



Friday, 18 May 2018

Due to National Holiday, there will be no KBC Sunrise on Monday 21st of May 2018.

Next KBC Sunrise will be published on Tuesday the 22nd of May 2018.

Rates: US technical breaks confirmed in weekly close?!

Today's empty eco calendar suggest technically- and sentiment-driven trading on core bond markets. We expect both the US 10-yr and 30-yr yields to close above this week's broken resistance levels, suggesting more upside medium term. European markets weathered the mini Italian political crisis well, but it's too early to declare victory for BTP's.

Currencies: EUR/USD decline slows. USD/JPY outperforms

Yesterday, the dollar couldn't extend its rally against the euro even as there was still uncertainty on the program of the new Italian government and as US eco data stayed strong. With no important data on the calendar, some further EUR/USD consolidation might be on the cards going into the weekend. Monetary policy divergence is weighing on the yen.

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 stock markets closed around 0.2% lower** after US president Trump said that China is very spoiled on trade. **Asian risk sentiment is mixed overnight** with Japan and China outperforming.
- **Japan's national core CPI rose 0.7% Y/Y in April (vs 0.8% Y/Y consensus)**, slowing further after dropping in March for the first time since the country exited deflation in early 2017.
- **China has offered President Trump a \$200 bn reduction in its annual trade surplus with the US** by increasing imports of American products and other steps, said a Trump administration official. (BB)
- **French President Macron has issued a stark warning against hasty EU enlargement** in a sign of the tough fight ahead for six western Balkan countries that want to join (FT).
- **President Trump's trade chief said the US is "nowhere near" a deal on NAFTA**, effectively brushing aside an offer from House Speaker Ryan for more time to conclude a deal that could be considered in Congress this year (WSJ).
- **Oil headed for a third weekly gain as tensions in the Middle East intensified and the IEA said global stockpiles have shrunk**. Brent crude temporary traded above \$80/barrel yesterday for the first time since end 2014.
- **Today's eco calendar** only contains second tier EMU eco data and speeches by Fed governors Mester, Kaplan and Brainard.

Rates

	US yield	-1d
2	2,56	-0,02
5	2,93	0,00
10	3,11	0,01
30	3,25	0,03

	DE yield	-1d
2	-0,56	0,01
5	-0,09	0,03
10	0,64	0,03
30	1,33	0,05

US technical breaks confirmed in weekly close?!

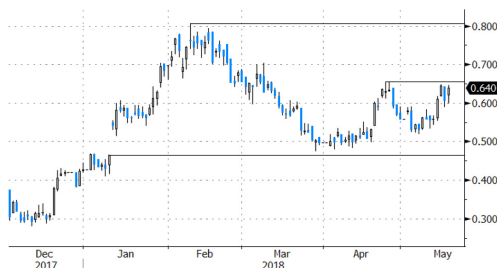
Tensions on core bond markets eased yesterday following a hectic trading week. SSM and Lega officials confirmed ahead the opening bell that a debt write-off and/or leaving the euro are not part the government’s plans. It’s sufficient to stop the rod on the BTP market for now, but not enough to put the genie back in the bottle. The US Note future stabilized the sell-off lows with the US 10-yr and 30-yr yields above the key levels, respectively at 3.07% and 3.22%..

US eco data remain very strong with jobless claims hovering near historically low levels and the Philly Fed Business Outlook confirming that US Q2 GDP growth will be strong after a blip in Q1. The US yield curve steepened with yield changes ranging between -2 bps (2-yr) and +2.9 bps (30-yr). The German yield curve bear steepened with yields 1.2 bps (2-yr) to 4.7 bps (30-yr) higher (mainly opening effect). 10-yr yield spreads vs Germany narrowed by 4 bps (Italy/Portugal/Spain) with Greece underperforming (+4 bps).

Asian risk sentiment is mixed overnight with China and Japan outperforming. Geopolitical news on North Korea, NAFTA and Chinese trade talks has a rather negative tone. The US Note future trades a tad higher and Brent crude somewhat lower. We expect a neutral opening for the Bund.

Today’s eco calendar only contains second tier EMU eco data and won’t influence trading. Fed governors Mester (hawk), Kaplan (modest hawk) and Brainard (neutral) are scheduled to speak, but most won’t touch on monetary policy. Trading will therefore be predominantly technically and sentiment-driven. **We expect consolidation with the US 10-yr and 30-yr yields managing to confirm the break above respectively 3.07% and 3.22%.** It suggests more upward potential in the medium term with next key resistance in the 10-yr yield only around 3.75%-3.8%. Strong 2018 growth expectations and the Fed stepping up its tightening cycle warrant a further increase in US yields.

Most European markets already recovered from the mini Italian political crisis yesterday. It’s probably too early to call victory yet for BTP’s. German yields turned north again though with the 10-yr closed to a test of intermediate resistance at 0.66%. **We expect the EMU economy to gain traction again after a disappointing Q1 while the ECB’s normalization process will gain tack during coming months. Both warrant a further increase in German yields as well.**



German 10-yr yield about to test intermediate resistance at 0.66%. We continue to expect higher yields.



US 30-yr yield breaks above neckline multiple bottom pattern (3.22%). Break confirmed in the weekly close?!

