



Friday, 19 October 2018

Rates: Peripheral bonds and US stocks sell-off, lifting core bonds

Core bonds benefited from their safe haven status yesterday with both EMU peripheral bonds and US stocks selling off. There is no compelling case to neither expect yesterday's hiccup to last, nor to see a strong risk rebound. We slightly favour the former scenario. The German 10-yr yield hits first key support around 0.41%.

Currencies: EUR/USD nears 1.1432 intermediate support

Yesterday, the dollar remained strong. The euro couldn't maintain initial resilience as the rift between the EU and Italy on the Italian budget was formally escalated. EUR/USD is near the 1.1432 support. A further rise in US yields and uncertainty on Italy might keep EUR/USD in the defensive for now.

Calendar

Headlines

- **US equity markets** lost ground yesterday with losses over 1%. Technology shares underperform. **Asian markets** trade mixed this morning with China strongly rebounding from earlier losses.
- The European Commission said in a letter to Italy's Finance Minister Tria that the country's **2019 budget draft is in serious breach of EU budget rules**. The Commission asked to give some explanation by Monday.
- **Chinese top financial officials have tried to shore up confidence in its tumbling stock market**. Heads of China's central bank, securities watchdog and banking and insurance regulator promised measures to help ease financial pressure.
- **Fed Governor Quarles said he favours a path of gradual rate hikes**. He added that a tick-up in the economy's potential growth rate is possible without overheating, hinting that a slower hiking path could be more appropriate.
- **Steve Mnuchin, US Treasury secretary, is the next political heavyweight to withdraw from the Future Investment Initiative conference in Saudi Arabia** as international tensions rise over the disappearance of journalist Jamal Khashoggi.
- **China's economic growth slowed to 1.6% Q/Q & 6.5% Y/Y in Q3**. Retail sales (9.2% YoY) beat expectations in September, while industrial production (5.8% YoY) fell back more than expected showing **the impact of US trade tensions**.
- **Today's eco calendar** is extremely thin with no important data to be released. Bank of England Governor Carney speaks in New York, as do Federal Reserve's Bostic and Kaplan.

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

Peripheral bonds and US stocks sell-off

	US yield	-1d
2	2,87	-0,01
5	3,03	-0,03
10	3,18	-0,03
30	3,36	-0,01

	DE yield	-1d
2	-0,62	-0,04
5	-0,18	-0,05
10	0,42	-0,05
30	1,06	-0,03

Global core bonds gained ground yesterday as (US) stock markets and peripheral bonds nosedived. US equity markets took a 1.25% (Dow) to 2% (Nasdaq) hit. German Bunds outperformed US Treasuries. German yields declined by 3.5 bps (30-yr) to 4.8 bps (5-yr) with the belly outperforming the wings. US yields lost 0.8 bps (30-yr) to 3.1 bps (5-yr) with the curve shifting in parallel fashion. **Peripheral yield spreads vs Germany widened by 12 bps (Spain) to 18 bps (Italy) after the EC officially informed Italy that its budget plans are at risk of non-compliance. The Italian spread hit a 327 bps cycle high.** Italy has until early next week to formally adapt changes, but combative language by political heavyweights suggests no intention to do so. The EC in that case can for the first time ever issue a negative opinion, essentially rejecting the budget and asking Italy to revise it.

Most Asian stock markets lose ground overnight, but the damage isn't similar to WS's slaughter yesterday. China opened on a bad footing as well following mixed eco data. Q3 GDP printed at 1.6% Q/Q and 6.5% Y/Y (vs 6.6% Y/Y expected) with stronger retail sales and disappointing industrial production. The numbers count as a signal in the trade war. **Chinese bourses nevertheless rebounded rapidly into positive territory following joint verbal interventions by top regulators and the PBOC governor.** They promise measures to help ease financial pressures on companies. **The US Note future trades with a small downward bias, but we think the Bund could open stronger on early equity weakness.**

