



Sunrise

Thursday, 11 January 2018

Rates: Fake news causes volatility

“Fake news” caused quite some volatility in the US Note future yesterday. All intraday losses were eventually whipped out following a strong 10-yr Note auction and as Chinese officials denied rumours about halting/stopping buying US T’s. Today’s focus turns to US producer prices and German wage negotiations. Positive outcomes have most market-moving potential.

Currencies: Dollar rebounds as Chinese rumours on US Treasuries are dismissed

The dollar came temporary under pressure yesterday on headlines that China was considering holding less US Treasuries. The dollar regains ground this morning as the headlines were dismissed by Chinese officials. Today’s focus for USD trading is on US PPI data. Strong price data might propel US yields and the dollar.

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 markets partially recovered from a difficult start yesterday**, ending with (tiny) losses for the first time this year. **Asian bourses lose slightly ground as well overnight** with Japan underperforming (-0.5%).
- The China State Administration of Foreign Exchange says **a media report on China’s purchase of US treasuries might have quoted a “wrong source”, or it might be “fake news”**, according to a statement on the administration’s website.
- **Australian November retail sales rose by 1.2% M/M (Black Friday)**, significantly beating 0.4% M/M consensus and printing at the strongest level since 2013. The Aussie dollar profited, **pushing AUD/USD to the highest level since October**.
- **Polish interest rates will “probably” stay at current level by end of this year**, central bank Governor Glapinski said. He doesn’t expect any discussion on rate increase within MPC rate-setting panel and such situation **may extend for 2019**.
- **China’s Premier Li Keqiang said the world’s second-biggest economy is expected to have grown around 6.9% last year**, the official Xinhua news agency reported, accelerating from a 26-year low in 2016 (6.7%).
- Both the White House and Canadian officials **shot down a report that Canada is increasingly convinced that President Donald Trump will shortly announce the US is pulling out of Nafta**. The loonie and Mexican peso trimmed losses.
- **Today’s eco calendar** contains US producer prices, weekly jobless claims, EMU industrial production and Minutes of the previous ECB meeting. Italy and the US tap the market. NY Fed Dudley speaks on the US economic outlook.

Rates

Fake news causes volatility

	US yield	-1d
2	1,97	0,00
5	2,32	0,00
10	2,56	0,00
30	2,88	0,00

	DE yield	-1d
2	-0,62	0,00
5	-0,19	0,01
10	0,54	0,08
30	1,32	0,01

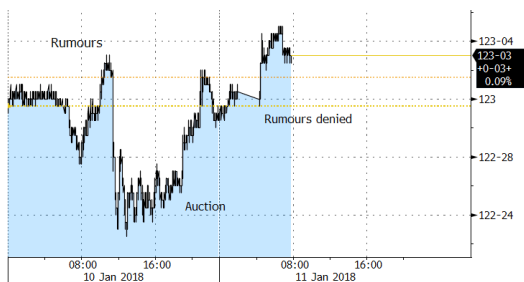
The US Note future traded very volatile yesterday whereas the Bund was an island of tranquility, whipsawing around opening levels. The sell-off of the US Note future continued in European dealings on reports that China would contemplate halting or slowing US Treasury purchases from its FX reserves (bear steepening). The Note future bottomed out at the start of US trading only to start an intraday comeback after a stellar 10-yr Note auction. The Note future attracted even more buyers overnight after China officially labelled yesterday's report as "fake news" (bull flattening).

Changes on the US yield curve were eventually minimal on a daily basis, ranging between -0.2 bps (5-yr) and +0.4 bps (10-yr). The German yield curve steepened marginally with yield changes varying between -0.1 bp (2-yr) and +0.7 bps (30-yr). 10-yr yield spreads versus Germany ended narrowly mixed.

Most Asian stock markets lose some ground overnight in line with WS's first negative close of this year yesterday evening. Brent crude continues trading near the highs, north of \$69/barrel. Strength in the US Note future isn't expected to filter through in the Bund opening.

