



Sunrise

Tuesday, 13 February 2018

Rates: Core yields holding near recent top head of US CPI

Yesterday, core bond yields held tight ranges near the recent peak as equities rebounded from last week's sell-off. Today, the calendar is again thin. More technical trading might be on the cards as markets look forward to tomorrow's US CPI. Global risk sentiment remains a wildcards.

Currencies: USD rally running into resistance?

Yesterday, the dollar lost slightly ground as sentiment on risk turned further positive. This morning, the US currency feels further selling pressure, with USD/JPY taking the lead. We expect more technical trading in the EUR/USD 1.22/24 trading range. EUR/GBP is nearing the 0.89 level. Today, UK CPI data might set the tone for GBP-trading

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 equities continued Friday's comeback**, closing the day with gains between 1.40% and 1.70%, the Dow Jones outperforming. Most Asian indices are also trading with good gains this morning. **Chinese equities outperform**. Japan trades in slightly negative territory as markets reopen after a long weekend.
- On Monday, **President Donald Trump proposed a budget** that calls for cuts in domestic spending and social programs such as Medicare and seeks a sharp increase in military spending and funding for a wall on the Mexican border..
- **South Africa's ruling African National Congress decided to tell President Jacob Zuma to step down** after he refused the top party leadership's request for him to resign voluntarily, according to five people familiar with the matter.
- **Assistant governor of the Rank of Australia, Luci Ellis, said any pick up in wage growth was likely to be slow and protracted**, weighing on household incomes and spending power amid high levels of debt. Australia still has more spare capacity than other developed countries, meaning it would take longer for wages and inflation to accelerate.
- **The Japanese government wants Kuroda to serve another term as governor**, according to a senior government official. PM Abe said he hasn't decided yet who to pick as next BOJ governor, but rebuffed calls from an opposition lawmaker to replace Kuroda given the pain the BOJ's negative interest rate policy was inflicting on commercial banks.
- **Today's eco calendar** is again thin in Europe. **In the US, the NFIB small business confidence will be published**. **In the UK, the January price data take centre stage**. Fed's Mester will speak on monetary policy and on the economic outlook. Italy will sell bonds of different maturities.

Rates

Core yields holding near recent top head of US CPI

	US yield	-1d
2	2.08	0.00
5	2.55	0.02
10	2.86	0.01
30	3.14	-0.02

	DE yield	-1d
2	-0.58	-0.01
5	0.10	0.01
10	0.76	0.01
30	1.35	0.01

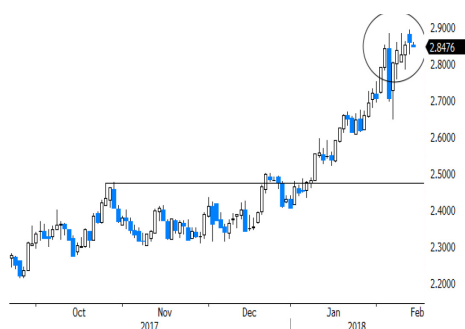
Core bonds traded with a slightly negative bias yesterday, but the Bund and the 10-year Note future held tight ranges. There were no important eco data. Global equities regained further ground after last week's sell-off but the jury is still out whether this will mark the start of a sustained bottoming out process. US yields increased up to 1.5bp with the belly of the curve underperforming and the 30-y outperforming (-1.4 bp) The US 10-year yield touched a minor new correction top intraday. The German yield curve rose about 1 bp. The 2-yr outperformed (-0.9bp). 10-y yield spreads versus Germany narrowed slightly in line with the global positive risk sentiment. Portugal (-5 bp) outperformed. Greece (+19 bp) underperformed.

The US Note future trades with a slightly positive bias in Asia. Asian equities opened strong after a positive close on WS yesterday, but momentum eased during the session. The Bund is expected to open little changed.

Today, the calendar is again thin. There are few important data in Europe. US NIFB small business confidence is expected to rebound from 104.9 to 105.3 after a decline last month. **Fed's Mester will speak on Monetary policy (with Q&A).** **Will she give her view on recent market developments?**

This morning, US yields are declining slightly as Asian equities return part of earlier gains. **US equity futures are also slightly in the red.** Global risk/equity sentiment remains a wildcard for Bond trading. For now we assume more consolidation going into tomorrow's key US CPI release. Yields stay close to the recent highs. The Budget plans of the Trump administration will probably have to be scaled back substantially to get approval from Congress. Even so, the debate on government spending and deficits continues and will put a floor for US yields.

Strong growth momentum, rising inflation (expectations) and the global turn towards monetary policy normalization are structurally negative factors for core bonds medium term. US and German yields cleared resistance levels earlier this year and moved at high-speed towards next targets. The trading band for the US 10-yr yield is 2.64%-3.05%. Correction towards the lower bound could be used to put up short positions in the Note future. The German 10-yr yield's trading band is 0.62%-1.06% trading band.



US 10-y yield holding near recent top, awaiting tomorrow's US CPI



Bund future: decline takes a breather, at least for now.

Currencies

USD rally running into resistance?

