



**Friday, 17 January 2020**

### Rates: US Treasury will start selling 20-yr bonds

The US Treasury announced it will start issuing 20-yr bonds in the first half of the year. Full details will be announced early February, but the US yield curve steepens somewhat this morning. Today's eco calendar probably won't influence trading. Core bonds' decent performance yesterday amid surging stocks and strong US data suggests they are regaining momentum.

### Currencies: Sterling stays resilient despite BoE rate cut speculation

The post-payrolls slide of the dollar was blocked by yesterday's solid US eco data and an, albeit, modest rise in US yields. EUR/USD is still cemented within the established trading range. The persistent, low-volatility risk-on propels USD/JPY north of 110. Sterling rebounded even as markets still ponder the chances of a BoE rate cut at the end of this month.

### Calendar

## Headlines

- All major **US indices** set another record high yesterday after solid US data. The Nasdaq (+1.06%) outperformed. **Asian markets** show less enthusiasm. China struggles (-0.2%) despite marginally better than expected eco figures.
- **Chinese growth printed at 1.5% QoQ (or 6% YoY) vs. 1.4% expected in 2019Q4**, suggesting stabilization after a protracted decline. Other December data (IP, retail sales, investment) were robust and also slightly above consensus.
- **US Treasury will begin issuing 20-y bonds in the first half of 2020.** The revival of the in '86 abandoned 20-y bonds should provide more flexibility to fund rising deficits. The review of ultra-long maturities (50-y, 100-y) is ongoing.
- **EU Trade Commissioner Hogan said there was no mention of potential tariffs on cars** during the "very good" talks with Lighthizer in Washington. He did warn for EU retaliation if the US were to target French goods following the digital tax.
- **South-Korea left rates stable at 1.25% with two dissenters voting for a rate cut.** Central bank governor Lee turned more optimistic, projecting higher growth for 2020 as domestic sluggishness has eased a bit. The won trades unchanged.
- **The US Senate passed the USMCA** on a 89-10 vote yesterday, sending the bill to President Trump to sign it into law. Canada has yet to approve the trade agreement before turning it into full practice.
- **Today's eco calendar** heralds a calm end of the week. The US releases the U. of Michigan consumer confidence and industrial production figures. EMU data is of secondary importance (final CPI). Fed voting member Harker speeches.

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 Treasury will start selling 20-yr bonds

	US yield	-1d
2	1.57	0.01
5	1.62	0.03
10	1.81	0.02
30	2.29	0.02

	DE yield	-1d
2	-0.59	0.00
5	-0.52	-0.01
10	-0.22	-0.02
30	0.30	-0.02

### Core bonds traded with a gentle positive bias until the early US eco data releases.

December US retail sales, January Philly Fed Business Outlook (leading indicator for manufacturing ISM?!) and weekly jobless claims all printed significant positive surprises. **Core bonds lost ground with US Treasuries underperforming German Bunds. Losses could have been bigger though especially given WS's umpteenth rally (+1%).** US yields added between 1.2 bps (2-yr) and 2.6 bps (10-yr) on a daily basis. German yields fell up to 1.9 bps (10-yr). Peripheral yield spreads vs Germany widened by around 3 bps with Italy (+6 bps) underperforming, probably as a consequence of digesting this week's heavy sovereign bond supply (syndicated deals in Spain, Italy and Belgium).

**Most Asian stock markets record gains this morning** though sentiment is less ebullient than on WS yesterday. **Chinese eco data (including Q4 GDP) printed near consensus. The US yield curve bear steepens slightly after the US Treasury announced it plans to issue 20-yr bonds on a regular basis starting somewhere in H1 2020.** More details (timing, amount, at which tenors issuance will be reduced,...) will follow on February 5.

