



Sunrise

Tuesday, 12 February 2019

Rates: Uplift in sentiment caps core bond rally

An amelioration of global risk sentiment pushed core bonds down yesterday. A preliminary agreement in US Congress on border security and positive signals from US-Sino trade talks are supporting optimism. Core bonds might correct further today. An empty economic calendar leaves investors awaiting for more progress on the Geopolitical topics.

Currencies: EUR/USD is testing the 1.1267/70 support area

Recent USD rally gained further momentum yesterday. USD/JPY and the trade-weighted dollar broke important technical resistance levels. EUR/USD tested the end November/early December lows. Today, a better global risk sentiment might slow the euro decline, but for now there is probably no trigger for a sustained EUR/USD U-turn.

Calendar

Headlines

- **US equities** opened higher yesterday but the move lacked momentum. The Dow Jones (-0.21% underperformed). **Asian markets** are mixed with Chinese and Japanese indices outperforming on trade optimism and a drop in the yen.
- **Trump expressed optimism about China** yesterday, saying he will “make great deals” and doesn’t want China “to have a hard time”. He also still wants to meet with president Xi “very soon”, according to White House advisor Conway.
- **US lawmakers reached an agreement in principle to avoid a new partial government shutdown this weekend.** The compromise, to be approved by Trump and Congress, includes only \$1.4bn for border security while Democrats’ efforts to limit detention beds were blocked.
- **The BoJ cut longer dated bond purchases after yields declined significantly** amid a global bond rally. The BoJ aims at a 10y yield target of close to 0% but has slipped to -0.04% in recent days before bouncing 15 bps after the move.
- **January NFIB small business optimism** (101.2), scheduled for later today but published exceptionally overnight, slipped to the weakest since the end of 2016. Less than 1 in 5 plans to hire and a mere 6% expects the economy to improve.
- **The ECB’s new chief economist to be Philip Lane said this morning that policy uncertainty is currently more elevated than normal.** He called for a “measured approach to all of the data” and referred to the new March forecasts for the ECB to decide where next.
- **Today’s economic calendar** is in no state to guide trading. We only watch for the US JOLT job openings as NFIB small business optimism was already printed. ECB’s Weidmann and Nowotny, Fed’s Powell and BoE’s Carney speak today.

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	→

Rates

	US yield	-1d
2	2,49	0,02
5	2,49	0,02
10	2,65	0,02
30	3,01	0,01

	DE yield	-1d
2	-0,57	0,01
5	-0,35	0,01
10	0,12	0,03
30	0,74	0,04

Uplift in sentiment weighs on core bonds

Global core bonds lost ground yesterday. After last week's risk-off modus on the EC's significant growth downgrades, risk sentiment improved again on Monday. With an empty economic calendar in both the US and EMU, global sentiment was the key driver of financial markets. **The German yield curve bear steepened with changes ranging from +0.5 bps (2-yr) to +4.2 bps (30-yr).** US equities performed mixed on Monday, with investors awaiting more results from both the border security discussions in Washington and the fresh round of trade negotiations in Beijing. US Treasuries tracked European bonds and edged lower. **The US yield curve edged higher with changes up to +2.1 bps (5-yr).** Italian BTP's moved higher again on rumours of early elections after Deputy PM Salvini's League-party polled strongly in regional elections (Abruzzo). **The Italian 10-yr yield spread vs. Germany tightened (-9 bps).** Meanwhile in Spain, PM Sanchez struggles to lock support for his budget plans that will come to a vote in Parliament tomorrow. He was rumoured to call an early election in April. Government officials later denied. The Spanish 10-yr yield spread vs. Germany tightened (-2 bps).

Asian stock markets gain mostly ground this morning. Japanese indices outperform as the yen weakens. **The Bank of Japan announced it would cut purchases of some longer-dated bonds** in an attempt to halt a decline in yields caused by the global debt rally. Risk sentiment was lifted after **the US Congress reached a tentative border security deal** that, if approved, might avoid another government shutdown. The deal contains \$1.375bn for border fencing, less than the \$5.7bn president Trump demanded and equal to border spending in recent years. Democrats, in turn, dropped their demand for a cap on detention beds for immigrants detained within the US. Furthermore, the **Trump administration said president Trump still wants to meet Chinese president Xi Jinping to finalize a deal.** Negotiators from both sides are currently seeking progress as trade talks continue in Beijing this week. The uplift of sentiment weighs on core bonds this morning.

Today's economic calendar is empty. Several central bankers taking stage today are wildcards (ECB's Weidmann, Bank of England chairman Carney and Fed chairman Povel). **Risk sentiment will remain today's key driver as investor await progress from US-Sino trade talks and whether the preliminary border security deal finds support in Congress.** 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. Or will yesterday's rebound persist?

