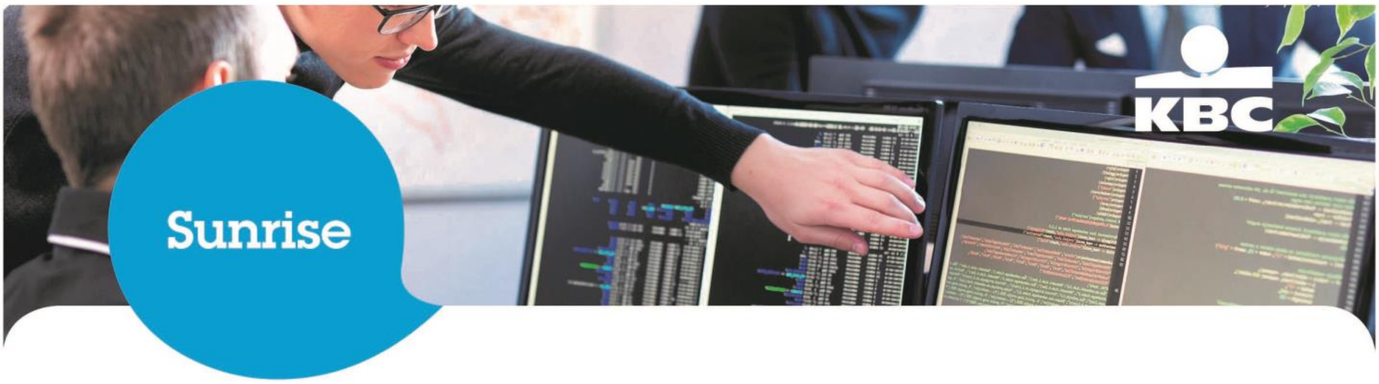


Thursday, 21 March 2019

Rates: Fed completes U-turn

The Fed cancelled all rate hike intentions this year and announced an end to the balance sheet run-off by September. Some fear the Fed called an end to the eco/monetary cycle all together. Inflation remains muted and international clouds gather above the US economy. US Treasuries rallied with the US 10-yr yield ready to test 2.5% support.

Currencies: USD declines as Fed deprives currency of additional interest rate support

The dollar extended its recent decline yesterday as the Fed is moving ever closer to the soft market positioning. The USD is becoming more vulnerable to disappointing US eco data. In a broader perspective, the ECB and the Fed are now in a prolonged wait-and-see stance. This should cap a big leap higher of EUR/USD, at least for now.

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** rebounded after the Fed meeting yesterday, but failed to retain gains. The Dow Jones underperformed (-0.55%). **Asian markets** are trading mostly positive with China outperforming its peers.
- **The Fed left rates stable and expects no more hikes in 2019 and 1 in 2020**, citing unconvincing inflation and weaker global growth. It will also **conclude its balance sheet reduction in September.** The dollar slipped, UST's rallied.
- **2018Q4 growth in New Zealand picked up strongly** to 0.6% QoQ (vs. 0.3% in Q3). Investors scaled back bets on a rate cut by the central bank later this year. The kiwi dollar extended its post Fed advance to NZD/USD 0.692.
- **US president Trump said that tariffs on Chinese goods will stay in effect** until he is certain China will comply with a trade deal that has yet to be signed. Earlier this week US officials were concerned that Beijing is backpedalling on promises.
- **Preliminary results of Dutch provincial elections,** which have implications on national politics, suggest **that right-wing populists (Forum for Democracy) have won 12 Senate seats,** stripping the current centre-right coalition of its majority.
- **PM Theresa May is heading for Brussels today to ask the EU for an extension of the brexit deadline.** European Council President Tusk said that's only possible if the British Parliament approves the already twice rejected existing agreement.
- **Today's economic calendar** contains the Philly Fed Business Outlook and jobless claims in the US. The E(M)U publishes March consumer confidence and holds a two day summit. We also brace for a central bank bonanza (BoE, SnB, Norges).