**Today's US eco calendar** contains December housing data (building permits/housing starts), industrial production and January Michigan consumer confidence. December data (especially production) can still suffer from weakness indicated by other US indicators while we hope to see more green shoots in the January figures. **Numbers released today aren't the big market movers** though. Revisions to the final EMU inflation data seem unlikely. Q4 earnings and a speech by Fed Harker are wildcards. **Overall, we thus expect today's session to be sentiment and technically driven. Yesterday's decent performance despite rallying stocks and thriving eco data suggests that core bond momentum is improving again.**

**Technically:** core bond yield's Q4 upleg was interrupted at the start of the year because of the US-Iran conflict. Geopolitical tensions in the Middle East again proved to have a limited shelf date as market theme. Inflation risk premia remain underpriced at current yield levels and could grab market attention with eg inflation expectations bottoming out. **The German 10-yr yield tested -0.18% (July high)/-0.15% (38% retracement of Feb '18 – Sep '19 decline) resistance, but a break didn't occur (yet).** The US 10-yr yield on multiple occasions failed to take out the 1.94% upper bound of the reigning trading channel.



German 10-yr yield: -0.18%/-0.15% resistance holds for now.



US 10-yr yield: 1.94% proves to be tough resistance.

# Currencies

## Sterling resilient despite rate cut speculation

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.1137	-0.0013
S1	1.1000	
S2	1.0879	

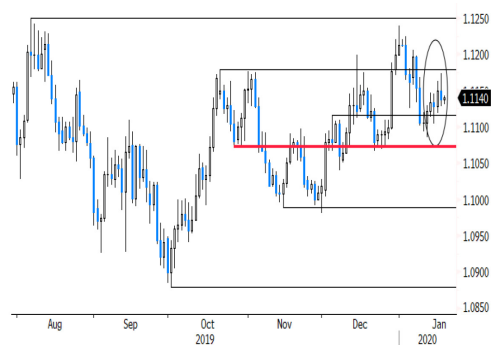
R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8516	-0.0036
S1	0.8275	
S2	0.8117	

**The post-payrolls USD correction bottomed yesterday.** EUR/USD set a ST correction top at the onset of the US trading. However, solid US data blocked a further EUR/USD rebound. US retail sales, the Philly Fed business outlook and the jobless claims were all better than expected. The reaction to the data was guarded, but a cautious reversal of the recent slide in (US) yields also helped to put a floor for the dollar. EUR/USD dropped from the 1.1170 area to close at 1.1137. Higher yields and a persistent risk-on with US equities extending their record race pushed USD/JPY again north of the 110 barrier (close 110.16).

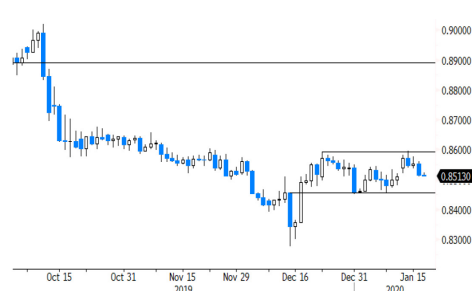
**This morning**, fourth quarter China growth was reported at 6.0% Y/Y, as expected. However, December retail sales, production and investment printed slightly stronger than expected, suggesting stronger growth further out. Asian equities show modest gains. China underperforms. The yuan extends gains (USD/CNY 6.87). USD/JPY is drifting further north (110.25 area). EUR/USD is holding near yesterday's close.

**Later today**, the eco calendar is moderately interesting, with the final EMU CPI. In the US housing data (starts and permits), production data and the University of Michigan consumer confidence will be published. Consumer confidence probably has most potential to move the dollar. However, the consensus expects a stabilisation, admittedly at a high level. The persistent, low volatility risk-rally currently also doesn't give much guidance for USD trading. In theory, it could be a USD negative. However, as the dollar still enjoys a higher yield compared to the likes of the euro, there is no big incentive for investors to leave USD long 'carry trades' in a low volatility environment. From a **technical point of view**, **EUR/USD last week dropped temporarily below 1.11, but 1.1066 support survived on soft payrolls.** EUR/USD 1.1066 remains our first downside reference. A rebound above 1.1180 would call off the ST downside alert. Still, a ST break beyond 1.1250 looks far from easy.

Earlier this week, EUR/GBP tested the post-election top, as several BoE policy makers indicated a growing chance for a rate cut, maybe already end this month. However, sterling found its composure and even regained ground. Did the market run to far? Today, UK retail sales are expected to rebound after a poor November report. The jury is still out, but in a daily perspective, it looks that sterling might be a more sensitive to a positive than to a negative surprise.



