



Wednesday, 27 November 2019

Rates: Fed Brainard proposes yield curve caps when rates hit ELB

Washington Fed-based governor Brainard suggested a strategic overhaul, introducing yield curve control if policy rates hit the effective lower bound in future downturns. Her comments obviously didn't alter intraday trading dynamics, but should be kept in mind. Ahead of the long weekend in the US, we expect core bonds to maintain their modest upward bias.

Currencies: EUR/USD struggles not to fall below

Yesterday, US data were mixed to slightly softer, but hardly affected USD trading. EUR/USD is holding a tight range slightly above 1.10. Today's US data won't change the broader picture, but a positive surprise might push EUR/USD for a test of the 1.0989 support. Sterling lost a few ticks as polls suggest the Conservative lead for the Dec 12 elections might narrow.

Calendar

Headlines

- **US equities** rose to fresh all-time highs amid for a second consecutive day amid upbeat news on the trade front. The S&P 500 (+0.22%) outperformed. **Asian markets** are trading mixed. Australia outperforms (+0.93%).
- US president **Trump signaled progress on the US-China trade front yesterday**. He declared the countries **"are in the final throes of a very important deal and things are going very well"** after negotiators from both sides talked by phone.
- **US consumer confidence unexpectedly slowed in November to 125.5 from 125.9 in October** (consensus at 127). Worries about current business conditions and cooling labour conditions pushed the indicator lower.
- **Fed governor Lael Brainard** backed the solid US economy but pledged that the **Fed should evolve towards a flexible average inflation target**. This would boost the Fed's credibility and give it more leeway in steering its interest rates.
- **Brazil's currency slumped to an all-time low of USD/BRL 4.2330** yesterday after the economy minister commented that a weak currency should not be a concern. The central bank intervened twice in the FX market to prop up the real.
- **Canadian National Railway struck a tentative agreement with the union, bringing an end to a weeklong strike** that brought shipments of oil, grains and potash across Canada to a standstill and threatened to upend the economy.
- In **today's economic calendar** the US economy takes driver's seat. Durable goods orders, price and GDP data are due. The Fed also releases its Beige Book. In Europe, ECB's Lane is scheduled to speak. Germany and the US issue bonds.

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	1.58	-0.03
5	1.59	-0.01
10	1.74	-0.01
30	2.18	-0.02

	DE yield	-1d
2	-0.64	-0.01
5	-0.59	-0.01
10	-0.37	-0.02
30	0.15	-0.02

Fed Brainard: yield curve caps when rates hit ELB

Core bonds traded with a small upward bias yesterday without clear driver.

Risk sentiment on stock markets remained positive, but less outspoken. Mixed US eco data (including consumer confidence) didn't alter the intraday trading dynamics. The US \$40bn 5-yr Note auction tailed slightly, but bidding metrics were strong. The German yield curve bull flattened with yields decreasing by 0.8 bps (2-yr) to 2.5 bps (30-yr). 10-yr yield spread changes vs Germany widened by up to 3 bps. US yields fell by 1.4 bps (10-yr) to 2.2 bps (30-yr).

Heavyweight Washington-based Fed governor Brainard offered her **preliminary views on the Federal Reserve's review of its monetary policy strategy**. She starts by admitting that she was struck that the effective lower bound (ELB) proved to be a severe impediment to the provision of policy accommodation initially because of long delays needed to develop consensus and take action on unconventional policy which sapped confidence, tightened financial conditions and weakened the recovery. For those reasons, she advocates a more mechanical approach for policy action when policy rates hit the ELB in future downturns. **In particular, she sees advantages to an approach that caps interest rates on Treasury securities at the short-to-medium range of the maturity spectrum—yield curve caps—in tandem with forward guidance that conditions lift off from the ELB on employment and inflation outcomes.**

Both would reinforce each other. In addition, once the targeted outcome is achieved, and the caps expire, any securities that were acquired under the program would roll off organically, unwinding the policy smoothly and predictably. The Fed's monetary policy review extends into 2020.

