



Sunrise

Friday, 16 February 2018

Rates: Some consolidation ahead of the weekend?

Today's eco calendar probably won't impact trading, suggesting sentiment-driven and technical action. Underlying core bond sentiment remains negative and the comeback of stock/commodity markets adds to that picture. However, with the Bund and the US Note future entering oversold conditions, we'd argue in favour of some consolidation.

Currencies: Red alert for USD

Dollar weakness prevails this morning. USD/JPY dropped below key support (106.52). EUR/USD tests the 1.2537 cycle top. The trade-weighted dollar (DXY) tests the cycle low (88.43) which coincides with the 62% retracement level of the dollar's 2014-2016 rally. Red alert for USD!

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 closed with strong gains yesterday (+1.5%),** marking a fifth straight positive day. **Most Asian stock markets are closed for Lunar NY. Japan copies WS's gains despite more yen strength.**
- **Japanese PM Abe nominated Kuroda to lead the BoJ for another 5y term,** with the Cabinet forwarding the nomination to parliament. Central bank insider Amamiya and professor Wakatabe were tapped to be deputy governors.
- **The US Senate failed to break its impasse over immigration** after a week of debate as a flurry of unsuccessful votes left the chamber no closer to resolving the fate of hundreds of thousands of young, undocumented immigrants. (WSJ)
- **Two thirds of supporters of Germany's SPD back forming a coalition government with Merkel's conservatives,** an opinion poll showed, while 78% of supporters of the conservatives back the coalition.
- **The RBA expects to make only gradual progress in reducing unemployment and having inflation return to its 2-3% target band,** signalling interest rates will stay at record lows for a while yet.
- **The UK is ready to lay out its post-Brexit plan for the financial sector,** favoring an ambitious "mutual recognition" model, the FT reported.
- **Today's eco calendar** contains UK retail sales, US building permits & housing starts and university of Michigan consumer confidence. ECB Coeuré is scheduled to speak.

Rates

Some consolidation ahead of the weekend?

	US yield	-1d
2	2,18	0,02
5	2,65	0,02
10	2,91	0,01
30	3,16	0,00

	DE yield	-1d
2	-0,56	0,01
5	0,11	0,01
10	0,76	0,01
30	1,40	0,00

Global core bonds traded near Wednesday's sell-off lows during European dealings amid an empty eco calendar. Investors counted down to huge batch of US eco data. **Inflation (PPI) once more beat expectations**, but was offset by mixed business sentiment indicators and disappointing hard data (production). While this combination was no hurdle for a huge bond sell-off on Wednesday, it was the case yesterday. **A lackluster attempt to head to the lows was countered by some short term profit taking. However, the move didn't last. Core bonds topped off once US stock markets continued their 5-day comeback.**

The US yield curve bear flattened with yields 2.1 bps (2-yr) to 0.2 bps (30-yr) higher. The German yield curve shifted in similar fashion with yields 0.8 bps (2-yr) to 0.1 bp (30-yr) higher. 10-yr yield spread changes versus Germany ended virtually unchanged with Greece (-6 bps) outperforming.

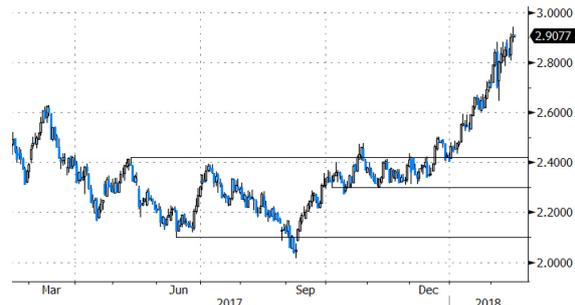
The US Note future trades stable overnight with most Asian markets closed for Lunar NY. Brent crude gives no indication for the start in Europe neither so we expect a neutral opening for the Bund.

Today's eco calendar contains US housing starts, building permits and Michigan consumer confidence. **These second tier eco data probably won't move markets.** ECB Coeure delivers the only scheduled central speech. He is in favour of ending the APP by September 2018. Overall, **we expect trading to be sentiment-driven and technically in nature today. Underlying sentiment on core bond markets remain bearish.** US yields are near cycle highs and might be attracted by key resistance levels (eg US 10-yr yield 3.05%; 2014 high). Oil and stock markets are regaining momentum and are additional negative factors for core bonds. **We'd argue in favour of some short term consolidation though with chances of some profit taking ahead of the weekend. Both the Bund and the US Note future are entering oversold conditions.**

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 towards next targets. The trading band for the US 10-yr yield is 2.64%-3.05%. The German 10-yr yield's trading band is 0.62%-1.06%. Correction towards the lower bounds could be used to put up short positions in the Bund and the US Note future.



