

**Monday, 11 February 2019**

### Rates: Event risk looms large

The German 10-yr yields break below 0.15%, suggests a further slide towards 0% or lower. Risk sentiment will be reliable for today's intraday gyrations amid an empty eco/event calendar. Investors might take a cautious start as event risk looms large this week with US-Sino trade talks, a brexit vote and the US Congress budget talks deadline.

### Currencies: Dollar continues challenging recent ST high

The EUR/USD decline slowed temporary on Friday, but in the end the dollar maintained the benefit of the doubt as several pending event risks continue to spook global investors. Today, global sentiment and technical considerations will again dominate USD trading. EUR/USD 1.1290/67 is the next support that is coming on the radar.

### 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 equity markets** closed mixed and little changed on Friday. **Asian equities** are trading mixed this morning as well, with Chinese indices outperforming after being closed for a week-long holiday. Japanese indices are closed for the day.
- **US Congressional talks on border security funding broke down over the weekend.** The political deadlock rises the chances of a new government shutdown, that will take effect if no compromise is reached by Friday.
- **UK PM May agreed to have a fresh round of talks with Labour leader Jeremy Corbyn** to discuss a soft Brexit. Corbyn's proposal would keep the UK tied to Single market and locked in a customs union with the EU. (Bloomberg)
- **Italy's Dept. PM Salvini's League party emerged as the strongest party after regional elections in Abruzzo,** according to a local news agency. The party is said to take 29% of the votes, compared to 18% for coalition partner 5SM.
- **Moody's lifted Russia's credit rating to investment grade (Ba1 to Baa3),** after it was downgraded to junk in 2015. The country's finance ministry vowed further action to entice fresh capital. The rating is now par with S&P and Fitch.
- **IMF's new chief economist Gita Gopinath has backed the US Federal Reserve's view to pause interest rate hikes** and endorses the data-driven approach. She said the shift in Fed policy will provide a lot of support for the global economy.
- **Today's economic calendar** is rather thin. The US remains empty while the UK prints 4<sup>th</sup> quarter GDP results, next to consumption and trade data. ECB's VP Luis de Guindos speaks in Madrid.

# Rates

## Event risk looms large

	US yield	-1d
2	2,47	-0,01
5	2,44	-0,02
10	2,63	-0,02
30	2,98	-0,01

	DE yield	-1d
2	-0,58	0,00
5	-0,36	-0,02
10	0,09	-0,03
30	0,70	-0,03

Global core bonds gained some additional ground last Friday with German Bunds outperforming US Treasuries. The upleg in the Bund correlated with weakness in the Italian BTP future. Italian BTP's weathered a storm last week following the EC's significant growth downgrades. They suggest that a new standoff on the budget is possible. Regional elections in Abruzzo this weekend will probably show that Salvini's popularity is widening beyond Northern-Italy, amplifying rumours that he should call early elections to bank on his success, ditch the 5SM-party and form a centre-right government. Stock markets drifted south last Friday with US indices sprinting to flat outcome in the final trading hour. The German yield curve bull flattened with yield ending up to 3.1 bps lower (30-yr). The US yield curve shifted in similar fashion with yields dropping by 1.4 bps to 2.2 bps. 10-yr yield spreads vs Germany widened slightly with Greece (+5 bps) and Italy (+4 bps) underperforming.

Asian stock markets are mixed this morning. China outperforms, returning from a week-long holiday. Japanese markets are closed (National Foundation Day). The US and China started a fresh round of trade talks in Beijing and are rumored to prepare for a March Summit between presidents Trump and Xi Jinping. Chinese state media run a story that the Chinese economy may continue to be under pressure this year. They expected Q1 2019 GDP growth to dip to 6% with a conservative full year estimate of 6.3%. The German Bund and US Note future tread water.

Today's eco calendar is empty. Speeches by ECB vice-president de Guindos and Fed Bowman are wildcards. Event risk looms large again this week with US-Sino trade talks, the US Congress stand-off on border funding (Feb 15 deadline) and a new parliamentary Brexit vote (Feb 14). A catch-up of US eco data and an avalanche of Fed speakers can colour trading as well. Risk sentiment will remain today's key driver. There are no indications of an amelioration, suggesting core bonds might remain in demand with peripherals facing more pressure. The Italian 10-yr yield tests first resistance at 3%. The German 10-yr yield fell through the lower bound of the 0.15%-0.31%, suggesting a return to the psychological 0% mark or even to negative levels. The 5y5y EMU inflation forward swap rate fell below 1.5%, boosting disinflationary/deflationary worries. The US 10-yr yield slides lower in the 2.49%-2.78% trading channel. The Fed's January communication probably implies an intention to stand pat at least until, and likely beyond, June.



