

Wednesday, 23 January 2019

Rates: Core bonds eyeing global risk sentiment

Global core bonds gained ground yesterday as ongoing growth concerns and fading positivism about US-Sino trade talks put a halt to the risk rally of late. With today's eco calendar uninspiring, investors will start eyeing tomorrow's ECB meeting and EMU PMI's. We expect a neutral opening for both UST's and German Bunds with a cautious tendency downwards.

Currencies: EUR/USD stabilizes, USD/JPY rebound on soft BOJ inflation outlook

A risk-off sentiment left EUR/USD trading in a limbo yesterday. Today, the eco calendar is thin. Risk sentiment in Asia is not too bad. EUR/USD shows tentative signs of bottoming. USD/JPY rebounds as the BOJ softens its inflation outlook. Sterling profits as markets see a rising chance of a Brexit delay.

Calendar

Headlines

- Risk off held sway over equities yesterday. **US stock indices** coloured red and had Nasdaq underperforming (-1.9%). Sentiment during **Asian** trading hours is fragile as most markets are trading in negative territory
- **The Bank of Japan held as expected rates steady** at -0.1% and its 10-yr yield target at about 0%. Forward guidance for policy rates was unchanged. 2019 inflation forecasts, however, were slashed from 1.4% to 0.9%. JPY slipped.
- **The UK Labour party is likely to support the Cooper-proposal that aims to extend the Brexit deadline** until the end of the year if May fails to strike a deal. The proposal is also already backed by several Tory rebels.
- **Chinese finance ministry officials said they will "appropriately" step up fiscal spending this year** to support the economy, which grew at the slowest pace since 1990, data showed on Monday. The government is also considering to reduce social security fees to alleviate small companies.
- **US Senate Majority Leader McConnell is preparing for a vote on Thursday, both on a proposal by Trump and by Dem's.** While unlikely to pass, it could set the stage for necessary negotiations to end the US government shutdown
- **White House advisor Larry Kudlow denied rumours that the US cancelled trade talks** due to a lack of progress. He added the meeting with China's VP Liu He, scheduled for next week, will be extremely important and "determinative".
- **Today's economic calendar** is little inspiring. We will be watching the Richmond Fed Man. Index and Q4 earnings in the US, EC consumer confidence in the euro zone and CBI data for the UK. Germany taps the bond market.

| | |
|--------------|---|
| 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 yield | -1d |
|----|----------|-------|
| 2 | 2,59 | -0,03 |
| 5 | 2,58 | -0,05 |
| 10 | 2,74 | -0,05 |
| 30 | 3,07 | -0,04 |

| | DE yield | -1d |
|----|----------|-------|
| 2 | -0,59 | -0,01 |
| 5 | -0,30 | -0,02 |
| 10 | 0,24 | -0,02 |
| 30 | 0,84 | -0,03 |

Risk rally comes to a halt, supporting core bonds

Global core bonds gained ground yesterday as the risk-on rally of late came to a halt. Ongoing concerns about a global growth slowdown and fading positivism about US-Sino trade talks weighed on equities and facilitated the transfer of money into less risky assets. **The German yield curve bull steepened with changes going from -0.6 bps (2-yr) to -2.7 bps (30-yr).** Sentiment deteriorated even further during US trading hours as reports stipulated that the US had called off preparatory trade talks with Chinese officials due to a lack of progress. The president's top economic advisor Larry Kudlow refuted the report later and confirmed the meeting with Chinese VP Liu He is still scheduled for next week in Washington. **US yields declined with -2.8 bps (2-yr) to -4.6 bps (5-yr).** Spain successfully syndicated a new 10y benchmark (Apr2029), pulling in a record €47bn of orders. It eventually sold near €10bn at 65 bps above midswap, about 5 bps tighter than the initial guidance. Peripheral spreads over the German 10-yr yield remained stable.

Asian equity indices are trading mixed overnight with Japanese indices underperforming. **The Bank of Japan left its monetary policy unchanged but it cut the inflation outlook for a fourth consecutive time,** underlining the difficulties to bring inflation near the central bank's target. China's central bank again offered extra liquidity to banks (\$38bn), using its targeted version of a medium-term lending tool it unveiled last month for the first time. Both US Treasuries and German Bunds opened neutral with a small tendency to move lower after yesterday's gains.

Today's calendar is feathery light, so risk sentiment will remain in today's driver's seat. The EMU calendar contains the Consumer Confidence for January. Market consensus expects a further deterioration to -6.5, down from -6.2 in December. Risks of surprises are to the downside. In the US we only see secondary data, next to more incoming corporate Q4 results. **Investor focus will start to shift to tomorrow's EMU PMI's and the ECB meeting.** We expect the central bank to keep policy unchanged and to refrain from downgrading its economic risks outlook. Any hints on preparing for new TLTRO's could support markets from a risk-on perspective.