R2	1.2643	-1d
R1	1.2537	
EUR/USD	1.2292	0.0040
S1	1.1713	
S2	1.1554	

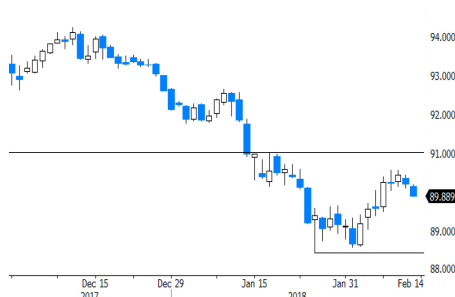
R2	0.9307	-1d
R1	0.9033	
EUR/GBP	0.8884	0.0020
S1	0.8690	
S2	0.8657	

Last week, USD trading was only modestly affected as global volatility rose sharply. Yesterday, USD trading develop along the same lines. Equities recouped part of last week's sell-off. **The dollar lost slightly ground against the euro, but the EUR/USD rise was capped near 1.23. USD/JPY was also little affected by the risk rebound**, hovering in a tight range in the 108 big figure. **The price action mainly occurred in equities with little impact on bonds and even less on the major USD cross rates.** USD/JPY closed the day at 108.66. EUR/USD finished at 1.2292.

Asian equities mostly join the rebound from WS yesterday, with China outperforming. **However regional indices are giving up part of the earlier gains toward the end of the session.** Japanese equities are trading in negative territory as markets reopen after a long weekend. The dollar is ceding ground, with USD/JPY taking the lead. The pair trades in the 108.10 area. EUR/USD tries to regain the 1.23 mark. The USD correction occurs as US yields ease slightly this morning.

Today, the calendar is again thin. US NIFB small business confidence is expected to rebound from 104.9 to 105.3 after a decline last month. **Fed's Mester will speak on Monetary policy (with Q&A). Will she give her view on recent market developments?** FX traders will also keep an eye on bond and equity markets, even as they had little impact on the dollar of late. **This morning, the dollar is ceding ground.** This decline is a bit 'strange' given the intraday price development on Asian equity markets. Even so, we assume EUR/USD to maintain a wait-and see modus in the 1.22/1.24 area going into tomorrow's US CPI release. **Technically**, the dollar decline slowed. EUR/USD dropped below the 1.2323/35 support but follow-through price action was modest. A break below 1.2165 would call off the ST downside alert (for USD).

Yesterday, BoE's Vlieghe reiterated that probably slightly more than three rate hikes are needed to keep inflation on target. It didn't help sterling. EUR/GBP closed at 0.8884. Today, the **UK price data** will be published. **Headline CPI is expected to ease to 2.9% Y/Y, but other price indicators might paint a slightly different picture.** A big positive surprise is probably needed to trigger a sustained comeback of sterling. Brexit uncertainty remains a sterling negative. EUR/GBP is trending higher in the 0.8690/0.9033 trading range, with intermediate resistance at 0.8930. We hold our view that the 0.8690 support probably won't be easy to break without big progress on Brexit.



USD trade-weighted (DXY): dollar rebound running into resistance?



EUR/GBP: sterling selling resumes as Brexit noise outweighs rate hike expectations

Calendar

Tuesday, 13 February		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Jan)	105.3	104.9
Japan			
00:50	PPI MoM / YoY (Jan)	A 0.3%/2.7%	R 0.1%/3.0%
UK			
10:30	CPI MoM / YoY (Jan)	-0.6%/2.9%	0.4%/3.0%
10:30	CPI Core YoY (Jan)	2.6%	2.5%
10:30	RPI MoM / YoY (Jan)	-0.7%/4.0%	0.8%/4.1%
10:30	PPI Input NSA MoM / YoY (Jan)	0.6%/4.1%	0.1%/4.9%
10:30	PPI Output NSA MoM / YoY (Jan)	0.2%/3.0%	0.4%/3.3%
10:30	PPI Output Core NSA MoM / YoY (Jan)	0.2%/2.3%	0.3%/2.5%
10:30	House Price Index YoY (Dec)	4.9%	5.1%
France			
08:45	Wages QoQ (4Q P)	0.2%	0.3%
Events			
13:00	Italy to Sell 0.2% 2020, 1.45% 2024, 3.45% 2048 BTP's		
14:00	Fed's Mester to Discuss Monetary Policy and Economic Outlook		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2.86	0.01		US	2.08	0.00	DOW	24601.27	410.37
DE	0.76	0.01		DE	-0.58	-0.01	NASDAQ	6981.964	107.47
BE	1.02	0.02		BE	-0.49	-0.01	NIKKEI	21244.68	-137.94
UK	1.60	0.03		UK	0.69	0.03	DAX	12282.77	175.29
JP	0.07	0.01		JP	-0.15	0.00	DJ euro-50	3368.25	42.26
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	0.08	2.50	1.16	Eonia	-0.3630	0.0020			
5y	0.50	2.66	1.39	Euribor-1	-0.3690	0.0010	Libor-1	1.5832	0.0000
10y	1.16	2.87	1.67	Euribor-3	-0.3290	0.0000	Libor-3	1.8200	0.0000
				Euribor-6	-0.2780	0.0000	Libor-6	2.0383	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	1.2292	0.0040		EUR/JPY	133.56	0.26	CRB	189.08	0.57
USD/JPY	108.66	-0.14		EUR/GBP	0.8884	0.0020	Gold	1326.40	10.70
GBP/USD	1.3838	0.0011		EUR/CHF	1.1544	0.0032	Brent	62.59	-0.20
AUD/USD	0.7862	0.0049		EUR/SEK	9.9123	0.0128			
USD/CAD	1.2577	-0.0004		EUR/NOK	9.7285	-0.0257			

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