Rates

	US yield	-1d
2	2,40	-0,07
5	2,32	-0,10
10	2,53	-0,09
30	2,97	-0,05

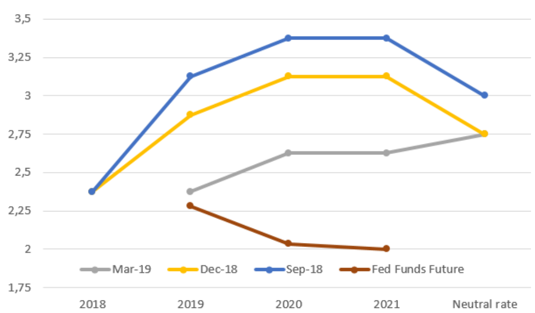
	DE yield	-1d
2	-0,53	0,00
5	-0,33	-0,01
10	0,08	-0,01
30	0,74	-0,02

Fed completes dovish U-turn

Global core bonds gained ground yesterday with US Treasuries significantly outperforming German Bunds after a dovish Fed meeting. The US central bank completed the U-turn it started at the end of the year. The Fed shelved all rate hike bets for the remainder of the year and pursues an end to its balance sheet run-off by the end of September. Moreover, the new Fed projections pencil in only one more rate hike this cycle (2020). Some might see the Fed's message as a strong hint that the end of the economic/monetary cycle is near. Patience is global central bank's key word. Fed chair Powell seemed discouraged by the fact that the central bank didn't achieve its 2% mandate *"in a more symmetrical way"*. One of the main drivers behind the Fed's rigid pace of rate hikes last year was an expected inflation overshoot which didn't materialize. **Fed governors now want firm evidence of higher inflation before taking more action.** Fed chair Powell opened the debate by stating that the US economy is in a *"good place"* and that he wants to keep it that way. Dark (international) clouds are piling up above the economy. Therefore, there's no rush to act in *"one direction or the other". "It may be some time before the outlook for jobs and inflation calls clearly for a change in policy".* **Markets were positioned for a soft message from the US central bank, but didn't expect them to go that far.** US yields lost 5.1 bps (30-yr) to 9.8 bps (5-yr) with the belly of the curve outperforming the wings. **The US 10-yr yield fell to 2.53%, approaching key support around 2.49%.** Short term rate markets continue to factor in an unchanged Fed policy rate this year, followed by a rate cut in 2020.

Asian stock markets are mixed overnight with China outperforming. WS couldn't maintain initial gains despite the Fed's soft message. The German Bund made a catch-up move with the US Note future, which remains underpinned. Today's eco calendar contains US Philly Fed Business Outlook and weekly jobless claims. **The market reaction will probably be even more asymmetrical than ahead of the Fed meeting with weak data provoking US T Note gains while strong data might be ignored.** In the first case, markets will more and more read into the Fed's message that they call it a cycle. The EU Summit, including the brexit extension debate, is a wildcard for trading.

Both the ECB and Fed created fertile breathing ground for additional bond gains over the medium term, flattening the curve. The US 10-yr yield is heading for a test of the lower band of the 2.5%-2.79% trading rage. The German 10-yr yield can return to zero and even negative levels unless growth/activity data start picking up at a rapid pace.



Fed completes dovish U-turn: how the dots changed market expectations

US 10-yr yield ready to test important 2.5% support

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1413	0,0061
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8649	0,0093
S1	0,8500	
S2	0,8314	

USD won't get interest rate support this year

Most major USD cross rates drifted sideways in the run-up to the Fed policy decision yesterday. Markets already anticipated a soft Fed with US yields and the dollar drifting lower of late. The Fed (more than) met dovish market expectations. It downgraded its growth forecasts. The governors in the 'dots' on average expect no rate hike this year anymore and see only one additional rate hike next year. The Fed will also stop the reduction of its balance sheet in September, much sooner than expected. In the press conference Fed's Powell stressed that patience is dominant attitude within the FOMC. **The USD won't get further interest rate support anytime soon.** Markets already discounted the Fed's next step being an interest rate cut. Powell and Co didn't go that far, but markets interpreted yesterday's guidance as the Fed making a big step towards their dovish positioning. US yields and the dollar took another big step south. The trade-weighted dollar (DXY) dropped from the 96.50 area to the 95.75 area. EUR/USD jumped north of 1.14 to close the day at 1.1413 (from 1.1352). USD/JPY closed at 110.70 (from 111.39).

Asian equity markets mostly show modest gains this morning. The dollar stays in the defensive. A softer dollar and lower US yields are in theory supportive for emerging markets, but doubts on global growth (even at the Fed) probably prevent more aggressive risk taking.

