



**Thursday, 06 December 2018**

### Rates: Risk sentiment remains very fragile

We expect strong US eco data and OPEC+ production cuts in 2019, but they'll probably play second fiddle with investors watching stock markets. Overnight risk sentiment is negative even if we think the news flow is meagre. We don't fight current trends, but think the downside could gradually be exhausted with key support lining up.

### Currencies: Dollar doesn't find clear directional trend as market doubts persist

Trading in the major USD cross rates remains an era of relative calm as global uncertainty persists. The combination of global uncertainty and at the same time declining interest rate support for the dollar is keeping EUR/USD in a directionless trading pattern. Sterling is still haunted by (conflicting) headlines on Brexit.

### Calendar

## Headlines

- **US stock markets** were closed yesterday in honour of former president Bush, while **Asian equities** opened with heavy losses this morning. China underperforms on news that Canada arrested Huawei CFO Wanzhou Meng.
- **French president Macron has cancelled the increase in fuel taxes** which was going to be implemented starting from 2019, in an attempt to calm the growing nationwide protest movement. Protesters still want Macron to resign.
- **OPEC+, led by Russia and Saudi Arabia, are close to agree on a deal to cut oil production**, though the size of the cut is not yet decided on. The move defies US President Trump, who urged to maintain current supply so prices are kept low.
- **The Bank of Canada held its benchmark rate steady at 1.75%**, a 10-yr high. However, latest disappointing economic data prompted the bank to take a more cautious tone, warning the economy could be heading for a slowdown in Q4.
- **UK PM May's cabinet urged to delay next week's Parliament vote on the Brexit deal**, as they fear the heavy defeat could topple the government. Opponents fear the 'backstop' will keep the UK in a EU customs union indefinitely.
- **The Federal Reserve's Beige Book confirms the US economy remains strong**, though some districts are signalling a cooling growth. Labour markets is further tightening and trade uncertainty remains a big concern for US businesses.
- **Today's economic calendar** contains the US ADP employment report, jobless claims and non-manufacturing ISM. The EMU's eco calendar is empty. ECB's de Guindos, Fed's Bostic and Fed Quarles speak.

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

## Risk sentiment remains very fragile

	US yield	-1d
2	2,79	0,00
5	2,76	0,00
10	2,91	0,00
30	3,15	0,00

	DE yield	-1d
2	-0,60	0,01
5	-0,29	0,01
10	0,28	0,01
30	0,93	0,02

US markets were closed yesterday for a day of mourning in honour of ex-president Bush. European markets took a breather amid a thin EMU eco/event calendar. European equity indices opened more than 1% lower, but treaded water afterwards. German Bunds even slid into the close with the German yield curve bear flattening. Yields increased by 0.9 bps (2-yr) to 1.5 bps (30-yr). Peripheral yield spreads vs Germany narrowed by 11 bps for Italy and Greece and by 4 bps for Spain and Portugal. Italy outperformed as political leaders indicated willingness to make budgetary changes in order to avoid EU sanctions. A stronger than expected services PMI (back above 50) and more rumours about a (permanent?) TLTRO extension by the ECB were additional positives. **The Fed's Beige Book** showed that most districts expanded at a modest or moderate pace. Labor markets tightened further with most districts reporting that wage growth tended to the higher side of a modest to moderate pace. These settings give the "all clear" for a December Fed rate hike.

**Risk aversion returns this morning** with US equity futures immediately selling off after yesterday's day off. The Canadian arrest of Chinese Huawei CFO Meng, which came on the US's request, sparks **fears that trade talks won't be as rosy as they seemed after the Xi-Trump bilateral in Buenos Aires this weekend**. Most Asian benchmarks lose more than 1% with China underperforming. The US Note future and Japanese yen profit. We expect a stronger opening for the Bund. Italian PM Conte this morning suggested working towards a deficit of 1.9% to 2% of GDP, **which can extend the BTP relief rally amid risk sentiment**.

Today's eco calendar contains US non-manufacturing ISM, ADP employment report and weekly jobless claims. **Strong outcomes are expected and we side with consensus**. The OPEC+ meeting in Vienna will probably deliver production cuts for next year which could floor oil prices. **We doubt though whether eco data/events will play first fiddle today**. Investors will probably hold a cautious approach until US investors join dealings. The overnight stock market sell-off seems exaggerated given the news flow. **We don't fight current trends however, but draw lines in the sand**. For US yields, it's 2.78%/2.8% support at the 10-yr tenor. The German 10-yr yield needs to stick above 0.18%. On the US stock market (S&P 500), we look in first instance to the October low (2603), but the real deal is the 2018 low (2530)/38% retracement on 2016-2018 rally (2508). Key support for the EuroStoxx 50 kicks in around 3068. **Sustained breaks of these levels suggests reviewing our longer term scenarios**.