Technically, the German 10-yr yield bounced off 0.15% support, but the picture didn't change yet. Therefore, the 10-yr yield needs to clear the 0.31% hurdle. The US 10-yr yield lost the 2.75%-2.8% area by the end of last year. This zone now works as resistance in a trading band floored by 2.5%. **In both Germany and the US, we think that sufficient bad news is discounted at current levels. Policy normalization expectations in the US and EMU have become extremely/too dovish. However, a clear trigger is needed before declaring a sustained turnaround.**



German 10-yr yield bounced off 0.15% support, but no change to technical picture yet. 0.31% is first resistance



US 10-yr yield. No clear trigger available to regain 2.75%-2.8% area. Sideways action ahead, floored by 2.5%? ^{P. 2}

Currencies

| | | |
|----------------|---------------|----------------|
| R2 | 1,1815 | -1d |
| R1 | 1,1621 | |
| EUR/USD | 1,1360 | -0,0005 |
| S1 | 1,1187 | |
| S2 | 1,1119 | |

| | | |
|----------------|---------------|----------------|
| R2 | 0,93067 | -1d |
| R1 | 0,91 | |
| EUR/GBP | 0,8767 | -0,0048 |
| S1 | 0,8700 | |
| S2 | 0,862 | |

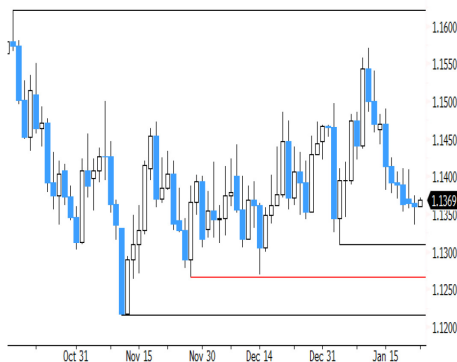
EUR/USD stabilizes. USD/JPY rebounds after BOJ

EUR/USD touched a minor correction low **yesterday**. European equities traded with a negative bias. ZEW German investor confidence (current situation) declined more than expected, but a bottoming in the expectations component provided a glimmer of hope. US yields also declined substantially, preventing a real USD rally. Later in US dealings, US equities also suffered substantial losses on rumours that US-Sino trade talks didn't go that easy. The rumours were later denied by Larry Kudlow. EUR/USD closed a risk-off session little changed at 1.1360 (from 1.1365). USD/JPY finished at 109.37 (from 109.67).

Asian equities show modest losses **this morning**, but remains limited given yesterday's US sell-off. Markets apparently are drawing some comfort from the prospect of a stimulating policy from the Chinese government/PBOC. **The BOJ left its policy unchanged, as expected, but cut its inflation forecast.** USD/JPY rebounded to the 109.80 area. EUR/USD is holding a very narrow range near 1.1365.

Today's eco calendar is again thin in the US and in EMU. Risk sentiment will again be the main driver for global trading. The political developments with respect to the US government shutdown and headlines on the fate of the China-US trade talks might affect global sentiment. The corporate earnings season is in full swing as well. US yields show tentative sings of bottoming after yesterday's decline and US equity futures show modest gains. This might be a positive environment for USD/JPY especially as the BOJ cut its inflation outlook. The drivers for EUR/USD trading are less straight-forward. EUR/USD settled again in the established 1.12/1.15 range after an upside test was rejected. We turned **neutral on EUR/USD, looking forward to this week's EMU sentiment indicators and the ECB policy meeting.** Last week, the dollar outperformed, but we look out whether the EUR/USD decline might slow as technical support is lining up from 1.1309 to 1.1270 area.

Sterling resumed its rebound of late, mainly driven by markets seeing a growing chance that Brexit will be delayed. It looks that at least a part of the Labour Party might consider to support this scenario. Sterling was additionally supported by solid UK labour market data. Today, the CBI order data will be published, but the focus remains on Brexit. A delay won't solve the Brexit chaos, but a least for now it supports a sterling constructive momentum. 0.8665 is next intermediate support.



EUR/USD holding tight range north of the 1.1309 support area



EUR/GBP: sterling extends rebound as markets sees rising chance of Brexit being delayed

