



**Friday, 02 March 2018**

### Rates: US protectionism spoils risk sentiment

US protectionism caused a sell-off on stock markets from which core bonds profited via safe haven flows. Last month, the same news triggered weakness in core bonds on fears of retaliation from China via lower Treasury purchases. For now, we think of it as a healthy correction. The German 10-yr yield tests important support at 0.62%

### Currencies: Trade war fears block USD rebound, for now

The dollar rebound was blocked by a less hawkish comments of Fed's Powell and, even more, by US president Trump's announcement of import tariffs on an steel and aluminum. US trade policy and EMU politics will be the main drivers for USD trading today. Sterling traders will closely monitor whether PM May can ease EU/UK tensions with her Brexit speech.

### 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	↗

- Stock markets in Asia extended WS's rout (-1.5%), as investors were spooked by the specter of a global trade war after **President Trump announced the US would impose hefty tariffs on steel (25%) and aluminum (10%) imports.**
- **Japan's jobless rate fell to an almost 25-yr low in January (2.4%),** while the job-to-applicant ratio remained at a 44-yr high (1.59). **Tokyo CPI ex-fresh food rose faster than forecast in February (0.9% Y/Y).**
- **President Trump is likely to nominate Columbia University economist Clarida to become Fed vice chair,** according to the WSJ. He is a Republican economist whom colleagues describe as more of a pragmatist than an ideologue.
- **NY Fed governor Dudley said that 4 rate hikes this year would still be gradual. Fed chair Powell** sounded somewhat less hawkish on his 2<sup>nd</sup> day of testimony before US Congress, adding that **the US economy is not at risk of overheating.**
- **Catalonia's former leader Puigdemont pulled back from a bid for a second term in office,** dealing a blow to the Spanish northeastern region's secessionist movement. However, it might open the regional political deadlock.
- **ECB policymakers** are likely to discuss a small tweak in their communication stance at their March 8 meeting but **no major policy shift is expected,** three sources with direct knowledge of the discussion said.
- **Today's eco calendar** is uneventful apart from the UK with **PM May's Brexit speech** and the construction PMI.

# Rates

	US yield	-1d
2	2.21	-0.04
5	2.60	-0.06
10	2.81	-0.05
30	3.11	-0.04

	DE yield	-1d
2	-0.56	-0.02
5	0.02	-0.01
10	0.64	-0.01
30	1.30	0.00

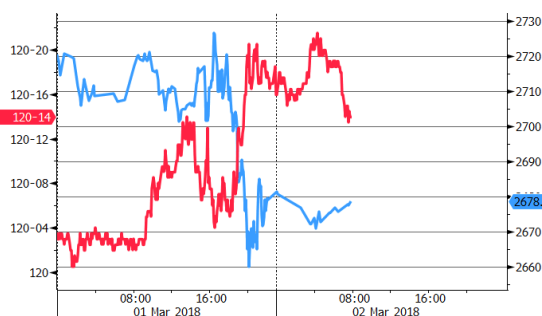
## US protectionism spoils risk sentiment

Global core bonds profited from safe haven flows during European and US trading in anticipation on and after the effective announcement of tariffs on steel (25%) and aluminum (10%) by US President Trump. The upleg was temporarily interrupted at the start of US dealings following a batch of strong US eco data (PCE deflators, jobless claims and manufacturing ISM). Fed chair Powell said that the US was not at risk of overheating in his less hawkish 2<sup>nd</sup> testimony before US Congress. NY Fed Dudley on the other hand said that 4 hikes this year would still be gradual. The German Bund eventually rose above 159.75 resistance in after-trading, but the German 10-yr yield managed to close above 0.62% support. German yields declined by 0.9 bps (5-yr) to 1.4 bps (2-yr). US yields ended the day 3.9 bps (2-yr) to 6.2 bps (7-yr) lower, with the belly of the curve outperforming the wings. 10-yr yield spread changes vs Germany ranged between -2 bps and +1 bp with Greece underperforming (+7 bps).

**The US Note future loses ground overnight. Selling pressure on JGB's weighs after BoJ Kuroda said that the BOJ thinks the chances of hitting the 2% inflation target around fiscal 2019 are high.** That's when it will be considering the timing of an exit from its stimulus policy. It's a first specific call for normalisation from the world's most dovish central bank.