EUR/USD: USD correction blocked on solid US eco data.



EUR/GBP: sterling rebounds after BOE rate cut speculation pushed EUR/GBP close to the 0.86 range top.

# Calendar

Friday, 17 January		Consensus	Previous
<b>US</b>			
14:30	Building Permits Total/MoM (Dec)	1460k/-1.50%	1482k/1.40%
14:30	Housing Starts Total/MoM (Dec)	1380k/1.10%	1365k/3.20%
15:15	Capacity Utilization (Dec)	77.00%	77.30%
15:15	Industrial Production MoM (Dec)	-0.20%	1.10%
15:15	Manufacturing (SIC) Production (Dec)	0.10%	1.10%
16:00	U. of Mich. 1 Yr Inflation (Jan P)	--	2.30%
16:00	<b>U. of Mich. Expectations (Jan P)</b>	<b>89.0</b>	<b>88.9</b>
16:00	U. of Mich. Sentiment (Jan P)	99.3	99.3
16:00	<b>U. of Mich. Current Conditions (Jan P)</b>	<b>115.3</b>	<b>115.5</b>
16:00	U. of Mich. 5-10 Yr Inflation (Jan P)	--	2.20%
16:00	JOLTS Job Openings (Nov)	7250	7267
<b>UK</b>			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Dec)	0.80%/3.00%	-0.60%/0.80%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Dec)	0.60%/2.70%	-0.60%/1.00%
<b>EMU</b>			
10:00	ECB Current Account SA (Nov)	--	32.4b
11:00	Construction Output MoM/YoY (Nov)	--/--	-1.00%/0.30%
11:00	CPI MoM/YoY (Dec F)	0.30%/1.30%	0.30%/1.30%
11:00	CPI Core YoY (Dec F)	1.30%	1.30%
<b>China</b>			
03:00	Retail Sales YTD YoY/YoY (Dec)	8.00%A/8.00%A	8.00%8.00%
03:00	Property Investment YTD YoY (Dec)	9.9%A	10.20%
03:00	Industrial Production YTD YoY/YoY (Dec)	5.70%A/6.90%A	5.60%/6.20%
03:00	Fixed Assets Ex Rural YTD YoY (Dec)	5.40%A	5.20%
03:00	<b>GDP SA QoQ (4Q)</b>	<b>1.50%A</b>	<b>1.50%</b>
03:00	GDP YTD YoY/YoY (4Q)	6.10%A/6.00%A	6.20%/6.00%
03:00	Surveyed Jobless Rate (Dec)	5.20%	5.10%
<b>Events</b>			
Q4 earnings	Schlumberger (13:00) ...		
15:00	<b>Fed's Harker Discusses Economic Outlook</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.81	0.02		US	1.57	0.01	DOW	29297.64	267.42
DE	-0.22	-0.02		DE	-0.59	0.00	NASDAQ	9357.131	98.44
BE	0.02	-0.01		BE	-0.57	0.00	NIKKEI	24041.26	108.13
UK	0.64	-0.01		UK	0.45	-0.01	DAX	13429.43	-2.87
JP	0.00	-0.02		JP	-0.13	-0.01	DJ euro-50	3774.14	5.18
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	-0.26	1.61	0.65	Eonia	-0.4530	0.0000			
5y	-0.16	1.63	0.71	Euribor-1	-0.4660	-0.0080	Libor-1	1.6690	0.0000
10y	0.15	1.77	0.84	Euribor-3	-0.3930	0.0000	Libor-3	1.8361	0.0000
				Euribor-6	-0.3300	0.0040	Libor-6	1.8650	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	1.1137	-0.0013		EUR/JPY	122.68	0.13	CRB	182.25	-0.45
USD/JPY	110.16	0.26		EUR/GBP	0.8516	-0.0036	Gold	1550.50	-3.50
GBP/USD	1.308	0.0042		EUR/CHF	1.0745	-0.0004	Brent	64.62	0.62
AUD/USD	0.6898	-0.0004		EUR/SEK	10.5676	0.0144			
USD/CAD	1.3042	0.0000		EUR/NOK	9.8958	0.0148			

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