Today's eco calendar is empty apart from speeches by Atlanta Fed governor Bostic (dove) and by Dallas Fed governor Kaplan (neutral). They won't inspire trading. **Risk sentiment on stock and peripheral bond markets is key. There's no compelling case to either expect yesterday's hiccup to last, nor for a strong rebound. We slightly favour the former scenario. From a technical point of view,** the US 10-yr yield retested previous resistance around 3.12%. The yield remained above this level, strengthening the break and suggesting more upward potential in the medium term. The cycle high stands at 3.26%, but next real key resistance only kicks in around 3.75%. The German 10-yr yield lost minor support at 0.48%. Strong support kicks in at 0.41%/0.42%. These levels will be tested today. We don't anticipate a return lower.



German 10-yr yield lost first minor support (0.48%). Strong support at 0.41%/0.42%



US 10-yr yield retested previous 3.12% resistance, but upward trend remains

Currencies

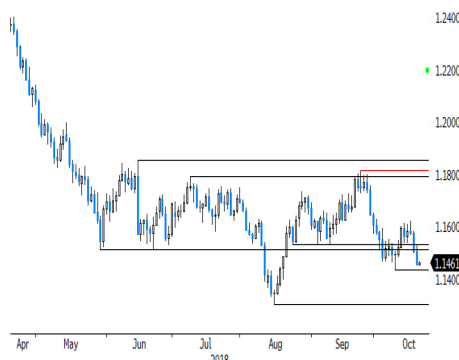
R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1453	-0,0048
S1	1,1510	
S2	1,1448	

R2	0,91	-1d
R1	0,9052	
EUR/GBP	0,8798	0,0028
S1	0,8628	
S2	0,8548	

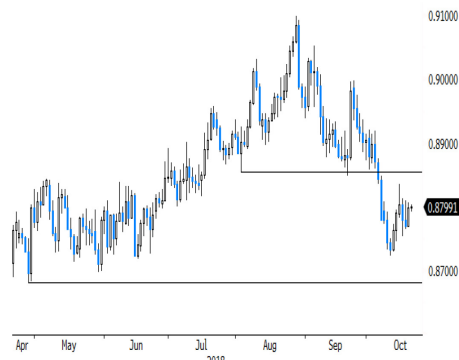
EUR/USD nears 1.1432 intermediate support

On Wednesday, the dollar got a shot in the arm as the minutes of the September Fed meeting indicated a continuation of gradual rate hikes. US interest rates jumped and so did the dollar. Yesterday, in Europe, the dollar rally temporarily took a breather as European equities held up rather well compared to other (Asian) markets. However, euro resilience could not be sustained. Risk-off gradually returned and there were ever more rumours that the EU would challenge the Italian budget proposal. This was formalised in a letter from the EU to the Italian government later in the session. US/German interest rate differentials remained near a record peak and the euro suffered. EUR/USD closed at 1.1453, near the intraday low. USD/JPY also declined in line with the global risk-off the finish the day at 112.21. Overnight, Asian equities join the correction from the US yesterday. China Q3 GDP was softer than expected (6.5% Y/Y) but September retail data suggest that domestic spending remained healthy. Chinese authorities this morning also indicated that they would take action to address liquidity issues and said that equity valuations in the country were low. This official support put a floor for Chinese equities this morning. The yuan held near the lowest level since early 2017 (6.94 area). EUR/USD trades near 1.1460. USD/JPY is holding up well despite the regional risk-off. Today, the US & EMU eco calendar is thin. US existing home sales are the exception to the rule. Global factors will probably drive USD trading. In case, the risk-off correction could slow, US yields and interest rate differentials might remain USD supportive. At the same time, uncertainty on Italy might remain a slightly negative for the euro. Over the previous days, EUR/USD drifted lower off the 1.1600/20 resistance area. A retest of the 1.1432 ST range bottom is very well possible now. A break would open the way to the 1.1301 August correction low.

