



Thursday, 07 February 2019

Rates: Stuck in no man's land

Global core bonds are stuck in no man's land following last month's decision by both the ECB and the Fed to stay side-lined in "assessment mode" for the next months. More range-bound sideways action can be expected today with intraday gyrations possibly caused by US supply, new EC forecasts and central bank speakers.

Currencies: EUR/USD slide continues as doubts on EU economy continue to weigh

EUR/USD extended the gradual but protracted decline yesterday that started after last week's Fed policy decision. The dollar remains well bid and ignores potential USD negative news as investor worries on the EU economy prevail. Sterling traders will look out for a new meeting between UK PM May and EU's Juncker and for the BoE policy statement.

Calendar

Headlines

- **US equity markets** lost limited ground yesterday in thin trading. Technology shares underperform (Nasdaq -0.36%). **Asian equities** are mixed with Japan underperforming. Chinese bourses are closed (Lunar New Year holiday).
- **US Fed chairman Powell said that the economy is now in a good place**, in his first appearance after the January Fed policy meeting. Fed Vice Chair Quarles said labour market is 'extremely solid' and called China key for US growth.
- UK media reports that **a 2nd vote on PM May's Brexit deal may be pushed back** to the week of Feb 25, as she's unlikely to bring a renegotiated divorce deal back to Parliament by next week (Feb 13). May meets EC president Juncker today.
- **The Reserve Bank of India has unexpectedly cut its benchmark policy rate** for the first time in 18 months to 6.25%, down from 6.50%. The bank added that headline inflation is to remain soft and changed its policy stance to neutral.
- **New Zealand's jobless rate unexpectedly rose to 4.3%** in the fourth quarter of last year, adding to concerns that the labor market isn't generating inflationary pressure. The New Zealand dollar weakened with NZD/USD falling to 0.675.
- **Brazil's central bank left the benchmark interest rate at a record low of 6.5%**. The Bank said that inflation remains subdued and signalled that Congress needed to approve cost-cutting measures before the bank can consider a cut.
- **Today's economic calendar** contains US weekly Jobless Fed Clarida & Kaplan and ECB Mersch & Constancio speak. The Bank of England meets and the European Commission publishes its new forecasts. The US holds a 30-yr Bond auction.

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

More of the same

	US yield	-1d
2	2,52	0,00
5	2,50	-0,01
10	2,69	0,00
30	3,03	0,00

	DE yield	-1d
2	-0,56	0,01
5	-0,30	0,00
10	0,16	-0,01
30	0,77	-0,01

Global core bonds ended nearly unchanged yesterday. The Bund started on a strong footing following **disappointing German factory orders**, but the move lacked follow-through buying. A mixed stock performance and an empty eco calendar afterwards, morphed trading into up-and-down action near opening levels into the US close. **A lackluster US 10-yr note auction** caused a spike lower in the US Note future, but without further ado. Daily changes on the US yield curve ranged between +0.2 bps and -0.7 bps with the belly of the curve outperforming the wings. The German yield curve flattened slightly with changes varying between +0.9 bps (2-yr) and -0.8 bps (30-yr). 10-yr yield spreads vs Germany ended unchanged with Italy underperforming (+7 bps) after the Italian Treasury decided to print **€8bn of a new 30-yr syndicated bond (demand in excess of €35.5bn)**.

Asian stock markets are mixed this morning. Korea and India outperforms. The former after returning from a 3-day public holiday and the latter after a surprise rate cut by the RBI. Japan underperforms. **Fed chair Powell and vice-chair Quarles echoed optimism about the current state of the US economy.** Core bonds hover sideways, suggesting a neutral opening for today.

Today's eco calendar only contains **US weekly jobless claims** which are expected to revert to normal levels after last week's distortion. **The EC publishes its new economic forecasts.** Significant downgrades shouldn't come as a surprise. **The US Treasury sells \$19bn 30-yr Bonds** which could weigh on the Note future. Speeches by Fed governors Clarida & Kaplan and ECB governors Mersch & Constancio are wildcards. The Bank of England (see below) could impact bonds via the UK Gilt market in case of surprises. Overall, we hold a mildly positive bias for bonds today, but again within the well-known boundaries.

Last week's clear Fed signal suggests range trading for the US 10-yr yield between 2.49% and 2.78%. The German 10-yr yield tested the lower bound of the 0.15%-0.31% again. **We expect sideways trading going forward with little reason at this stage to project upward breaks.** On the other hand we also think that sufficient bad news is discounted at those levels, but messages coming from the January central bank meetings suggest unchanged policies from both, probably through the Summer.



Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1362	-0,0044
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8787	-0,0023
S1	0,8620	
S2	0,8314	

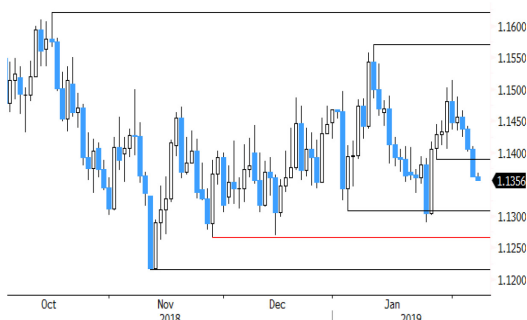
USD stays in the driver's seat

The EUR/USD slide continued yesterday. Euro selling restarted on poor German factory orders, pushing the pair well below 1.14. The Italian 30-y bond auction attracted ample interest but it was not enough to smooth investor concerns on the Italian economy and/or help the euro. Political bickering between the EU and the UK on Brexit maybe weighed on the euro, too. Later, USD strength prevailed. Remarkably, the dollar gained on higher US yields which were the result of a mediocre 10-y auction. EUR/USD finished the day at 1.1362 (from 1.1406). USD/JPY reversed earlier losses and finished almost unchanged at 109.97.