Most Asian stock markets extend gains this morning with China (-0.25%) underperforming.

Chinese industrial profits fell by 9.9% in October, the most since at least 2011, with domestic demand slowing and producer prices falling. Core bonds tread water. Today's eco calendar contains US durable goods orders, weekly jobless claims, PCE deflators, Chicago PMI, income/spending data and new home sales. **The probability that such complex of data triggers a directional move seems small. Ahead of the long weekend in the US, we expect core bonds to maintain their cautious upward bias.**

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. The German 10-yr yield broke above -0.41% resistance as geopolitical uncertainty diminished, improving the technical picture. **Targets of this double bottom formation are -0.25% and -0.13%.** The 38% retracement level of the Oct-Aug decline stands at -0.24%. **The US 10-yr yield trades in the 1.43%-1.94% sideways trading channel. First tests to take out 1.94% failed, causing corrective return action lower.**



German 10-yr yield: painting double bottom on charts. Targets are



US 10-yr yield: first tests of upper bound of sideways trading range

Currencies

EUR/USD struggles not to fall below 1.10

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1021	0.0007
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8566	0.0028
S1	0.8500	
S2	0.8314	

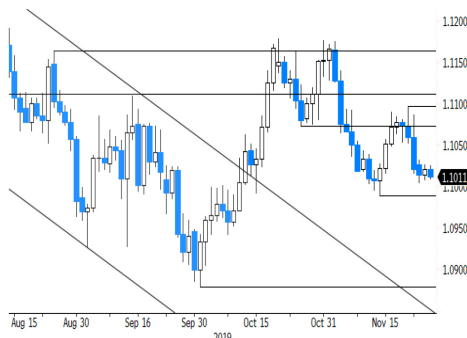
Yesterday was an **uneventful session for USD trading**. Persistent headlines on constructive US-China trade talks understandably failed to inspire trading. Investors first want concrete results/details. In the afternoon there were quite some US eco data. The Richmond manufacturing index and the consumer confidence (Conference Board) printed slightly softer than expected. The impact on the dollar was very limited. EUR/USD gained a few ticks and closed at 1.1021. USD/JPY soon resumed its gradual intraday uptrend to close the session at 109.05.

Asian equities mostly show modest gains **this morning**. President Trump repeated that negotiations were 'in the final throes of a very important deal'. However, the market reaction remains limited. The dollar even slightly outperforms. EUR/USD is drifting back south in the 1.10 big figure (1.1010 area). USD/JPY is changing hands north of 109 (109.15). The yuan gains marginally (USD/CNY 7.03).

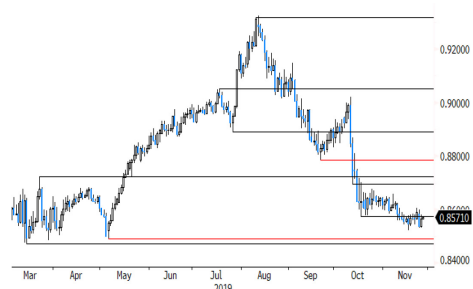
Today, headlines on trade talks remain a wild card for trading. In the US there is again quite a long series of data ahead of the Thanksgiving holiday. The data include the second reading of the US Q3 GDP, the durable goods orders, jobless claims, Chicago PMI, spending and income data and the price deflators. We don't expect the data to change to broader picture on the US economy. Still, we see a decent outcome for the durable orders and for the spending/income series. If anything, **the data might be a tentative USD supportive**. Even so, investors will stay cautious to place big directional bets ahead of the Thanksgiving/Back Friday weekend.

