

Wednesday, 24 April 2019

Rates: Core bonds hold their ground in spite of surging stocks

Core bonds remain resilient even if main US stock markets ended the trading day at record closing highs. Earnings (Caterpillar, Boeing, Microsoft, Facebook,...), German IFO business sentiment and crude inventories are today's eyecatchers. We still prefer to err on the side of caution which argues in favour of core bonds.

Currencies: Dollar maintains 'by default' bid and nears short-term resistance

The dollar extended its recent rebound yesterday. USD/CHF already cleared key resistance. EUR/USD and the trade-weighted dollar are nearing key support/resistance. We expect any further USD gains to develop very gradually as the Fed is firmly on hold. Even so, a poor German ifo confidence might push EUR/USD for a test of the 1.1177 range bottom.

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** spurred higher yesterday, driving S&P 500 (+0.88%) and Nasdaq (+1.32%) to record closing highs. **Asian equities** are trading mixed this morning with Japanese indices underperforming.
- **UK PM May is considering a risky new attempt to deliver Brexit** with a new Parliamentary vote on a bill that includes the original Withdrawal Agreement but with possible amendments. A passing of the bill could avoid EU elections.
- **US Trade Rep. Lighthizer and Treasury Secretary Mnuchin will travel to Beijing on April 30** to continue trade talks with China, the White House confirmed. Thereafter, Chinese VP Liu He will travel to Washington on May 8.
- **The US Treasury department missed the deadline to turn over President Trump's tax returns** over constitutional and privacy concerns with a request by a US House of Representatives committee.
- **N-VA remains the largest party in Flanders** with 28%, according to a nationwide poll in Belgium. Four other parties (CD&V, Open VLD, SP.A and Groen) compete for the second place. **The socialist party PS remains the biggest in Wallonia.**
- **Australia's Q1 consumer inflation rose 1.3% (YoY)**, down from 1.8% and below expectations (1.5%). The weaker than expected inflation **raises expectations of a possible rate cut by the RBA next month.** The Aussie dollar loses ground.
- **Today's eco calendar** contains the Bank of Canada policy meeting, German Ifo Business confidence (Apr) and the ECB's Economic Bulletin. Germany and the US tap the market while Q1 earnings season continues.

Rates

	US yield	-1d
2	2,36	-0,02
5	2,34	-0,03
10	2,57	-0,02
30	2,97	-0,01

	DE yield	-1d
2	-0,57	0,00
5	-0,39	0,01
10	0,04	0,02
30	0,67	0,01

US stock markets follow their own path

Core bonds ended mixed yesterday with US Treasuries outperforming German Bunds. The German Bund opened on a soft footing, returning from the long Easter weekend and catching up with US Treasuries losses. Sideways trading made way for core bond gains starting around the US open. EMU consumer confidence and US Richmond Fed manufacturing confidence disappointed, while new home sales unexpectedly beat consensus. **Data had no direct market impact and neither did US stock markets. The Nasdaq and S&P 500 closed at record high (boosted by strong earnings), but didn't pull bonds lower via the risk on/risk off paradigm.** US yields declined by 1.2 bps (30-yr) to 2.7 bps (5-yr). German yields added between 0.1 bp (2-yr) and 1.7 bps (10-yr). 10-yr yield spread changes vs Germany widened marginally with **Italy (+6 bps) underperforming** on reports of more government tensions and ahead of Friday's credit review by S&P. The rating agency has a negative outlook on the country's BBB rating since October. Positive/negative outlook normally gets sorted out within a 2-yr timeframe. It's probably too early to use the axe.

Asian stock markets buck Wall Street's bullish run with Japan, China and South Korea even ceding ground. Core bonds have an upward bias. The US and China will restart trade talks in Beijing next week, pushing for a draft agreement by the end of May. The overnight market reaction shows that a positive outcome in the US-Sino trade conflict is discounted.

Today's eco calendar contains the April German Ifo business confidence. Consensus expects a stabilization of both the current climate and expectations indices after a March rebound. Risks, if any, probably remain tilted to the downside. **Companies reporting earnings include industrial machinery group Caterpillar, a bellwether for the economy, scandal-hit Boeing and technology giants Microsoft and Facebook.** These are wildcards for trading. Crude inventories will be closely monitored as well, following Brent crude's recent leap higher. **We still prefer to err on the side of caution which argues in favour of core bonds.**

Long term view: markets concluded that the ECB missed out on this cycle. They even start pondering the possibility of an additional deposit rate cut. The downtrend in the German 10-yr remains in place so far. **Regarding Fed policy, markets now discount a 50% probability of a Fed rate cut by December.** The US 10-yr yield closed last week above the lower bound of the previous 2.5%-2.79% trading range which turns the technical picture more neutral again.



German 10-yr yield: downtrend remains in place so far. Upward break would turn the picture more neutral with -0.1%-0.15% the new trading range



US 10-yr yield manages to regain previous support after several failed tests, suggesting a return to the old trading band.

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1227	-0,0030
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8678	0,0006
S1	0,8500	
S2	0,8314	

Dollar nearing key resistance area

EUR/USD initially drifted sideways in the mid 1.12 area but the dollar gained traction early in US dealings. The move was **mainly technical in nature**. USD/CHF buying supported broader USD gains. A constructive Philly Fed services index, solid US new home sales and US corporate earnings mostly beating analysts' estimates were USD supportive too. **EUR/USD tested the 1.12 area even as the US/German interest rate differential narrowed**. EUR/USD closed at 1.1227. USD/JPY came again close to the 112 big figure, but still closed at 111.86.