German 10-yr yield: break below 0.15% suggests return to 0% or lower



US 10-yr yield: sliding withing sideways of 2.49%-2.78%

# Currencies

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1323</b>	<b>-0,0018</b>
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8741</b>	<b>-0,0015</b>
S1	0,8620	
S2	0,8314	

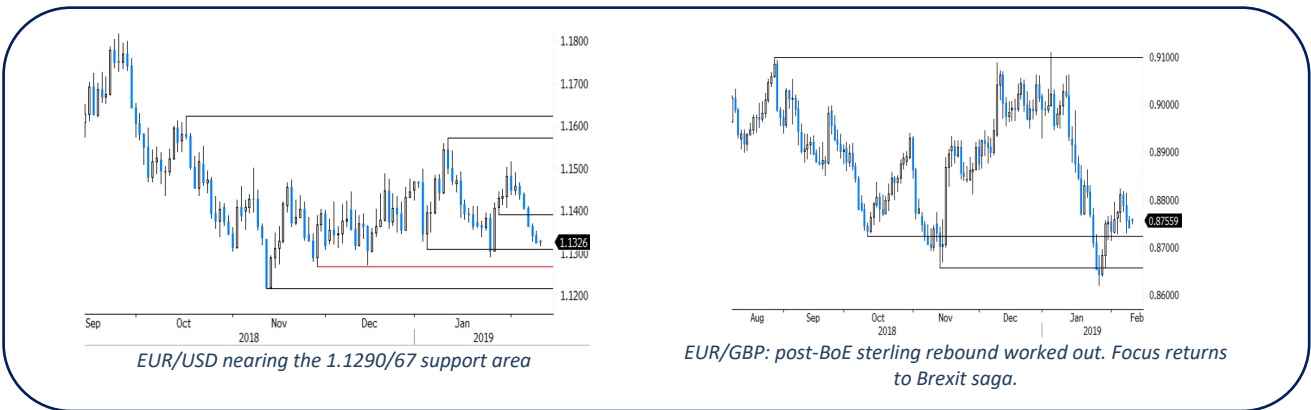
## USD continues to challenge recent ST top

The EUR/USD decline that reigned for the whole of last week slowed temporarily on Friday. EMU eco data were second tier and mixed. A first test of the 1.1325 area was rejected. Early in US dealings, it looked that the some end of week profit taking on EUR/USD shorts could be on the cards. However, **a persistent fragile risk sentiment blocked the EUR/USD rebound. EUR/USD even returned to the week lows and closed at 1.1323.** USD/JPY finished marginally lower at 109.73.

**This morning,** Asian indices are trading mixed with several markets reopening after Lunar New Year holidays, but Japanese markets are closed today. In thin holiday trading, **USD/JPY tries another attempt to test/regain the 110 barrier.** EUR/USD (1.1325 area) continued to hover near recent lows. (FX) markets are pondering the next moves in the US-China trade talks that will continue this week. In thin Asian markets, there was some kind of a brief ‘mini-flash-crash’ of the Swiss Franc this morning. EUR/CHF spiked temporary to the 1.14+ area, but soon returned to well-known territory in the 1.1325 area.

There are only **second tier data in the US and Europe.** So, global risk sentiment, influenced by headlines on the China-US trade talks, on global growth and on a potential new US government shutdown, will set the tone for FX trading. The trade-weighted dollar is still testing the 96.67 neck-line/resistance, but a clean break didn’t occur yet. Still it looks that the dollar retains the benefit of the doubt as long as the pending event risks continue to weigh on markets. Over the previous 10 days, EUR/USD was captured in a gradual, but protracted downtrend as disappointing EMU data outweighed the late January soft U-turn of the Fed. **The day-to-day momentum is USD supportive & euro-cautious. EUR/USD 1.1290/67 is next support ahead of the 1.1218 Nov low. After recent news/decline, quite some euro negative news should be discounted. That said, for now there is no trigger in sight to reverse the USD-positive/euro negative momentum.**

**EUR/GBP was locked in a narrow range in the mid 0.87 area** Friday. The positive impact of Thursday’s BoE statement was worked out and there was no new Brexit news. **Today,** UK Q4 GDP and December production data are interesting, but the focus is on the UK-EU Brexit talks. A potential new vote in the UK Parliament on Thursday is the next point of reference for sterling trading. For now, we assume more technical trading around current levels.



