	-9.21
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.35	1.57	0.80	Eonia	-0.4630	0.0000				
5y	-0.27	1.56	0.81	Euribor-1	-0.4380	0.0100		Libor-1	1.8503	0.0039
10y	0.03	1.69	0.89	Euribor-3	-0.4070	0.0030		Libor-3	1.9533	-0.0126
				Euribor-6	-0.3510	-0.0020		Libor-6	1.9518	-0.0227
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1167	0.0042		EUR/JPY	121.07	0.17		CRB	175.75	0.22
USD/JPY	108.45	-0.21		EUR/GBP	0.8610	-0.0019		Gold	1494.10	-4.20
GBP/USD	1.2984	0.0093		EUR/CHF	1.0993	0.0003		Brent	59.42	-0.49
AUD/USD	0.6856	0.0032		EUR/SEK	10.773	-0.0319				
USD/CAD	1.3127	-0.0010		EUR/NOK	10.2357	0.0174				

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