

**Friday, 14 December 2018**

### Rates: Core bonds revive on safe haven flows

Global core bonds traded mixed yesterday as risk sentiment swung both sides. Disappointing data in China/Japan tilted the risk balance south overnight, supporting core bonds. Retail Sales are expected to remain solid in the US, while Markit PMI's in France, Germany and the EMU will most probably bottom out. The countdown to the Fed starts.

### Currencies: Dollar to maintain benefit of the doubt ahead of Fed meeting

The ECB policy meeting/press conference provided little new guidance for EUR/USD trading yesterday. Today, the EMU PMI's and US retail sales have market moving potential. Decent US eco data in a risk-off context should be moderately USD supportive going into next week's Fed meeting. The sterling 'relief really' is already losing momentum.

### 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** ended mixed after a lacklustre session. Nasdaq (-0.39%) underperformed. **Asian markets** are trading in negative territory with Japan (-1.8%) and Korea (-2.2%) underperforming.
- According to the **Bank of Japan's 4Q Tankan index companies** (both small and large, manufacturing and non-manufacturing) **are more optimistic about the current business environment but show far less confidence in the 3m outlook.**
- **Chinese November retail sales** (8.1% YoY) were below expectations (8.8%), as were industrial production data (5.4% YoY vs 5.9% expected). Property investment stabilised at 9.7% YoY while the jobless rate declined to 4.8%.
- **The Reserve Bank of New Zealand is pondering a near doubling of the amount of "high quality capital" banks have to hold.** Increasing the shareholders stake in banks would incentivise management scrutiny and strengthen the banking system.
- **EU leaders rebuffed May's request for any legal guarantees about the Irish backstop**, only saying they hope it won't have to be triggered, but that the legal brexit agreement cannot be renegotiated.
- **The French parliament rejected a motion of no confidence in President Macron's government.** The vote came after weeks of demonstrations by the Yellow Vests, initiated by the government's tax plans.
- **Today's economic calendar** provides markets with US November retail sales and EMU PMI's for December. ECB's Vice-President Guindos is scheduled to speak. The European Council holds its second day meeting.

# Rates

## Core bonds revive on deteriorating sentiment

	US yield	-1d
2	2,76	-0,01
5	2,74	-0,01
10	2,91	0,00
30	3,15	0,02

	DE yield	-1d
2	-0,58	-0,02
5	-0,28	-0,02
10	0,29	0,01
30	0,89	0,03

Global core bonds were mixed yesterday. The fragile risk sentiment of late tilted to the downside again with global equity markets alternating between gains and losses despite US-Sino trade tensions easing further. Growth concerns arose again as ECB president Draghi said economic risks were moving to the downside. A looming US government shutdown over funding for a wall on the Mexican border weighed on sentiment as well. **Both the US and German yield curve steepened** with changes on the US yield curve varying from -1.4 bps (5-yr) to +2.0 bps (30-yr). Changes on the German yield curve range from -1.9 bps (5-yr) to +3.3 bps (30-yr).

Investor sentiment deteriorated further on Asian markets this morning as data in both China and Japan disappointed. The Bank of Japan's Tankan main confidence index printed steady from the previous quarter but the forward looking number dipped to 15. **Chinese economic data slowed again.** Industrial production growth (Y/Y) decreased in November to 5.4%, down from 5.9% in October. Retail sales (Y/Y) dipped to 8.1%, down from 8.6% the month before and the weakest reading since 2003. Both Chinese and Japanese equities fell as the weaker than expected data fed investor worries of a global slowdown. **Safe haven flows pushed core bonds higher overnight.**

On today's eco calendar are the **Retail Sales for November in the US.** Markets expect a drop for the headline reading to 0.1% M/M, down from 0.8% M/M a month before, but that can be explained by the immense fall in oil prices of late. With energy and car prices left out of the equation, retail sales are expected to increase to 0.4%, up from 0.3% in October, a decent result. **The EMU eco calendar contains the Markit PMI's for Germany, France and the aggregate number for the EMU.** Consensus expects a small increase to stabilization for the EMU Composite PMI from 52.7 in November to 52.8. We don't see any reasons to deviate from this. ECB VP de Guindos speaks today, but any changes to Draghi's view/tone of yesterday are not expected. Risk sentiment will continue to set the tone for trading in general with volumes expected to slow going into next week's main event, the Fed meeting.

