



Friday, 25 January 2019

Rates: ECB remains in assessment mode

Bunds outperformed US Treasuries yesterday, backed by soft EMU PMI's and an unconvincing ECB. The central bank remains in assessment mode going into the March policy meeting. Positive risk sentiment weighs somewhat on bonds this morning. We expect investors to stay sidelined ahead of next week's high-level trade talks and Fed meeting.

Currencies: euro stays in the defensive on ongoing negative news flow

Yesterday, EUR/USD declined further in the established range on poor eco data and as the ECB acknowledging downside risk to the economy. The next check for the euro comes with today's German IFO business release. Sterling continues its impressive rebound/short squeeze. EUR/GBP is testing the key 0.8620 support area.

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 indices** closed yesterday's session overall on a positive footing with only the Dow Jones Index (-0.09%) losing little ground. **Asian equities** opened higher this morning and enlarge those gains throughout the trading day.
- **The US Senate voted two rival bills down that could have re-opened the US government.** Border wall funding remains the thorny issue. Trump is now open to a plan to re-open agencies, but only if a down payment on the wall is made.
- UK PM May and the Northern Ireland DUP party are said to be close to agreeing **an amendment that would curtail the Irish backstop.** The DUP is willing to back May's Brexit proposal, but only if the backstop has **a specific time limit.**
- **ECB governor Benoit Coeuré said it's too early to say whether the central bank will hike rates in 2019.** He added that guidance on interest rates could be altered if the economic slowdown proves more persistent.
- **A Chinese delegation, incl. vice ministers, will travel to Washington on Monday to prepare for two days of high-level trade talks** between Chinese Vice Premier Liu He and US Treasury Secretary Steven Mnuchin next Wednesday.
- **Consumer inflation in Tokyo unexpectedly rose in January.** The headline inflation gauge rose to 0.4%, up from 0.3% in December, beating consensus (0.2%). Core inflation (ex. fresh food and energy) rose to 0.7%, up from 0.6%.
- **Today's economic calendar** remains empty in the US (government shutdown). Germany prints January's IFO business sentiment. Fourth quarter earnings season continues while the ECB releases its survey of Professional Forecasters.

Rates

	US yield	-1d
2	2,56	-0,02
5	2,57	-0,03
10	2,72	-0,03
30	3,05	-0,03

	DE yield	-1d
2	-0,58	0,00
5	-0,31	-0,03
10	0,18	-0,05
30	0,78	-0,05

ECB remains wait and see mode

Global core bonds gained ground yesterday with **German Bunds outperforming US Treasuries** in a marginally risk-on global environment. The Bund rallied ahead from the European bell and immediately received a push in the back from **disappointing (national) EMU PMI's**. The bid didn't left going into the ECB meeting. **The central bank kept policy unchanged, but downgraded risks to the eco outlook. They remain in wait and see mode.** [Click here](#) for an extended review. Markets very temporarily changed course when Draghi said that any new TLTRO's should be based on a monetary policy case rather than country- or sector specific reasons. **US weekly jobless claims** reached their lowest level since 1969, but didn't affect trading. **Oil prices** nudge higher against the background of the Venezuelan crisis. The German yield curve bull flattened in a daily perspective with yields 0.3 bps (2-yr) to 4.9 bps (30-yr) lower. US yields dropped 2 bps (2-yr) to 2.8 bps (30-yr) across the curve. Peripheral yield spreads vs Germany narrowed up to 5 bps (Italy).

Asian stock markets gain over 1% this morning, pulling core bonds lower.

China is rumoured to send 3 vice-ministers to US-Sino trade talks early next week, **lifting hopes on progress at the high-level meeting later next week**. The **PBOC** also introduced a new swap facility to **boost liquidity**. The US Senate as expected rejected two rival spending bills to reopen the US government. Despite the long-lasting shutdown, **US economic adviser Kudlow expects a stellar January payrolls report**. We expect positive risk sentiment to transfer to Europe at the onset of dealings.

