



Sunrise

Thursday, 07 November 2019

Rates: Core bonds end three-day slide

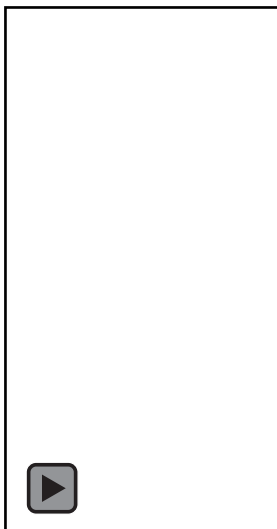
Core bonds gained some modest ground yesterday. The risk rally on stock markets slowed near recent highs on rumours that signing the phase 1 trade deal would be pushed to December. Lower oil prices played a role as well while a strong 10-yr Note auction caused some outperformance of US Treasuries. Today's eco/event calendar remains thin.

Currencies: EUR/USD slips below 1.1065 support

EUR/USD was unmoved yesterday, looking for guidance. The couple eventually closed near the key 1.1065 support. The current mild risk-off results in a tentative break of that level and might keep the euro further in the defensive today. We keep a close eye on the Bank of England. Will Carney complete its U-turn to an easing bias?

Calendar

Headlines



- **WS** struggled for momentum and traded near flat (up to -0.29%) as news on the trade front deflated optimism. **Asian markets** are trading mixed, with India underperforming (-1.32%).
- **The US-China long-awaited phase 1 deal hit a new roadblock** as a report from Reuters said a **meeting** between US president Trump and his Chinese counterpart Jinping, **could be delayed until December**.
- **BoJ** governor Kuroda said today that the central bank would **continue its massive monetary easing** to achieve its 2% inflation target while adding that **"it's natural for monetary and fiscal policies to work as one"**.
- **The NBP** kept its policy rate unchanged yesterday and **signalled that rates will remain unchanged for a while**. Despite the global economic slowdown, the **Polish economy grows at a healthy pace and does not require more stimulus**.
- Capital rushed out of the Brazilian Real with **USD/BRL spiking over 2% after news broke that Brazil's oil auction failed to generate the level of excitement analysts had forecasted**.
- **Germany's manufacturing sector continues to sputter. Industrial production fell 0.6% (m/m) in September** (consensus at -0.4%). Once a huge source of strength, industry has become a key vulnerability to the German economy.
- **Today's economic calendar** will be centred around the BoE's rate decision. Markets are focused on how the BoE will respond to Brexit uncertainties. The EU Commission will publish its economic forecasts. US taps the bond market.

Rates

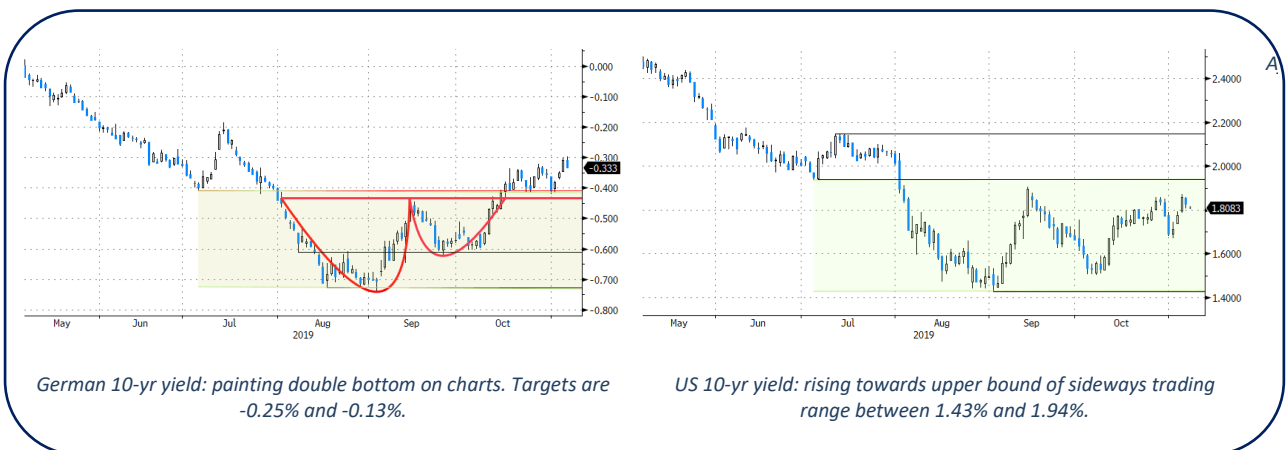
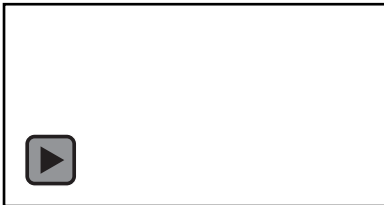
Core bonds end three-day sell-off