**From a technical point of view, the German 10-yr yield tested the previous 0.28% support level yesterday. A break higher would suggest that the recent downward momentum is gone. The US 10-yr yield remains at ease above the 2.78/2.8% support level.**



German 10-yr yield tested the previous 0.28% support level but a break did not occur (yet)



US 10-yr yield: technical rebound away from 2.78%/2.8% support, but Fed will have final say next week

# Currencies

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1361</b>	<b>-0,0008</b>
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8973</b>	<b>-0,0029</b>
S1	0,8700	
S2	0,862	

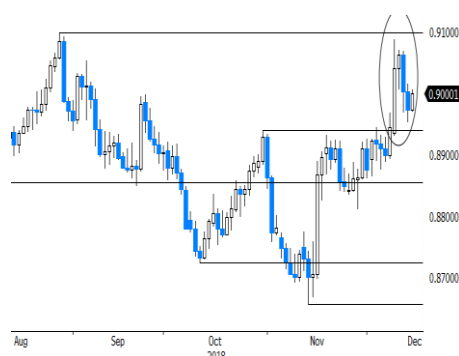
## USD holding tight range, counting down to the Fed

The ECB policy decision and **press conference were not able to force the EUR/USD cross rate out of the established consolidation pattern**, yesterday. The ECB slightly revised down 2018 and 2019 growth. Draghi summarized the ECB attitude **as 'continuing confidence with increasing caution'**. This assessment was hardly a surprise for markets. The euro traded with a slightly negative bias during the press conference, but reversed most of this decline later. EUR/USD closed the session at 1.1361 (from 1.1369). USD/JPY held a cautious upward bias, even as sentiment on risk turned less positive later in the session. The pair closed at 113.63. **Overnight, the economic news flow didn't comfort global investors. China** November retail sales and production were substantially weaker than expected. **The BoJ Tankan outlook** painted a mixed picture. Sub-indices on the current assessment held up well, but Japanese firms grow ever more concerned on the outlook. Regional equities are ceding ground with Japanese and Chinese indices losing 1-2%. **Negative regional sentiment is weighing heavily on the Aussie (AUD/USD 0.7190) and the Kiwi dollar (0.68 area)**. The RBNZ considering higher capital requirements for banks is an additional negative for the kiwi dollar. Yen gains are again modest given the risk-off sentiment (USD/JPY mid 113 area). EUR/USD is trading little changed in the mid 1.13 area. **Later today**, the eco calendar is well filled with the EMU PMI's, US retail sales and production data. Will EMU PMI's bottom after the decline over the previous months? US core retail sales are expected solid (0.4% control group). We expect a decent report. A combination of a risk-off context and decent US eco data might tilt the intraday balance on the FX markets in favour of the dollar going into next week's Fed meeting. **Of late, the EUR/USD 1.1450/1.15 area proved to be a tough resistance. We don't see a trigger for a break ST.**

**Sterling regained some further** ground yesterday after PM May survived a confidence vote, avoiding an immediate period of outright political chaos. EUR/GBP drifted a bit further below the 0.90 handle. UK PM May yesterday joined the EU summit in Brussels. For now, It looks the EU is only prepared to give clarifications rather than concessions on current Brexit deal. This opens few perspectives on an approval of the Brexit deal in the UK parliament. Overnight, sterling already reversed part of the recent 'relief' rally. We still avoid sterling long exposure.



EUR/USD: ECB fails to unlock EUR/USD stalemate. Countdown to next week's Fed meeting continues



EUR/GBP: sterling relief rally short-lived as approval of Brexit deal remains unlikely