Currencies

EUR/USD decline slows. USD/JPY outperforms

R2	1,2598	-1d
R1	1,2555	
EUR/USD	1,1795	-0,0013
S1	1,1812	
S2	1,1718	

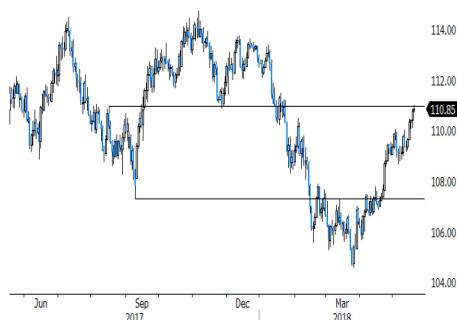
R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8727	-0,0026
S1	0,8627	
S2	0,8541	

Yesterday, the EUR/USD decline slowed. Uncertainty on the program of a nascent Italian government weighed temporarily on the euro intraday, but wasn't able to push EUR/USD to a new 2018 low. The pair settled in the 1.18 area. Investors are looking for details on the government program first. US yields continued trending higher supported by strong US eco data (Philly Fed). However Europe copied this yield rise, providing no additional interest rate support for the dollar against the euro. USD/JPY outperformed (close at 110.77 from 110.40). EUR/USD finished the day only marginally lower at 1.1795 (from 1.1808).

Overnight, sentiment on risk isn't too bad. **Positive developments in the trade talks between the US and China** might be a (slightly) positive factor for global investor sentiment. Investors apparently also feel more at ease with higher US yields as they mirror the expectation for good US growth in Q2. The trade-weighted dollar is near recent top (93.50). USD/JPY still outperforms most other USD cross rates. The pair already touched the next big figure (111). EUR/USD stabilizes in the 1.18 area.

Today, there are hardly any data in the US and Europe. Fed governors Mester, Kaplan and Brainard speak, but it is unsure they will address any specifics on the current monetary policy. **So, FX traders will have to look for guidance from global risk sentiment and from the developments on bonds markets.** The negotiations to form a new Italian government remains a wild card. The MT picture remains USD constructive. **However, on Wednesday and yesterday, the USD rise against the euro lost momentum.** US eco data might support USD gains further down the road. However, in a daily perspective some EUR/USD consolidation or even some slight profit taking on EUR/USD shorts might be on the cards. At the same time, the rise in US and EMU yields weighs on the yen as investors expect further policy divergence. The USD/JPY uptrend looks solid. Even EUR/JPY is developing a cautious bottom out pattern.

Yesterday, there was plenty of debate whether the UK will should stay in the EU customs union beyond the transition period. Initially, sterling gained slightly ground on positive headlines. However, sterling returned these gains later as UK PM failed to bring clarity on the issue as she attended the EU summit in Sofia. Today, there also no UK data. We expect technical sideways trading for EUR/GBP in the mid 0.87 area.



USD/JPY: interest rate differentials continue to move against the yen



EUR/GBP rebound slows as UK government fails to bring clarity on Brexit/customs union.

Calendar

Friday, 18 May		Consensus	Previous
Canada			
14:30	Retail Sales MoM (Mar)	0.3%	0.4%
14:30	Retail Sales Ex Auto MoM (Mar)	0.5%	0.0%
14:30	CPI YoY (Apr)	2.3%	2.3%
Japan			
01:30	Natl CPI YoY (Apr)	0.6% A	1.1%
01:30	Natl CPI Ex Fresh Food YoY (Apr)	0.7% A	0.9%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Apr)	0.4% A	0.5%
EMU			
11:00	Trade Balance SA (Mar)	21.0b	21.0b
Germany			
08:00	PPI MoM/YoY (Apr)	0.3%/1.8%	0.1%/1.9%
Belgium			
15:00	Consumer Confidence Index (May)	--	2
Events			
09:00	Fed's Mester Speaks at ECB on Macroprudential, Monetary Policy		
15:15	Fed's Kaplan Speaks in Moderated Q&A		
15:15	Fed's Brainard Speaks About Community Reinvestment Act		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3,11	0,01	US	2,56	-0,02	DOW	24713,98	-54,95	
DE	0,64	0,03	DE	-0,56	0,01	NASDAQ	7382,473	-15,82	
BE	0,91	0,03	BE	-0,47	0,00	NIKKEI	22903,57	65,20	
UK	1,56	0,06	UK	0,86	0,04	DAX	13114,61	118,28	
JP	0,06	0,00	JP	-0,13	0,00	DJ euro-50	3592,18	29,33	
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	0,07	2,94	1,22	Eonia	-0,3650	0,0040	Libor-1	1,9350	0,0000
5y	0,45	3,04	1,43	Euribor-1	-0,3710	0,0000	Libor-3	2,3256	0,0000
10y	1,08	3,14	1,70	Euribor-3	-0,3260	0,0000	Libor-6	2,4944	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1795	-0,0013	EUR/JPY	130,65	0,30	CRB	203,56	-0,20	
USD/JPY	110,77	0,37	EUR/GBP	0,8727	-0,0026	Gold	1289,40	-2,10	
GBP/USD	1,3516	0,0030	EUR/CHF	1,1814	-0,0009	Brent	79,30	0,02	
AUD/USD	0,7511	-0,0005	EUR/SEK	10,3006	0,0221				
USD/CAD	1,2808	0,0018	EUR/NOK	9,5788	0,0377				

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