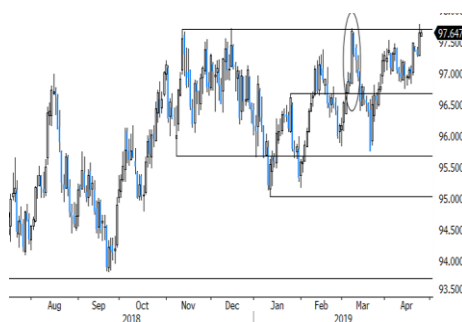
Asian equities mostly show modest losses and fail to join the record race of WS yesterday evening. Australia Q1 CPI unexpectedly dropped to 1.3% Q/Q, raising speculation on an RBA rate cut. Yields nosedived and so does the Aussie dollar. AUD/USD is trading in the 0.7035 area. EUR/USD remains in the defensive (1.1220 area). USD/JPY shows no clear trend (111.85 area) even as sentiment on risk turns less buoyant.

Today, the German Ifo confidence is expected to improve slightly (headline 99.9). Other recent data evidence suggests an upward surprise might be difficult. There are no important economic data in the US, but the earnings season is in full swing. Also keep an eye at the Bank of Canada policy decision.

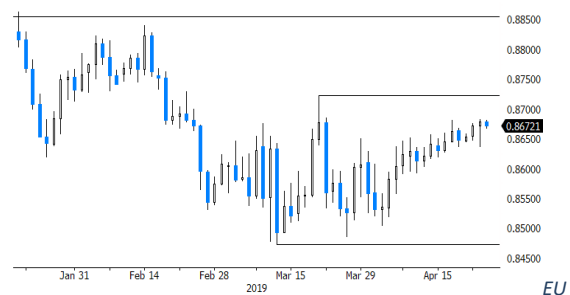
Ongoing poor EMU data (PMI's) last week pushed EUR/USD back to the low 1.12 area. At the same time, the dollar enjoys some by 'default bid' as US data outperform most other developed economies. In a short-term perspective, some further downward EUR/USD erosion might be on the cards. With the Fed firmly on hold, we don't expect a big leap higher of the dollar. That said, the trade-weighted dollar and EUR/USD are near relevant short-term resistance/support respectively at 97.70 and 1.12/1.1177. A USD break, if so, probably will develop in a gradual way, but for now, the US currency retains the benefit of the doubt.

The return of UK politicians after the Easter recess yesterday didn't bring much clarity on Brexit. UK PM May is said to prepare a vote on an alternative Brexit Bill as soon as possible. At the same time, her authority within her own party is ever more questioned. EUR/GBP temporarily dropped to the mid 0.85 area but later returned to the 0.8675 area. Today, the public finance data will probably be ignored.

More technical trading in EUR/GBP might be on the cards. EUR/GBP 0.8700/0.8723 is a tough resistance, especially as the euro also shows a sluggish momentum.



DXY (USD-TW): dollar retains benefit of the doubt and nears key resistance



EUR/GBP holding the 0.8700/23 resistance as Brexit uncertainty persists.

Calendar

Wednesday, 24 April		Consensus	Previous
Canada			
16:00	Bank of Canada Rate Decision	1.75%	1.75%
Japan			
01:50	PPI Services YoY (Mar)	1.1%A	1.1%
UK			
10:30	Public Finances (PSNCR) (Mar)	--	0.6b
10:30	Public Sector Net Borrowing (Mar)	-1.1b	-0.7b
Germany			
10:00	Ifo Business Climate (Apr)	99.9	99.6
10:00	Ifo Expectations (Apr)	96.1	95.6
10:00	Ifo Current Assessment (Apr)	103.5	103.8
France			
08:45	Business Survey Overall Demand (Apr)	--	1
08:45	Business Confidence (Apr)	104	105R
08:45	Manufacturing Confidence (Apr)	102	102
Belgium			
15:00	Business Confidence (Apr)	-0.7	-0.7
Events			
10:00	ECB Publishes Economic Bulletin		
11:30	Germany to sell €3bn 0.25% 2029 Bonds		
17:30	US to Sell 2-yr Floating Rate Notes		
19:00	US to Sell 5-yr Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,57	-0,02	US	2,36	-0,02	DOW	26656,39	145,34	
DE	0,04	0,02	DE	-0,57	0,00	NASDAQ	8120,822	105,56	
BE	0,49	0,03	BE	-0,48	0,01	NIKKEI	22200	-59,74	
UK	1,23	0,03	UK	0,79	0,03	DAX	12235,51	13,12	
JP	-0,04	-0,01	JP	-0,15	0,00	DJ euro-50	3503,85	4,62	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,13	2,39	1,14	Eonia	-0,3670	-0,0010			
5y	0,05	2,39	1,24	Euribor-1	-0,3670	0,0010	Libor-1	2,4809	0,0000
10y	0,54	2,55	1,41	Euribor-3	-0,3110	0,0000	Libor-3	2,5811	0,0000
				Euribor-6	-0,2300	0,0020	Libor-6	2,6290	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1227	-0,0030	EUR/JPY	125,58	-0,43	CRB	187,58	-0,34	
USD/JPY	111,86	-0,08	EUR/GBP	0,8678	0,0006	Gold	1273,20	-4,40	
GBP/USD	1,2938	-0,0044	EUR/CHF	1,1452	0,0021	Brent	74,51	0,47	
AUD/USD	0,7102	-0,0032	EUR/SEK	10,4987	0,0223				
USD/CAD	1,3423	0,0076	EUR/NOK	9,5929	0,0260				

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