Today's eco calendar becomes more interesting with US producer prices. They have market moving potential in the current volatile US Treasury market. Consensus expects modest 0.2% M/M increases for both headline and core readings. We think that especially higher PPI data won't go unnoticed since the US 10-yr yield's technical break above 2.5% earlier this week (bearish signal US Treasuries). The technical break suggests a move to 2.63%/2.64%. A speech by NY Fed Dudley lost appeal since he announced at the end of last year to be retiring mid-2018. The US 30-yr Bond auction could limit any intraday losses. In line with yesterday's 10-yr Note auction, we expect some investors already to be lured by the higher absolute yields.

German trade union negotiations about pay rises are expected to conclude today and can influence trading. German wages are expected to be pivotal to start an upward spiral in EMU price dynamics and could be a bearish signal for Bunds. Minutes of the ECB's December policy meeting are today's second interesting EMU item, especially if they would elaborate on the debate of forward guidance. Several German-Franco ECB members already expressed uneasy with the possibility to lengthen APP beyond September if necessary. MT, we expect the German 10-yr yield to rise towards 0.62%. Strong global growth and the global push to monetary normalisation are bearish factors for bonds.



US Note future (intraday): "fake news" caused volatility



US 10-yr yield reached 2.6% intraday before returning lower

Currencies

R2	1,2225	-1d
R1	1,2092	
EUR/USD	1,1948	0,0011
S1	1,1713	
S2	1,1554	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8846	0,0030
S1	0,8690	
S2	0,8657	

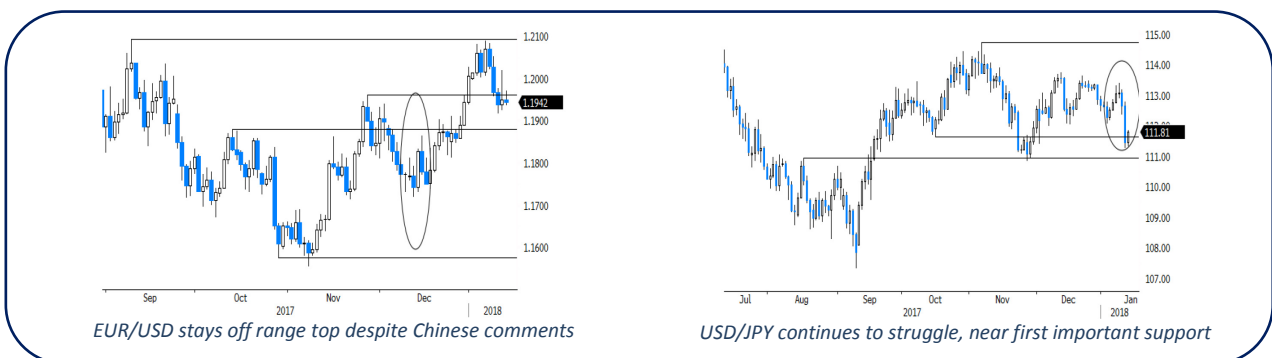
Modest USD damage from Chinese headlines

Markets were spooked by headlines that China considered holding less US Treasuries. Treasuries, equities and the USD were sold **even as interest rate differentials widened in favour of USD**. Investors feared that China could reduce the USD share in its reserves. The story initially weighed also on US markets but Treasuries, equities and the dollar rebounded off the intraday lows. EUR/USD spiked temporary above 1.20, but closed the day at 1.1948. USD/JPY remained in the defensive and finished the day with a substantial losses at 114.44.

Overnight, Asian markets remain in a **modest risk-off modus**, but trading still develops orderly. Chinese officials indicated that yesterday's headlines 'might have cited wrong sources or may be fake news', easing tensions further. **Especially USD/JPY (currently 111.80) regains part of yesterday's decline. EUR/USD hovers in the mid 1.19 area.** The Aussie dollar (AUD/USD 0.7875) profits from strong domestic retail sales. The **Canadian dollar** (USD/CAD 1.2550) stays in the defensive even if comments from Canadian officials that president Trump might leave NAFTA were afterwards also denied/labelled "fake news".