# Calendar

Monday, 11 February		Consensus	Previous
<b>Japan</b>			
Japan closed for National Founding Day			
<b>US</b>			
11FEB-15FEB	Mortgage Delinquencies (4Q)	--	4.47%
11FEB-15FEB	MBA Mortgage Foreclosures (4Q)	--	0.99%
<b>UK</b>			
10:30	<b>GDP QoQ/YoY (4Q P)</b>	<b>0.3%/1.4%</b>	<b>0.6%/1.5%</b>
10:30	Total Business Investment QoQ/YoY (4Q P)	--/--	-1.1%/-1.8%
10:30	Private Consumption QoQ (4Q P)	0.3%	0.5%
10:30	Government Spending QoQ (4Q P)	0.5%	-0.3%
10:30	Gross Fixed Capital Formation QoQ (4Q P)	-0.1%	0.5%
10:30	Exports/Imports QoQ (4Q P)	1.0%/1.0%	1.1%/0.8%
10:30	Trade Balance (Dec)	-£3000m	-£2904m
10:30	Industrial Production MoM/YoY (Dec)	0.1%/-0.5%	-0.4%/-1.5%
10:30	Manufacturing Production MoM/YoY (Dec)	0.2%/-1.1%	-0.3%/-1.1%
10:30	Construction Output SA MoM/YoY (Dec)	0.1%/1.5%	0.6%/3.0%
10:30	GDP MoM (Dec)	0.0%	0.2%
<b>France</b>			
08:30	Bank of France Ind. Sentiment (Jan)	103	103
<b>China</b>			
10FEB-15FEB	Money Supply M2 YoY (Jan)	8.2%	8.1%
10FEB-15FEB	New Yuan Loans CNY (Jan)	3000.0b	1080.0b
<b>Norway</b>			
08:00	CPI MoM/YoY (Jan)	-0.3%/3.3%	0.0%/3.5%
08:00	CPI Underlying MoM/YoY (Jan)	-0.5%/2.3%	0.0%/2.1%
08:00	PPI including Oil MoM/YoY (Jan)	--/--	-3.5%/7.8%
<b>Events</b>			
2018Q4 earnings	FMC (aft-mkt) ...		
09:00	<b>ECB Vice President Luis de Guindos Speaks in Madrid</b>		
17:15	Fed's Bowman Speaks on Community Banking (voter)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,63	-0,02		US	2,47	-0,01	DOW	25106,33	-63,20
DE	0,09	-0,03		DE	-0,58	0,00	NASDAQ	7298,198	9,85
BE	0,70	-0,01		BE	-0,45	0,01	NIKKEI	20333,17	0,00
UK	1,15	-0,03		UK	0,71	-0,01	DAX	10906,78	-115,24
JP	-0,03	0,00		JP	-0,16	0,00	DJ euro-50	3135,62	-15,14
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,09	2,55	1,09	Eonia	-0,3620	0,0010			
5y	0,10	2,54	1,17	Euribor-1	-0,3680	0,0010	Libor-1	2,5041	-0,0128
10y	0,63	2,66	1,34	Euribor-3	-0,3080	0,0000	Libor-3	2,6978	0,0008
				Euribor-6	-0,2330	0,0000	Libor-6	2,7419	-0,0231
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1323	-0,0018		EUR/JPY	124,26	-0,29	CRB	178,04	-0,06
USD/JPY	109,73	-0,09		EUR/GBP	0,8741	-0,0015	Gold	1318,50	4,30
GBP/USD	1,2944	-0,0008		EUR/CHF	1,1329	-0,0035	Brent	62,10	0,47
AUD/USD	0,7088	-0,0013		EUR/SEK	10,5005	-0,0020			
USD/CAD	1,3278	-0,0030		EUR/NOK	9,7791	0,0304			

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