Last week, a minor EUR/USD rebound was blocked near 1.11, leaving the pair in a neutral, slightly unconvincing trading pattern. **The price action this week, suggests underlying euro softness, rather than USD strength. A return below 1.0989 would deteriorate the ST picture. A rebound above 1.11 would be constructive in a ST perspective.**

Sterling ceded ground yesterday. Polls still see the Conservative party in the lead, but the gap is slightly narrowing. If so, it raises the risk of none of the major parties reaching an outright majority. This could lead to a new stalemate in the Brexit process. **EUR/GBP rebounded to the 0.8575 area**. There are no important eco data today. Monitoring the polls remains the name of the game for sterling trading. For now, we still don't expect a big repositioning going into the December 12 election.



EUR/USD: euro struggles not to fall below intermediate support.



EUR/GBP: sterling turns slightly more cautious on opinion polls.

Calendar

Wednesday, 27 November		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-2.20%
14:30	GDP Annualized QoQ (3Q S)	1.90%	1.90%
14:30	Personal Consumption (3Q S)	2.80%	2.90%
14:30	Core PCE QoQ (3Q S)	2.80%	2.20%
14:30	Durable Goods Orders (Oct P)	-0.90%	-1.20%
14:30	Durables Ex Transportation (Oct P)	0.10%	-0.40%
14:30	Cap Goods Orders Nondef Ex Air (Oct P)	-0.20%	-0.60%
14:30	Cap Goods Ship Nondef Ex Air (Oct P)	-0.20%	-0.70%
14:30	Initial Jobless Claims	221l	227k
14:30	Continuing Claims	1691k	1695k
15:45	MNI Chicago PMI (Nov)	47.0	43.2
16:00	Personal Spending/Income (Oct)	0.30%/0.30%	0.20%/0.30%
16:00	PCE Deflator MoM/YoY (Oct)	0.30%/1.40%	0.00%/1.30%
16:00	PCE Core Deflator MoM/YoY (Oct)	0.10%/1.70%	0.00%/1.70%
16:00	Pending Home Sales MoM/YoY (Oct)	0.20%/6.00%	1.50%/6.30%
UK			
01:01	BRC Shop Price Index YoY (Nov)	-0.50%A	-0.40%
France			
08:45	Consumer Confidence (Nov)	103	104
Italy			
10:00	Consumer Confidence Index (Nov)	111.7	111.7
10:00	Economic Sentiment (Nov)	99.8	99
China			
02:30	Industrial Profits YoY (Oct)	-9.90%A	-5.30%
Norway			
08:00	Unemployment Rate AKU (Sep)	3.70%	3.70%
Events			
10:30	ECB's Lane Speaks in Luxembourg		
11:30	Germany to Sell 3 Billion Euros of 0% 2024 Bonds		
19:00	US to Sell USD32 Bln 7-Year Notes		
20:00	U.S. Federal Reserve Releases Beige Book		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.74	-0.01		US	1.58	-0.03		DOW	28121.68	55.21
DE	-0.37	-0.02		DE	-0.64	-0.01		NASDAQ	8647.934	15.44
BE	-0.07	-0.02		BE	-0.63	-0.01		NIKKEI	23437.77	64.45
UK	0.65	-0.05		UK	0.49	-0.03		DAX	13236.42	-10.03
JP	-0.11	-0.02		JP	-0.19	-0.01		DJ euro-50	3705.55	-2.13
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.32	1.54	0.75	Eonia	-0.4480	0.0000				
5y	-0.24	1.54	0.77	Euribor-1	-0.4510	0.0000		Libor-1	1.6995	0.0000
10y	0.05	1.66	0.86	Euribor-3	-0.3990	0.0050		Libor-3	1.9186	0.0000
				Euribor-6	-0.3380	0.0000		Libor-6	1.9191	0.0000
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1021	0.0007		EUR/JPY	120.17	0.22		CRB	181.10	0.53
USD/JPY	109.05	0.12		EUR/GBP	0.8566	0.0028		Gold	1467.40	3.60
GBP/USD	1.2866	-0.0034		EUR/CHF	1.0992	0.0017		Brent	64.27	0.62
AUD/USD	0.6788	0.0009		EUR/SEK	10.5691	-0.0454				
USD/CAD	1.3272	-0.0027		EUR/NOK	10.1061	-0.0026				

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