Calendar

| Wednesday, 23 January | | Consensus | Previous |
|-----------------------|---|----------------|----------------|
| US | | | |
| 13:00 | MBA Mortgage Applications | -- | 13.5% |
| 15:00 | FHFA House Price Index MoM (Nov) | 0.3% | 0.3% |
| 16:00 | Richmond Fed Manufact. Index (Jan) | -2 | -8 |
| Canada | | | |
| 14:30 | Retail Sales MoM (Nov) | -0.6% | 0.3% |
| Japan | | | |
| | BOJ Policy Balance Rate | -0.100A | -0.100% |
| 00:50 | Exports/Imports YoY (Dec) | -3.8%A/1.9%A | 0.1%/12.5% |
| 05:30 | All Industry Activity Index MoM (Nov) | -0.3%A | 1.9% |
| 06:30 | Tokyo Dept Store Sales YoY (Dec) | -1.1%A | 0.2% |
| 06:30 | Nationwide Dept Sales YoY (Dec) | -0.7%A | -0.6% |
| UK | | | |
| 12:00 | CBI Trends Total Orders (Jan) | 5 | 8 |
| 12:00 | CBI Trends Selling Prices (Jan) | 12 | 14 |
| 12:00 | CBI Business Optimism (Jan) | -25 | -16 |
| EMU | | | |
| 16:00 | Consumer Confidence (Jan A) | -6.5 | -6.2 |
| France | | | |
| 08:45 | Business Confidence (Jan) | 103 | 102 |
| Events | | | |
| 2018Q4 earnings | Procter & Gamble (bef-mkt), Comcast (bef-mkt), Ford Motor (22:15) ... | | |
| 10:30 | BOE's Broadbent Speaks in London. | | |
| 11:30 | Germany to Sell 4 Billion Euros of 2024 Bonds | | |

| 10-year | Close | -1d | 2-year | Close | -1d | Stocks | Close | -1d | |
|------------|------------|------------|------------|-----------|---------|-------------|----------|---------|--------|
| US | 2,74 | -0,05 | US | 2,59 | -0,03 | DOW | 24404,48 | -301,87 | |
| DE | 0,24 | -0,02 | DE | -0,59 | -0,01 | NASDAQ | 7020,356 | -136,87 | |
| BE | 0,69 | -0,01 | BE | -0,53 | -0,01 | NIKKEI | 20593,72 | -29,19 | |
| UK | 1,32 | 0,00 | UK | 0,80 | 0,01 | DAX | 11090,11 | -46,09 | |
| JP | 0,00 | 0,00 | JP | -0,17 | 0,00 | DJ euro-50 | 3112,8 | -12,27 | |
| | | | | | | | | | |
| IRS | <u>EUR</u> | <u>USD</u> | <u>GBP</u> | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | -0,06 | 2,68 | 1,23 | Eonia | -0,3680 | 0,0010 | | | |
| 5y | 0,18 | 2,66 | 1,33 | Euribor-1 | -0,3680 | 0,0000 | Libor-1 | 2,5123 | 0,0000 |
| 10y | 0,78 | 2,77 | 1,49 | Euribor-3 | -0,3080 | 0,0000 | Libor-3 | 2,7724 | 0,0000 |
| | | | | Euribor-6 | -0,2370 | -0,0010 | Libor-6 | 2,8548 | 0,0000 |
| | | | | | | | | | |
| Currencies | Close | -1d | Currencies | Close | -1d | Commodities | Close | -1d | |
| EUR/USD | 1,1360 | -0,0005 | EUR/JPY | 124,25 | -0,39 | CRB | 178,99 | -3,22 | |
| USD/JPY | 109,37 | -0,30 | EUR/GBP | 0,8767 | -0,0048 | Gold | 1283,40 | 0,80 | |
| GBP/USD | 1,2954 | 0,0062 | EUR/CHF | 1,1329 | -0,0006 | Brent | 61,50 | -1,24 | |
| AUD/USD | 0,7124 | -0,0035 | EUR/SEK | 10,2528 | 0,0050 | | | | |
| USD/CAD | 1,3355 | 0,0061 | EUR/NOK | 9,7705 | 0,0385 | | | | |

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Contacts

| Brussels Research (KBC) | | Global Sales Force | |
|----------------------------|------------------|------------------------------|------------------|
| Mathias Van der Jeugt | +32 2 417 51 94 | Corporate Desk(Brussels) | +32 2 417 45 82 |
| Peter Wuyts | +32 2 417 32 35 | Institutional Desk(Brussels) | +32 2 417 46 25 |
| Mathias Janssens | +32 2 417 51 95 | CBC Desk (Brussels) | +32 2 547 19 19 |
| Dieter Lapeire | +32 2 417 25 47 | France | +32 2 417 32 65 |
| Dublin Research | | London | +44 207 256 4848 |
| Austin Hughes | +353 1 664 6889 | Singapore | +65 533 34 10 |
| Shawn Britton | +353 1 664 6892 | | |
| Prague Research (CSOB) | | Prague | |
| Jan Cermak | +420 2 6135 3578 | | +420 2 6135 3535 |
| Jan Bures | +420 2 6135 3574 | | |
| Bratislava Research (CSOB) | | Bratislava | |
| Marek Gabris | +421 2 5966 8809 | | +421 2 5966 8820 |
| Budapest Research | | Budapest | |
| David Nemeth | +36 1 328 9989 | | +36 1 328 99 85 |

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