Later today, the eco calendar is rather light. EC consumer confidence is expected to bottom further (-7.1 from -7.4). The focus in the region will be on the EU summit handling Brexit. In the US, the Philly Fed business outlook and the jobless claims will be published. Weaker than expected data might confirm the Fed's wait-and-see stance.

The very soft Fed and the US currency losing further interest rate support is evidently USD negative. So, some further ST positioning away from the US dollar is possible. **That said, in a broader perspective, the Fed and the ECB are now a similar soft, wait-and-see modus.** Of late, the euro had already a good run. In this respect, a sustained break beyond the 1.1514 resistance is not evident. Such a test/break probably needs US data to deteriorate further. **A break beyond the 1.1570/1.1621 resistance would signal an profound deterioration in the technical picture of the USD, but we asumme its too early for that.**

The EU making a short-Brexit delay conditional to an approval of a deal weighed on sterling yesterday. Combined with EUR/USD strength this propelled EUR/GBP above 0.86. It looks Brexit uncertainty will persist and maybe even intensify till March 29 deadline. We avoid sterling exposure as long as the binary Brexit risk remains this high.

EUR/USD: extends rebound higher in 1.12/1.16 range as Fed deprives USD additional interest rate support

Sterling hammered as Brexit chaos intensifies going into March 29 deadline

Calendar

Thursday, 21 March		Consensus	Previous
US			
13:30	**Philadelphia Fed Business Outlook**	**4.8**	**-4.1**
13:30	**Initial Jobless Claims**	**225k**	**229k**
13:30	Continuing Claims	1770k	1776k
Canada			
13:30	Wholesale Trade Sales MoM (Jan)	--	0.3%
UK			
10:30	PSNB ex Banking Groups (Feb)	0.7b	-14.9b
10:30	**Retail Sales Ex Auto Fuel MoM/YoY (Feb)**	**-0.4%/3.5%**	**1.2%/4.1%**
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Feb)	-0.4%/3.3%	1.0%/4.2%
13:00	**Bank of England Bank Rate**	**0.750%**	**0.750%**
EMU			
16:00	**Consumer Confidence (Mar A)**	**-7.1**	**-7.4**
Norway			
10:00	**Deposit Rates**	**1.00%**	**0.75%**
Switzerland			
09:30	**SNB Sight Deposit Interest Rate**	**-0.75%**	**-0.75%**
Events			
21MAR	**EU leaders convene in Brussels to discuss (a.o.) a brexit extension**		
09:00	SSM's Enria Gives Presentation in Brussels		
10:00	**ECB Publishes Economic Bulletin**		
10:45	Spain to Sell Bonds		
10:50	France to Sell Bonds		
18:00	US to Sell USD11 Bln 10-Year TIPS		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,53	-0,09		US	2,40	-0,07	DOW	25745,67	-141,71
DE	0,08	-0,01		DE	-0,53	0,00	NASDAQ	7728,968	5,02
BE	0,53	-0,01		BE	-0,44	0,00	NIKKEI	21608,92	0,00
UK	1,16	-0,03		UK	0,74	-0,01	DAX	11603,89	-184,52
JP	-0,04	0,00		JP	-0,16	0,00	DJ euro-50	3372,38	-36,62
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,09	2,43	1,10	Eonia	-0,3710	-0,0030			
5y	0,09	2,40	1,19	Euribor-1	-0,3670	0,0000	Libor-1	2,4868	0,0000
10y	0,58	2,54	1,34	Euribor-3	-0,3090	0,0010	Libor-3	2,6128	0,0000
				Euribor-6	-0,2310	0,0010	Libor-6	2,6741	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1413	0,0061		EUR/JPY	126,38	-0,09	CRB	185,60	0,37
USD/JPY	110,7	-0,69		EUR/GBP	0,8649	0,0093	Gold	1301,70	-4,80
GBP/USD	1,3198	-0,0070		EUR/CHF	1,1328	-0,0014	Brent	68,50	0,89
AUD/USD	0,7116	0,0028		EUR/SEK	10,4299	-0,0211			
USD/CAD	1,3305	-0,0015		EUR/NOK	9,7017	0,0213			

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