Today's eco calendar is in the US once again beheaded by the shutdown.

Durable goods orders and new home sales won't be released. The EMU calendar only contains **German IFO business sentiment with risks tilted to the downside** following yesterday's weak German manufacturing PMI. We don't expect follow-through price action on yesterday's ECB meeting. **The key message is that the ECB will be assessing incoming data which might have ramifications at the March policy meeting**. Risk sentiment will probably drive intraday price-action, but we don't expect technically relevant moves. **Investors will gradually shift their focus to next week's trade talks and Fed meeting and stay side-lined.**

From a technical point of view, 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%

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1304	-0,0077
S1	1,1187	
S2	1,1119	

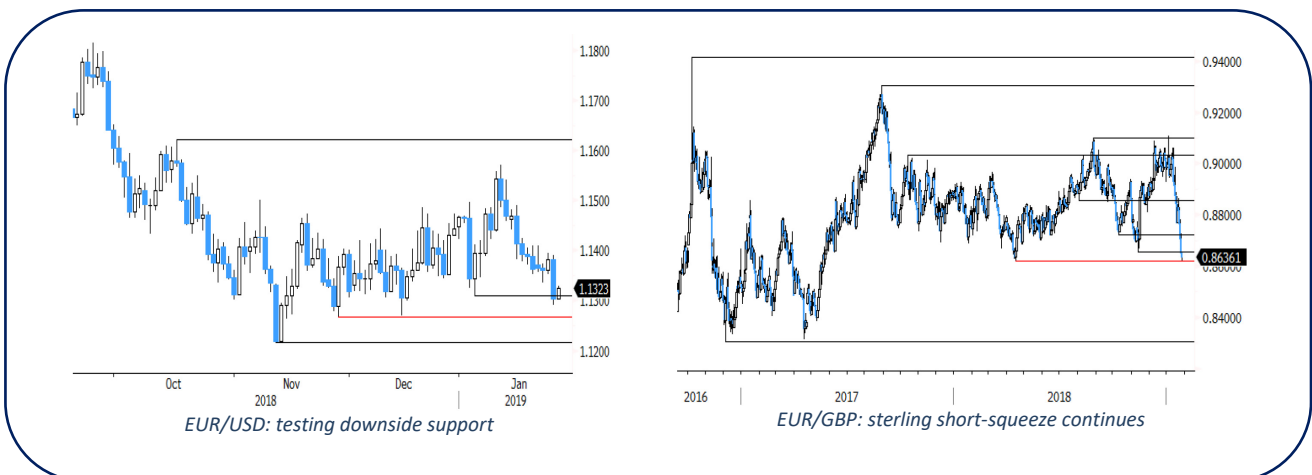
R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8653	-0,0055
S1	0,8700	
S2	0,862	

EUR/USD stays in the defensive. Sterling rallies

EUR/USD had a roller-coaster ride yesterday. European yields and the euro nosedived on disappointing EMU PMI's. EUR/USD dropped further at the start of the ECB press conference as **Draghi put the risks to the ECB growth scenario to the downside**. EUR/USD rebounded temporarily as the ECB president spooked quite guarded on new TLTRO funding. The rebound was short-lived. **EUR/USD tumbled briefly below the 1.13 handle on headlines that the German government will cut its 2018 growth forecast to 1.0% from 1.8%**. At the same time, US economic adviser Kudlow spoke positive on the US-China trade talks and the US economy. EUR/USD finished the day at 1.1304 (from 1.1381). USD/JPY showed no clear trend and ended the session little changed at 109.64. **Asian equities are rebounding further this morning** even as uncertainty on several (geopolitical) topics still persists. Tokyo inflation data were slightly higher than expected, but the yen declines on the positive risk sentiment. USD/JPY is again moving toward the 110 barrier. EUR/USD still struggles not to slip below the 1.13 mark.