German 10-yr yield entered new trading band (0.62%-1.06%). We hold an upward bias



US 10-yr yield sets new cycle high after high CPI data. 3.05% resistance within reach

Currencies

R2	1,2643	-1d
R1	1,2537	
EUR/USD	1,2506	0,0055
S1	1,1713	
S2	1,1554	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8870	-0,0024
S1	0,8690	
S2	0,8657	

Red alert for USD

The dollar remained under some downward pressure in Asia yesterday morning, but stabilized in Europe. Mixed US eco data had no impact. New US equity strength put the greenback again slightly in the defensive. EUR/USD closed the session at 1.2506. USD/JPY remains the biggest victim of dollar weakness **with USD/JPY closing below the 62% retracement level of the mid 2016 to end 2016 rally (106.52). A confirmed break suggests complete retracement towards 99.02.**

Positive risk sentiment and the dollar decline remain at play overnight. Several Asian markets are closed for the Lunar NY. Japanese stocks gain 1% despite a further decline of USD/JPY. The pair trades below 106 even if Japanese PM Abe confirmed Kuroda's extension at the head of the BoJ. One of the newly appointed deputy governors is a proponent of QE and argued in favour of increasing asset purchases. Japanese FM Aso said that they are carefully watching FX moves and will act if needed. **All yen-negative signals which the market currently ignores. Dollar weakness also translates in EUR/USD testing the 1.2537 cycle top this morning. The trade-weighted dollar (DXY) tests the cycle low (88.43) which coincides with the 62% retracement level of the dollar's 2014-2016 rally. Red alert for USD!**

The US eco calendar contains housing data and Michigan consumer confidence, but that won't change the fortunes of the dollar. ECB Coeuré speaks. He wants to end APP in September 2018. Will he refer to current euro strength? The repositioning on equity markets and technical considerations are more important. Positive **risk sentiment correlates with a further decline of the dollar.** USD/JPY lost important support, while EUR/USD and DXY test key hurdles. **A sustained break would signal more trouble for the dollar.** We don't see a fundamental reason for EUR/USD to already break this level, but this is not a good enough reason to row against the tide. **The dollar is a falling knife.**

EUR/GBP traded with a small negative bias yesterday, closing at 0.8858. **UK retail sales** are expected to rebound 0.6% M/M and 2.4% Y/Y after a sharp setback in January. **We doubt that even better than expected data will be a big help for sterling.** EUR/GBP holds the 0.8690/0.9033 range. We hold our view that the 0.8690 support won't be easy to break without big progress on Brexit. **UK PM May and German Chancellor Merkel hold Brexit talks in Berlin.**



EUR/USD tests ST range top



USD/JPY knocks out 62% retracement support despite higher US yields, risk rebound and political signs

Calendar

Friday, 16 February		Consensus	Previous
US			
14:30	Import Price Index MoM / YoY (Jan)	0.6%/3.0%	0.1%/3.0%
14:30	Import Price Index ex Petroleum MoM (Jan)	0.1%	-0.2%
14:30	Export Price Index MoM / YoY (Jan)	0.3%/--	-0.1%/2.6%
14:30	Housing Starts / MoM (Jan)	1234k/3.5%	1192k/-8.2%
14:30	Building Permits / MoM(Jan)	1300k/0.0%	1300k/-0.2%
16:00	U. of Mich. Sentiment (Feb P)	95.4	95.7
16:00	U. of Mich. Current Conditions (Feb P)	111.1	110.5
16:00	U. of Mich. Expectations (Feb P)	87.2	86.3
16:00	U. of Mich. 1 Yr Inflation (Feb P)	--	2.7%
16:00	U. of Mich. 5-10 Yr Inflation (Feb P)	--	2.5%
UK			
10:30	Retail Sales Ex Auto Fuel MoM / YoY (Jan)	0.6%/2.4%	-1.6%/1.3%
10:30	Retail Sales Inc Auto Fuel MoM / YoY (Jan)	0.5%/2.5%	-1.5%/1.4%
Germany			
08:00	Wholesale Price Index MoM / YoY (Jan)	--/--	-0.3%/1.8%
Events			
09:20	ECB's Coeure Speaks in Skopje, Macedonia		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,91	0,01	US	2,18	0,02	DOW	25200,37	306,88	
DE	0,76	0,01	DE	-0,56	0,01	NASDAQ	7256,43	112,82	
BE	1,03	0,01	BE	-0,45	0,02	NIKKEI	21720,25	255,27	
UK	1,65	0,01	UK	0,70	-0,02	DAX	12346,17	7,01	
JP	0,06	-0,01	JP	-0,15	0,00	DJ euro-50	3389,63	19,80	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,09	2,61	1,19	Eonia	-0,3630	0,0010	Libor-1	1,5881	0,0000
5y	0,51	2,75	1,43	Euribor-1	-0,3690	0,0000	Libor-3	1,8500	0,0000
10y	1,17	2,93	1,71	Euribor-3	-0,3280	0,0000	Libor-6	2,0628	0,0000
				Euribor-6	-0,2760	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2506	0,0055	EUR/JPY	132,73	-0,51	CRB	193,46	1,07	
USD/JPY	106,13	-0,88	EUR/GBP	0,8870	-0,0024	Gold	1355,30	-2,70	
GBP/USD	1,4099	0,0100	EUR/CHF	1,1531	-0,0041	Brent	64,33	-0,03	
AUD/USD	0,7945	0,0019	EUR/SEK	9,9279	0,0230				
USD/CAD	1,2481	-0,0012	EUR/NOK	9,7126	0,0020				

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