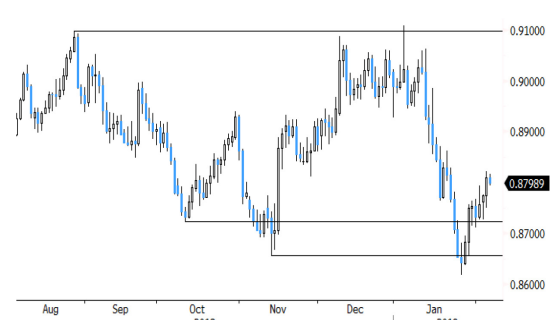
This morning, Asian indices are trading mixed. Japan underperforms. **The dollar maintains its recent gains.** USD/JPY is again testing the 110 barrier. EUR/USD is going nowhere (1.1360 area). **The Kiwi dollar** (NZD/USD 0.6750 area) nosedived on disappointing New Zealand Q4 labour data. Softer data caused markets to anticipate a soft RBNZ at next week's policy meeting. Markets are pondering the chances for a rate cut further down the road if eco data continue to disappoint.

Today, the EC economic forecasts will get ample attention as markets are looking for clues on the EU economic performance in 2019 and its potential impact on ECB policy. The message from the EC forecast will probably be soft, but should that still be a surprise for markets? This afternoon, Fed's Clarida will discuss the topic of the neutral policy rate. The US Treasury will sell 30-y bonds. Yesterday, a mediocre auction didn't hurt the dollar. On the contrary, the USD profited, illustrating the USD-friendly market momentum. Last week, the post-Fed USD decline (EUR/USD rebound) halted very soon, mainly due to poor EMU data. The started a gradual, but protracted rebound. **The day-to-day momentum is USD supportive & cautious on the euro. However, we don't see a strong case for EUR/USD to drop below key support coming in at 1.1290/67. We look for signs of a bottoming process.**

Sterling rebounded slightly against the euro yesterday, even as political comments showed that **the rift between the UK and the EU on Brexit remains very wide.** Euro weakness also weighed on EUR/GBP (close at 0.8787). Today, UK PM May will meet EU's Juncker. A breakthrough on the Irish backstop topic is unlikely. At its regular policy meeting, **the BoE will almost certainly leave rates unchanged.** The will probably continue to indicate that **gradual rate increases are possible in case of an orderly Brexit.** If any, we expect any positive impact on sterling to be limited.



EUR/USD: dollar remains well bid. At the same time euro caution persists on eco worries



EUR/GBP: EU-UK Brexit talks and BoE policy statement to guide GBP-trading today

Calendar

Thursday, 7 February		Consensus	Previous
US			
14:30	Initial Jobless Claims	221k	253k
14:30	Continuing Claims	1733k	1782k
Japan			
03:00	Tokyo Avg Office Vacancies (Jan)	1.82A	1.88
UK			
09:30	Halifax House Prices MoM/3mths-Year (Jan)	-0.7%/1.5%	2.2%/1.3%
13:00	Bank of England Bank Rate	0.75%	0.75%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Dec)	0.8%/-3.4%	-1.9%/-4.7%
Italy			
10:00	Retail Sales MoM/YoY (Dec)	-0.2%/0.8%	0.7%/1.6%
Events			
2018Q4 earnings	Twitter (13:00), Lions Gate Entertainment (aft-mkt) ...		
00:05	Fed's Quarles Speaks on Bank Stress Testing (voter)		
01:00	Fed Chairman Powell to Host Town Hall Meeting with Educators		
10:00	ECB Publishes Economic Bulletin		
11:00	European Commission publishes Economic Forecasts		
13:00	Bank of England Inflation Report		
13:15	ECB's Mersch Speaks in Brussels		
15:15	Fed's Kaplan Speaks in Dallas (non-voter)		
15:30	Fed's Clarida Discusses Paper on Global Factor in Neutral Rate (vice chair)		
17:00	Constancio Gives Lecture in Lisbon on 20 Years of the Euro		
19:00	US to Sell USD19 Bln 30-Year Bonds		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,69	0,00	US	2,52	0,00	DOW	25390,3	-21,22	
DE	0,16	-0,01	DE	-0,56	0,01	NASDAQ	7375,281	-26,80	
BE	0,60	-0,01	BE	-0,49	0,01	NIKKEI	20751,28	-122,78	
UK	1,22	-0,02	UK	0,74	-0,01	DAX	11324,72	-43,26	
JP	-0,01	0,00	JP	-0,16	0,00	DJ euro-50	3212,75	-2,29	
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	-0,06	2,61	1,14	Eonia	-0,3630	0,0000			
5y	0,15	2,59	1,23	Euribor-1	-0,3670	0,0010	Libor-1	2,5123	0,0000
10y	0,69	2,72	1,39	Euribor-3	-0,3080	0,0000	Libor-3	2,7385	0,0000
				Euribor-6	-0,2340	0,0000	Libor-6	2,7775	0,0000
Currencies	<u>Close</u>	<u>-1d</u>	Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>	
EUR/USD	1,1362	-0,0044	EUR/JPY	124,95	-0,47	CRB	180,56	0,61	
USD/JPY	109,97	0,01	EUR/GBP	0,8787	-0,0023	Gold	1314,40	-4,80	
GBP/USD	1,2932	-0,0013	EUR/CHF	1,1391	-0,0014	Brent	62,69	0,71	
AUD/USD	0,7105	-0,0129	EUR/SEK	10,4589	0,0613				
USD/CAD	1,3214	0,0088	EUR/NOK	9,7063	0,0281				

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