Today's eco calendar is uneventful. **Trade wars will be the dominant trading theme. At this stage, stock markets are in the driving seat. The sell-off triggers safe haven flows into core bonds and causes a healthy correction. We must add that core bonds sold off earlier this year on trade war headlines.** The rationale sounded that China could slow down or even halt US Treasury purchases from its FX portfolio against a background of rising US twin deficits. **We continue to think of US Treasury gains as a temporary, healthy correction. More and more signs emerge from within the Fed that Trump's fiscal stimulus in a mature business cycle will be countered by a more hawkish than expected monetary policy.** The Bund could outperform the US Note future today ahead of this weekend's European political risk (SPD vote on coalition proposal & Italian elections).

US and German yields cleared resistance levels earlier this year and are moving towards next targets. The trading band for the US 10-yr yield is 2.64%-3.05%. The German 10-yr yield's trading band is 0.62%-1.06%. **Current levels could be used to set up new short Bund positions even if latest signals suggest that the ECB won't change its forward guidance yet at the March policy meeting.**



US Note future (red) and S&P (blue) (intraday): US Note future profits from safe haven flows as WS corrects lower



German 10-yr yield tests 0.62% support. Opportunity to put up new Bund short positions

# Currencies

R2	1.2598	-1d
R1	1.2555	
<b>EUR/USD</b>	<b>1.2267</b>	<b>0.0073</b>
S1	1.2165	
S2	1.2055	

R2	0.9307	-1d
R1	0.9033	
<b>EUR/GBP</b>	<b>0.8905</b>	<b>0.0043</b>
S1	0.8690	
S2	0.8657	

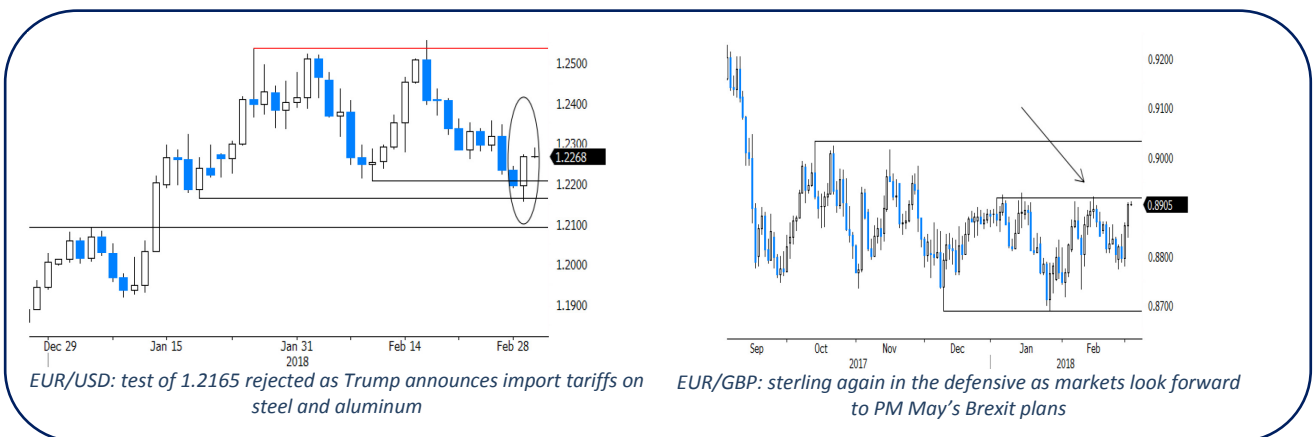
## Trump's tariff plans block USD rebound

The dollar first gained modest further ground yesterday; a continuation of the post-Powell rebound. The 2-yr US/German yield differential grew to 280 bps, the highest since 1997! US data (claims and ISM) were strong. PCE deflators printed as expected (0.4% M/M and 1.7% Y/Y). EUR/USD set a minor low below 1.2165. However, **in yesterday's Q&A, Powell was less hawkish than on Tuesday** (no overheating of the economy). **Later, the dollar was hammered as US president Trump announced tough import tariffs on steel and aluminum.** US equities, US yields and the dollar nosedived. EUR/USD closed at 1.2267. USD/JPY finished at 106.24.