Core bonds recovered slightly from an impressive 3-day slide with stock markets searching for air near the recent (all-time in the US) highs and with oil prices sliding. OPEC+ is unlikely to seek deeper output cuts at next month's meeting, according to delegates across the coalition. Brent crude tumbled from \$63/barrel to \$61.75/barrel. European/US equity indices ended mixed on headlines that the signing of the US-Chinese Phase 1 trade deal would be delayed to December with both sides struggling to agree over the location for the procedure. US Treasuries eventually outperformed German Bunds with a strong \$27bn 10-yr Note auction providing some support as well. Speeches by Fed-governors all pointed in the same direction: the US economy is in a good place following the three consecutive rate cuts, giving the US central bank room to assess incoming data. US yields fell by 1.7 bps (2-yr) to 3.3 bps (5-yr) on a daily basis. The German yield curve bull flattened with yields down 0.1 bp (2-yr) to 3.6 bps (30-yr). 10-yr yield spread changes vs Germany ended nearly unchanged.

Asian stock markets trade mixed as well this morning. Core bonds hover near yesterday's closing levels, but JPY strength still suggests some cautiousness. Overnight eco/event news is extremely thin.

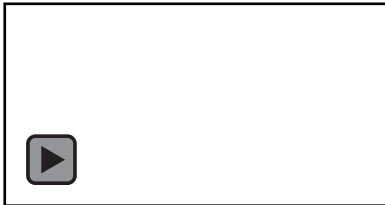
Today's eco calendar contains US weekly jobless claims, speeches by ECB/Fed governors and fresh EU Commission forecasts. We don't expect them to be pivotal for trading. Risk sentiment on stock markets can trigger intraday gyrations. Main US/European indices since mid-October started frontrunning on less geopolitical uncertainty (Brexit & US-Chinese trade talks). We might start seeing some consolidation near the highs with quite some good news already discounted. That could take the sting out of core bonds' recent slide. The US Treasury's \$19bn 30-yr Bond auction will be closely watched with September dollar liquidity troubles in mind (normally taken care of by Fed's actions).

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. The German 10-yr yield broke above -0.41% resistance, improving the technical picture. Target of this double bottom formation are -0.25% and -0.13%. The 38% retracement level of the Oct-Aug decline stands at -0.24%. The US 10-yr yield trades in the 1.43%-1.94% sideways trading channel.



Currencies

EUR/USD slips below 1.1065 support



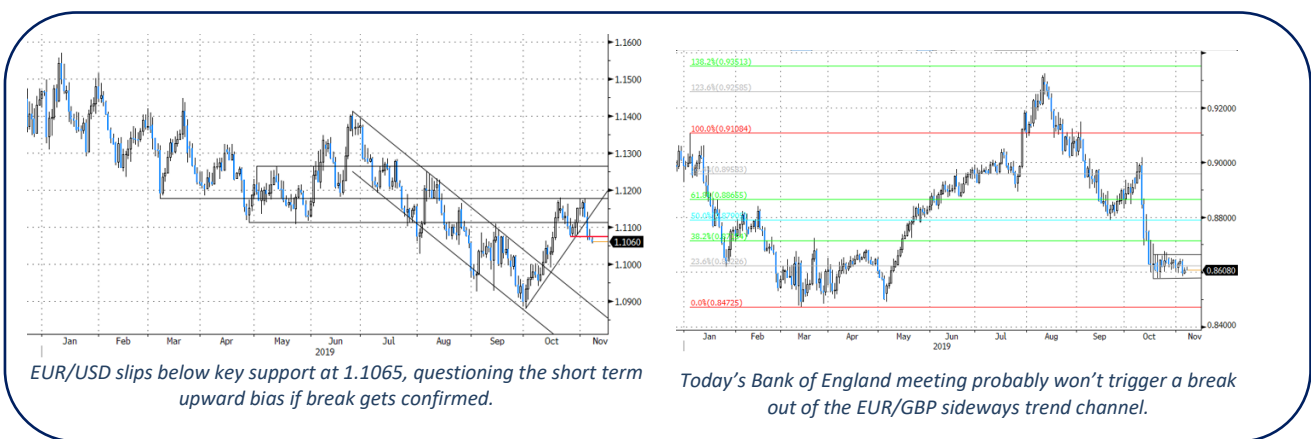
The risk rally stalled yesterday with news flow very thin and markets awaiting more clues from trade. German factory orders surprised on the upside but had little to no direct market impact. The same goes for slightly better than expected final EMU PMI's. Headlines that **the partial trade deal might not be signed until December** as a new location is still under discussion triggered knee jerk losses in US stock markets and yields. Both later recovered however. EUR/USD initially held an upward bias but clearly lacked momentum. The couple eventually closed marginally lower at key support around 1.1065/75 (1.1066 from 1.1075). USD/JPY closed shy of 109 (108.98 from 109.16).