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1276	-0,0047
S1	1,1187	
S2	1,1119	

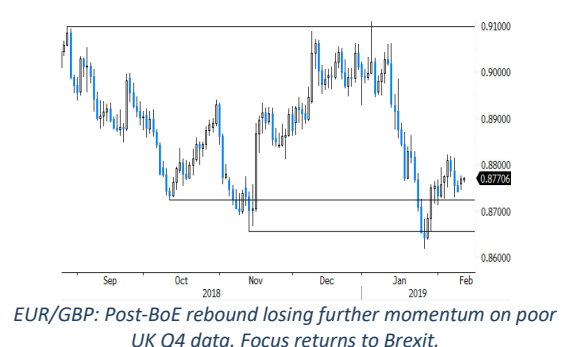
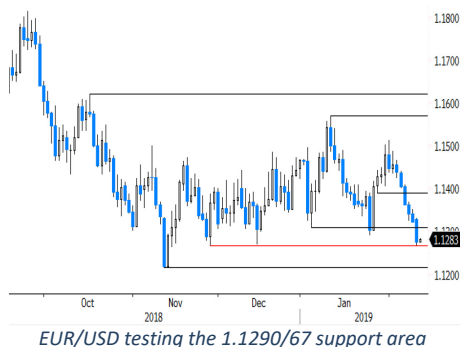
R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8768	0,0028
S1	0,8620	
S2	0,8314	

EUR/USD testing the 1.1267/70 support area

The recent USD rebound accelerated yesterday. The move was mainly technical in nature. There were few US/EMU data. The trade-weighted dollar and USD/JPY were testing key technical levels. **USD/JPY cleared the 110 barrier on higher core yields and a better risk sentiment.** Interest rate differentials between the US and Germany/EMU showed a mixed picture (widening at the short end, narrowing at the long end of the curve). Even so, **the global USD bid finally also hit EUR/USD.** The pair dropped to test the 1.1270/67 support area (late Nov/mid Dec lows). EUR/USD closed at 1.1276 (from 1.1323). USD/JPY finished at 110.38 (from 109.73). **USD strength was the name of the game.**

Overnight, risk sentiment improved as US Congress reached a tentative deal on border security. Most major Asian equity indices are trading higher and core yields gain. **Yesterday's break higher in USD/JPY is confirmed** as Japanese markets reopen after a long weekend. The **BOJ** reduced bond buying in a regular operation this morning, **an indication that the recent decline in LT yields as gone far enough.** For now, it didn't help the yen. USD/JPY is trading in the 110.55 area. The EUR/USD decline is taking a breather (EUR/USD 1.1280 area). **Today,** there are again few US or EMU data. A better risk sentiment usually is at least as beneficiary for the euro as it is for the USD. However, it is unsure whether it is enough to trigger U-turn for the euro. Political event risk (Italy, Spain, trade issues) are still playing on the background and the fragile eco picture questions the room for the ECB policy normalisation. Soon after the January Fed decision, EUR/USD was captured in a protracted downtrend as poor EMU data outweighed the soft U-turn of the Fed. **The short-term momentum stays USD supportive/euro cautious. EUR/USD tested/is testing the 1.1270/67 support. The 1.1216 Nov low is the next level on the radar. After the recent decline, quite some euro negative news should be discounted. That said, we see no trigger yet to reverse the USD-positive/euro negative bias. We don't row against the tide. Positive news on global trade or on the US-EU trade talks (autos) might provide such a trigger.**

Yesterday, EUR/GBP gained a few ticks. **UK eco data (Q4 GDP, Dec production) were poor** and didn't confirm last week's relatively positive BoE assessment. **Today,** UK PM May will address the UK Parliament on the Brexit process and probably try to get more time to reach an amended deal with the EU. As we don't see signs of a break-through yet, more technical order driven EUR/GBP trade near current levels might be on the cards.



Calendar

Tuesday, 12 February		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Jan)	101.2A	104.4
16:00	JOLTS Job Openings (Dec)	6846	6888
Japan			
00:50	Money Stock M3 YoY (Jan)	2.1%A	2.1%
05:30	Tertiary Industry Index MoM (Dec)	-0.3%A	-0.4%A
Sweden			
06:00	PES Unemployment Rate (Jan)	3.7%	3.8%
Events			
2018Q4 earnings	Under Armour (12:55), Activision Blizzard (aft-mkt), TripAdvisor (aft-mkt), Groupon (aft-mkt) ...		
12FEB	European Economic and Financial Affairs Council		
04:30	ECB's Lane Speaks in Hong Kong		
09:00	ECB's Weidmann Speaks in Pretoria		
10:00	ECB's Nowotny Speaks at EU Commission Conference in Vienna		
12:00	BOE Governor Carney Speaks in London		
17:00	Powell Speaks with Students in Mississippi		
18:45	Powell Speaks in Mississippi About Rural Poverty (chair)		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,65	0,02		US	2,49	0,02	DOW	25053,11	-53,22
DE	0,12	0,03		DE	-0,57	0,01	NASDAQ	7307,905	9,71
BE	0,71	0,02		BE	-0,44	0,00	NIKKEI	20864,21	531,04
UK	1,18	0,03		UK	0,73	0,02	DAX	11014,59	107,81
JP	-0,01	0,02		JP	-0,16	0,00	DJ euro-50	3165,61	29,99
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0,08	2,57	1,10	Eonia	-0,3660	-0,0040			
5y	0,12	2,55	1,19	Euribor-1	-0,3680	0,0000	Libor-1	2,5041	0,0000
10y	0,65	2,68	1,36	Euribor-3	-0,3080	0,0000	Libor-3	2,6978	0,0000
				Euribor-6	-0,2320	0,0010	Libor-6	2,7419	0,0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1276	-0,0047		EUR/JPY	124,5	0,24	CRB	177,11	-0,92
USD/JPY	110,38	0,65		EUR/GBP	0,8768	0,0028	Gold	1311,90	-6,60
GBP/USD	1,2855	-0,0089		EUR/CHF	1,1322	-0,0007	Brent	61,51	-0,59
AUD/USD	0,7062	-0,0026		EUR/SEK	10,4953	-0,0052			
USD/CAD	1,3302	0,0024		EUR/NOK	9,829	0,0499			

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