Yesterday, EUR/GBP trading held to a rather tight 0.8770/0.88 trading range. The UK currency was more or less immune to all kinds of Brexit noise in the wake of the EU summit. Even poor UK retail sales had only a limited impact. EUR/GBP gained some ground on the overall risk-off later. Today, the UK public finance data are probably no sterling mover. We expect more directionless trading as long as the Brexit stalemate persists.



EUR/USD: dollar remains well bid. Euro suffers from Italy. Test of EUR/USD 1.1432 might be on the cards.



EUR/GBP: sterling going nowhere as Brexit stalemate persists

Calendar

Friday, 19 October		Consensus	Previous
US			
16:00	Existing Home Sales Total/MoM (Sep)	5.29m/-0.9%	5.34m/0.0%
Canada			
14:30	CPI NSA MoM/YoY (Sep)	0.1%/2.7%	-0.1%/2.8%
14:30	CPI Core- Common YoY% (Sep)	2.0%	2.0%
Japan			
01:30	Natl CPI YoY (Sep)	1.2%A	1.3%
01:30	Natl CPI Ex Fresh Food YoY (Sep)	1.0%A	0.9%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Sep)	0.4%A	0.4%
UK			
10:30	PSNB ex Banking Groups (Sep)	4.5b	6.8b
10:30	Public Sector Net Borrowing (Sep)	4.6b	5.9b
EMU			
10:00	ECB Current Account SA (Aug)	--	21.3b
Belgium			
15:00	Consumer Confidence Index (Oct)	--	0
China			
04:00	Surveyed Jobless Rate (Sep)	4.9%A	5.0%
04:00	GDP SA QoQ/YoY (3Q)	1.6%A/6.5%A	1.8%/6.7%
04:00	GDP YTD YoY (3Q)	6.7%A	6.8%
04:00	Retail Sales YoY/YTD YoY (Sep)	9.2%A/9.3%A	9.0%/9.3%
04:00	Industrial Production YoY/YTD YoY (Sep)	5.8%A/6.4%A	6.1%/6.5%
04:00	Fixed Assets Ex Rural YTD YoY (Sep)	5.4%A	5.3%
Events			
Q3 earnings	Procter & Gamble (13:00) ...		
17:30	BOE Governor Carney Speaks in New York		
18:00	Fed's Bostic Speaks on Economic Outlook		
18:45	Fed's Kaplan Speaks in New York		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,18	-0,03		US	2,87	-0,01	DOW	25379,45	-327,23
DE	0,42	-0,05		DE	-0,62	-0,04	NASDAQ	7485,139	-157,56
BE	0,84	-0,01		BE	-0,53	-0,03	NIKKEI	22532,08	-126,08
UK	1,54	-0,04		UK	0,76	-0,04	DAX	11589,21	-125,82
JP	0,15	0,00		JP	-0,12	0,00	DJ euro-50	3211,59	-31,49
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,04	3,16	1,27	Eonia	-0,3700	0,0010	Libor-1	2,2820	0,0000
5y	0,37	3,18	1,44	Euribor-1	-0,3690	0,0000	Libor-3	2,4496	0,0000
10y	0,98	3,25	1,66	Euribor-3	-0,3170	0,0010	Libor-6	2,6614	0,0000
				Euribor-6	-0,2650	0,0010			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1453	-0,0048		EUR/JPY	128,51	-1,04	CRB	196,63	-2,26
USD/JPY	112,21	-0,44		EUR/GBP	0,8798	0,0028	Gold	1230,10	2,70
GBP/USD	1,3018	-0,0097		EUR/CHF	1,1403	-0,0044	Brent	79,29	-0,76
AUD/USD	0,7099	-0,0010		EUR/SEK	10,3579	0,0493			
USD/CAD	1,3085	0,0065		EUR/NOK	9,4812	0,0358			

If you no longer wish to receive this mail, please contact us: "kbcmarketresearch@kbc.be ' to unsubscribe

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