Recent trade optimism also fades during Asian trading hours. Equity markets are trading mixed, at best, amid very scant news and data. The Chinese yuan is giving up on recent gains which drove USD/CNY back below 7. A cautious risk sentiment is sending the yen deeper below USD/JPY 109 (108.73 at the time of writing). Kuroda said the BoJ will continue with massive monetary easing to reach the 2% inflation target. The yen isn't really impressed though. EUR/USD, currently trading at 1.106, slipped below 1.1065 support.

Today's European Commission's autumn economic forecasts are worth mentioning. However, the remainder of the eco calendar won't be of any importance for markets, leaving trading mostly up to technical factors. **This morning's break of EUR/USD 1.1065 following the possible delay in the partial deal suggest the euro is more vulnerable to trade developments.** We don't draw any firm conclusions as the break has yet to be confirmed but this move at least questions the short term upward bias of the couple. **In combination with a mild risk off, it might keep the euro further in the defensive.**

Sterling trading was mainly technical in nature yesterday while the UK election campaign kicked off. EUR/GBP held an upward bias, closing at 0.861. **The Bank of England is convening today and publishes a new inflation report.** We're keen to see whether the central bank will complete its U-turn to an easing bias. Doing so might add pressure on sterling in a daily perspective. We don't expect any significant moves however. EUR/GBP is likely to be trapped in its sideways trend channel as markets await the outcome of the elections.



Calendar

Thursday, 7 November		Consensus	Previous
US			
14:30	Initial Jobless Claims	--	218k
14:30	Continuing Claims	--	1690k
21:00	Consumer Credit (Sep)	\$15.600b	\$17.901b
UK			
13:00	Bank of England Bank Rate	0.75%	0.75%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Sep)	-0.50%/-4.50%	0.30%/-4.00%
09:30	Markit Germany Construction PMI (Oct)	--	50.1
Events			
07NOV	Euro area finance ministers pick a new ECB board member		
10:00	ECB Publishes Economic Bulletin		
11:00	EU Commission Economic Forecasts		
10:40	Spain to Sell Bonds		
10:50	France to Sell Bonds		
13:00	Bank of England Inflation Report		
13:30	BOE's Carney speaks at press conference in London		
19:00	US to Sell USD19 Bln 30-Year Bonds		
19:05	Dallas Fed's Kaplan Speaks in Dallas (non-voter)		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.83	-0.03	US	1.61	-0.02	DOW	27492.56	-0.07	
DE	-0.33	-0.02	DE	-0.64	0.00	NASDAQ	8410.628	-24.05	
BE	-0.05	-0.03	BE	-0.61	-0.01	NIKKEI	23330.32	26.50	
UK	0.72	-0.06	UK	0.54	-0.05	DAX	13179.89	31.39	
JP	-0.08	-0.01	JP	-0.19	0.00	DJ euro-50	3688.74	12.22	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.32	1.62	0.81	Eonia	-0.4560	0.0000	Libor-1	1.7699	0.0000
5y	-0.24	1.61	0.82	Euribor-1	-0.4450	-0.0070	Libor-3	1.8935	0.0000
10y	0.07	1.74	0.90	Euribor-3	-0.4060	-0.0030	Libor-6	1.9263	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1066	-0.0009	EUR/JPY	120.6	-0.29	CRB	180.51	-1.58	
USD/JPY	108.98	-0.18	EUR/GBP	0.8608	0.0012	Gold	1493.10	9.40	
GBP/USD	1.2855	-0.0029	EUR/CHF	1.0987	-0.0008	Brent	61.74	-1.22	
AUD/USD	0.6884	-0.0009	EUR/SEK	10.6516	-0.0382				
USD/CAD	1.3181	0.0024	EUR/NOK	10.1486	-0.0111				

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