# Calendar

Friday, 14 December		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (Nov)	0.1%	0.8%
14:30	Retail Sales Ex Auto MoM (Nov)	0.2%	0.7%
14:30	Retail Sales Ex Auto and Gas (Nov)	0.4%	0.3%
<b>14:30</b>	<b>Retail Sales Control Group (Nov)</b>	<b>0.4%</b>	<b>0.3%</b>
15:15	Industrial Production MoM (Nov)	0.3%	0.1%
15:15	Capacity Utilization (Nov)	78.6%	78.4%
15:45	Markit US Manufacturing PMI (Dec P)	55.0	55.3
15:45	Markit US Services PMI (Dec P)	54.6	54.7
16:00	Business Inventories (Oct)	0.6%	0.3%
<b>Japan</b>			
<b>00:50</b>	<b>Tankan Large Mfg Outlook (4Q)</b>	<b>15A</b>	<b>19</b>
<b>00:50</b>	<b>Tankan Large Non-Mfg Outlook (4Q)</b>	<b>20A</b>	<b>22</b>
<b>01:30</b>	<b>Nikkei Japan PMI Mfg (Dec P)</b>	<b>52.4A</b>	<b>52.2</b>
<b>EMU</b>			
09:30	Markit Eurozone Manufacturing PMI (Dec P)	51.8	51.8
09:30	Markit Eurozone Services PMI (Dec P)	53.4	53.4
<b>09:30</b>	<b>Markit Eurozone Composite PMI (Dec P)</b>	<b>52.8</b>	<b>52.7</b>
<b>Germany</b>			
09:30	Markit/BME Germany Manufacturing PMI (Dec P)	51.7	51.8
09:30	Markit Germany Services PMI (Dec P)	53.5	53.3
<b>09:30</b>	<b>Markit/BME Germany Composite PMI (Dec P)</b>	<b>52.4</b>	<b>52.3</b>
<b>France</b>			
09:15	Markit France Manufacturing PMI (Dec P)	50.7	50.8
09:15	Markit France Services PMI (Dec P)	54.8	55.1
<b>09:15</b>	<b>Markit France Composite PMI (Dec P)</b>	<b>54.0</b>	<b>54.2</b>
<b>Italy</b>			
10:00	Industrial Orders MoM/NSA YoY (Oct)	--/--	-2.9%/-0.9%
<b>China</b>			
<b>03:00</b>	<b>Retail Sales TTD YoY/YoY (Nov)</b>	<b>9.1%A/8.1%A</b>	<b>9.2%/8.6%</b>
03:00	Industrial Production YTD YoY/YoY (Nov)	6.3%A/5.4%A	6.4%/5.9%
03:00	Fixed Assets Ex Rural YTD YoY (Nov)	5.9%A	5.7%
03:00	Property Investment YoY (Nov)	9.7%A	9.7%
03:00	Surveyed Jobless Rate (Nov)	4.8%A	4.9%
<b>Events</b>			
<b>09:15</b>	<b>ECB Vice-President Guindos Speaks in Frankfurt</b>		
10:30	ECB's Lautenschlaeger Speaks in Frankfurt		
14:30	ECB's Angeloni Speaks in Rome		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,91	0,00	US	2,76	-0,01	DOW	24597,38	70,11	
DE	0,29	0,01	DE	-0,58	-0,02	NASDAQ	7070,334	-27,98	
BE	0,76	0,01	BE	-0,52	-0,01	NIKKEI	21374,83	-441,36	
UK	1,29	0,01	UK	0,77	0,02	DAX	10924,7	-4,73	
JP	0,03	-0,03	JP	-0,15	-0,01	DJ euro-50	3112,17	4,20	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,01	2,88	1,26	Eonia	-0,3610	-0,0010	Libor-1	2,4401	0,0000
5y	0,28	2,86	1,35	Euribor-1	-0,3680	0,0000	Libor-3	2,7775	0,0000
10y	0,88	2,95	1,51	Euribor-3	-0,3110	0,0010	Libor-6	2,8923	0,0000
				Euribor-6	-0,2390	0,0020			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1361	-0,0008	EUR/JPY	129,06	0,28	CRB	183,03	1,83	
USD/JPY	113,63	0,34	EUR/GBP	0,8973	-0,0029	Gold	1247,40	-2,60	
GBP/USD	1,2643	0,0014	EUR/CHF	1,1291	-0,0003	Brent	61,45	1,30	
AUD/USD	0,7227	0,0007	EUR/SEK	10,2904	-0,0431				
USD/CAD	1,3355	0,0005	EUR/NOK	9,7206	-0,0245				

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