EMU production data and the Minutes of the ECB December meeting will be published today. Markets will look for 'alternative views' on the soft policy approach of president Draghi. US PPI data might get more attention than usual as markets are growing more sensitive to indications of higher inflation. Headline PPI is expected at 0.2% M/M and 3.0% Y/Y (from 3.1%). An upward surprise might be slightly USD supportive, but tomorrow's CPI is more important. **Yesterday, the USD was temporary hit by the China headlines but USD/EUR stayed resilient. The USD/JPY sell-off slows this morning. EUR/USD reversed most of yesterday's up-tick. So, the day-to-day momentum looks not too bad for the dollar. The topside in EUR/USD remains probably rather well protected and a sustained break beyond 1.2092 is not evident unless US price data really undershoot expectations**

Yesterday, sterling trading was mainly driven by the moves in EUR and USD. EUR/GBP rose in line with EUR/USD. Some sterling softness was also at work, probably as markets were disappointed by the government reshuffle. There are no important UK data today. UK Fin Min Hammond and Brexit minister Davis tried to seek common ground with Germany on a Brexit deal. There are no indications of a big step forward. **We keep a neutral bias on EUR/GBP short-term. We keep a EUR/GBP buy-on-dips in case of return action to 0.87.**



Calendar

Thursday, 11 January		Consensus	Previous
US			
14:30	PPI Final Demand MoM / YoY (Dec)	0.2%/3.0%	0.4%/3.1%
14:30	PPI Ex Food and Energy MoM / YoY (Dec)	0.2%/2.5%	0.3%/2.4%
14:30	PPI Ex Food, Energy, Trade MoM / YoY (Dec)	0.2%/--	0.4%/2.4%
14:30	Initial Jobless Claims	245k	250k
14:30	Continuing Claims	1920k	1914k
EMU			
11:00	Industrial Production SA MoM / WDA YoY (Nov)	0.7%/3.0%	0.2%/3.7%
Germany			
10:00	Budget Maastricht % of GDP (2017)	1.1%	0.8%
10:00	GDP NSA YoY (2017)	2.3%	1.9%
France			
08:30	Bank of France Ind. Sentiment (Dec)	107	106
Italy			
10:00	Retail Sales MoM / YoY (Nov)	1.0%/1.0%	-1.0%/-2.1%
Spain			
09:00	Industrial Production MoM (Nov)	0.2%	0.6%
Sweden			
08:00	PES Unemployment Rate (Dec)	--	3.9%
Events			
11:00	Italy to Sell Bonds (€3bn 0.2% 2020 & €3bn 1.45% 2045)		
13:30	ECB account of the monetary policy meeting		
19:00	US to Sell \$12 bn 30-yr Bonds		
21:30	Fed's Dudley Speaks on the U.S. Economic Outlook		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,56	0,00	US	1,97	0,00	DOW	25369,13	-16,67	
DE	0,54	0,08	DE	-0,62	0,00	NASDAQ	7153,572	-10,01	
BE	0,69	0,00	BE	-0,51	-0,01	NIKKEI	23710,43	-77,77	
UK	1,29	0,00	UK	0,54	0,00	DAX	13281,34	-104,25	
JP	0,07	-0,01	JP	-0,13	-0,01	DJ euro-50	3609,83	-13,04	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,00	2,27	0,95	Eonia	-0,3700	-0,0120	Libor-1	1,5538	0,0000
5y	0,31	2,37	1,11	Euribor-1	-0,3690	0,0000	Libor-3	1,7046	0,0000
10y	0,92	2,54	1,36	Euribor-3	-0,3290	0,0000	Libor-6	1,8652	0,0000
				Euribor-6	-0,2710	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1948	0,0011	EUR/JPY	133,14	-1,33	CRB	194,83	0,67	
USD/JPY	111,44	-1,21	EUR/GBP	0,8846	0,0030	Gold	1319,30	5,60	
GBP/USD	1,3507	-0,0033	EUR/CHF	1,1687	-0,0046	Brent	69,20	0,38	
AUD/USD	0,7843	0,0019	EUR/SEK	9,7987	-0,0255				
USD/CAD	1,2547	0,0083	EUR/NOK	9,6454	-0,0196				

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