Today, the publication of the US data (orders, new home sales) is again postponed. In Europe, investors look out whether the German IFO survey confirms (or amends) recent negative news flow on the German economy. Is most of the bad news discounted? If so, the euro decline might slow. **However, for that to happen, an unexpected positive surprise is probably needed**. There will also again be plenty of headlines on the China-US trade talks ahead of next week's high level meetings. This week, we had a neutral bias on EUR/USD the pair had again returned in the 1.12/1.15 range after an upside test was rejected. The negative eco news flows on Europe caused the pair to drift lower in this range. First support at 1.1309 was temporarily broken. Next intermediate support comes in at 1.1270/67, ahead of the key 1.1216/1.1189 area. We still assume no sustained downside break.

After a brief pause yesterday morning, the sterling rally resumed. **EUR/GBP is extensively testing the 0.8620 support area**. This time, the move is triggered by press reports that the DUP party might be prepared to support an (amended) proposal of May's Brexit plan. Later today, the CBI retail data are also interesting. We find that the sterling rebound has gone far enough given that political event risk remains quite elevated. That said, the EUR/GBP stop losses trend is strong. For now, there is no reason to catch the falling knife until there is a clear technical sign.



Calendar

Friday, 25 January		Consensus	Previous
Japan			
00:30	Tokyo CPI YoY (Jan)	0.4%A	0.4%R
00:30	Tokyo CPI Ex-Fresh Food YoY (Jan)	1.1%A	0.9%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Jan)	0.7%A	0.6%
UK			
10:30	UK Finance Loans for Housing (Dec)	38950	39403
12:00	CBI Retailing Reported Sales (Jan)	3	-13
12:00	CBI Total Dist. Reported Sales (Jan)	--	10
Germany			
10:00	IFO Business Climate (Jan)	100.7	101.0
10:00	IFO Expectations (Jan)	97.1	97.3
10:00	IFO Current Assessment (Jan)	104.2	104.7
Belgium			
15:00	Business Confidence (Jan)	-1.5	-0.9
Sweden			
09:30	Retail Sales MoM/WDA YoY (Dec)	0.1%/1.2%	0.8%/1.1%
09:30	PPI MoM/YoY (Dec)	--	0.0%/7.9%
Events			
2018Q4 earnings	AbbVie (bef-mkt), Colgate-Palmolive (12:55) ...		
10:00	ECB Survey of Professional Forecasters		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,72	-0,03	US	2,56	-0,02	DOW	24553,24	-22,38	
DE	0,18	-0,05	DE	-0,58	0,00	NASDAQ	7073,461	47,69	
BE	0,62	-0,05	BE	-0,52	0,00	NIKKEI	20773,56	198,93	
UK	1,27	-0,06	UK	0,77	-0,03	DAX	11130,18	58,64	
JP	0,00	-0,01	JP	-0,17	-0,01	DJ euro-50	3126,31	14,18	
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	-0,07	2,66	1,20	Eonia	-0,3690	-0,0010			
5y	0,15	2,63	1,29	Euribor-1	-0,3670	0,0010	Libor-1	2,5100	0,0000
10y	0,72	2,75	1,44	Euribor-3	-0,3060	0,0020	Libor-3	2,7706	0,0000
				Euribor-6	-0,2360	0,0010	Libor-6	2,8536	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1304	-0,0077	EUR/JPY	123,95	-0,80	CRB	179,24	0,58	
USD/JPY	109,64	0,04	EUR/GBP	0,8653	-0,0055	Gold	1285,90	-4,30	
GBP/USD	1,3066	-0,0003	EUR/CHF	1,1264	-0,0061	Brent	61,09	-0,05	
AUD/USD	0,7094	-0,0048	EUR/SEK	10,2702	0,0030				
USD/CAD	1,335	0,0007	EUR/NOK	9,708	-0,0411				

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