Trump's action on import tariffs dominates the overnight price action. Most Asian equity indices are trading in negative territory. Japan underperforms (losses of up to 2.0%). Losses in China stay modest. The Japanese jobless rate declined sharply to 2.4% and Tokyo inflation was a touch higher than expected. BoJ's Kuroda sees a chance of hitting 2% inflation in FY 2019. At that time he will consider the timing of the exit. This is sure something to keep an eye on! USD/JPY dropped below 106. EUR/USD trades in the 1.2270 area.

**The focus for (FX) trading will be on the US import tariffs and its consequences for global trade, and on European politics** (Italian election and SPD approval of new government). A reaction of trading partners to the US tariffs might sent shivers through markets, but we don't expect this theme to become a lasting negative for markets or the dollar. EMU politics was seldom a big issue for global (FX) trading. Some euro caution ahead of the weekend is possible, but nothing more than that. **Yesterday's rejected test of the EUR/USD 1.2165 area is slightly disappointing for USD bulls ST. However, the battle might not be over yet. If the dust on the tariffs issue settles, a retest remains possible.**

Today, all eyes in the UK and EU are on PM May's speech. She brings her view on the partnership with the EU. She might advocate a trade deal deeper than anywhere else in the world. However, the EU probably will consider this cherry-picking. We doubt the speech will bring a breakthrough. **Sterling already lost some ground on Brexit-uncertainty this week. EUR/GBP again nears the 0.8930 area. A break would again bring the 0.9033 range top on the radar. We expect no break.**



# Calendar

Friday, 2 March		Consensus	Previous
<b>US</b>			
16:00	U. of Mich. Sentiment (Feb F)	99.5	99.9
<b>Canada</b>			
14:30	Quarterly GDP Annualized (4Q)	2.0%	1.7%
<b>Japan</b>			
00:30	Job-To-Applicant Ratio (Jan)	A: 1.59	1.59
00:30	Jobless Rate (Jan)	A: 2.4%	2.7%
00:30	Tokyo CPI YoY (Feb)	A: 1.4%	1.3%
00:30	Tokyo CPI Ex-Fresh Food YoY (Feb)	A: 0.9%	0.7%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Feb)	A: 0.5%	0.4%
00:50	Monetary Base YoY (Feb)	--	9.7%
<b>UK</b>			
10:30	Markit/CIPS UK Construction PMI (Feb)	50.5	50.2
<b>EMU</b>			
11:00	PPI MoM / YoY (Jan)	0.4%/1.6%	0.2%/2.2%
<b>Germany</b>			
08:00	Retail Sales MoM / YoY (Jan)	0.7%/3.0%	-1.3%/-1.9%
08:00	Import Price Index MoM / YoY (Jan)	0.4%/0.7%	0.3%/1.1%
<b>Spain</b>			
09:00	Unemployment MoM Net ('000s) (Feb)	-6.0	63.7
<b>Norway</b>			
10:00	Unemployment Rate (Feb)	2.5%	2.6%
<b>Events</b>			
<b>UK</b>			
	<b>PM May delivers key Brexit speech</b>		
<b>09:10</b>	<b>ECB Mersch Speaks in Prague</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2.81	-0.05	US	2.21	-0.04	DOW	24608.98	-420.22	
DE	0.64	-0.01	DE	-0.56	-0.02	NASDAQ	7180.562	-92.45	
BE	0.94	-0.01	BE	-0.52	-0.01	NIKKEI	21181.64	-542.83	
UK	1.47	-0.03	UK	0.77	-0.01	DAX	12190.94	-244.91	
JP	0.07	0.03	JP	-0.15	0.00	DJ euro-50	3399.16	-39.80	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0.06	2.58	1.16	Eonia	-0.3610	-0.0100	Libor-1	1.6701	0.0000
5y	0.43	2.68	1.34	Euribor-1	-0.3710	-0.0010	Libor-3	2.0172	0.0000
10y	1.08	2.82	1.56	Euribor-3	-0.3270	0.0000	Libor-6	2.2238	0.0000
				Euribor-6	-0.2710	-0.0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.2267	0.0073	EUR/JPY	130.32	0.24	CRB	193.95	0.00	
USD/JPY	106.24	-0.44	EUR/GBP	0.8905	0.0043	Gold	1305.20	-12.70	
GBP/USD	1.3776	0.0016	EUR/CHF	1.1555	0.0037	Brent	63.83	-0.90	
AUD/USD	0.7756	-0.0006	EUR/SEK	10.1193	0.0092				
USD/CAD	1.2837	0.0006	EUR/NOK	9.6252	-0.0100				

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