German 10-yr yield: confirmed break below 0.28% support implies further move south towards absolute key 0.18%. Final hurdle ahead of complete retracement



US 10-yr yield loses important support, suggesting technical retracement towards 2.78%/2.8%

# Currencies

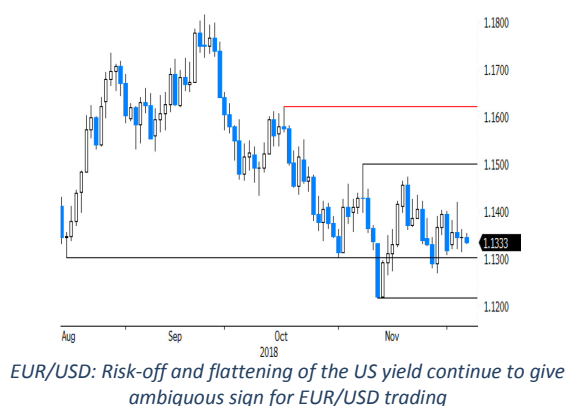
## USD looking for direction as risk-off persists

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1344	0,0001
S1	1,1187	
S2	1,1119	

R2	0,8997	-1d
R1	0,894	
EUR/GBP	0,8909	-0,0009
S1	0,8700	
S2	0,862	

Global volatility eased (temporarily) yesterday. US markets were closed in honor of former president Bush. Sentiment stayed risk-off but the pace of the sell-off slowed. EUR/USD bottomed after Tuesday's intraday slide. **The news flow from Europe was also mildly euro supportive.** The EMU PMI's were slightly better than expected. Headlines suggested that Italy and the EU are making progress to find a compromise on the Italian budget. In the Fed Beige book, most Fed districts see ongoing modest to moderate growth. Labour shortages and price pressures due to higher tariffs are a concern. The trade-weighted dollar finished marginally stronger near the 97 handle. EUR/USD was little changed (1.1344). The yen returned part of Tuesday's risk-off gain. USD/JPY rebounded (113.19 from 112.77). **Overnight**, global sentiment turned again outright **risk-off**. The flattening of the US yield curve resumes. Canada arrested the **CFO of Huawei** and might extradite her to the US. The case suggests that there is little improvement in the US-China trade relationship despite Saturday's meeting between Presidents Trump and Xi Jinping. Asian equities are again deep in the red, with losses in China mounting close to 3%. **EUR/USD still lacks any directional tendency holding in the mid 1.13 area.** The yen strengthens below 113 (112.75 currently). The yuan weakens modestly. The Aussie dollar extends this week's decline after disappointing trade data. **Today**, The ISM, the ADP labour report, jobless claims and trade balance data might move the dollar intraday. FX traders will also keep an eye at the **OPEC meeting**. However, global (FX) markets will stay focused on the US yield curve. **The context of at the same time global uncertainty and declining US yields (and a flattening yield curve) is ambiguous for EUR/USD. In case of a new risk-off episode**, some EUR/USD downside drift might be on the cards, despite a narrowing of the US-EMU interest rate differential (spill-over from EUR/JPY-USD/JPY selling). Still the 1.12/1.15 range looks solid.

Sterling gained temporarily ground yesterday despite a poor UK PMI. The Brexit debate in Parliament continued. Over the previous days chances on no Brexit looked to have grown slightly. However, the outcome of the process remains highly uncertain/binary in nature. EUR/GBP finished little changed near 0.89. Headlines from the Brexit debate in parliament will continue to drive EUR/GBP trading today. For now, we see no trigger for a sustained sterling comeback.



# Calendar

Thursday, 6 December		Consensus	Previous
<b>US</b>			
14:15	ADP Employment Change (Nov)	195k	227k
14:30	Trade Balance (Oct)	-\$55.0b	-\$54.0b
14:30	Initial Jobless Claims	225k	234k
14:30	Continuing Claims	1690k	1710k
16:00	ISM Non-Manufacturing Index (Nov)	59.0	60.3
16:00	Factory Orders (Oct)	-2.0%	0.7%
16:00	Factory Orders Ex Trans (Oct)	--	0.4%
16:00	Durable Goods Orders (Oct F)	-2.4%	-4.4%
18:00	Household Change in Net Worth (3Q)	--	\$2191b
<b>Canada</b>			
16:00	Ivey Purchasing Managers Index SA (Nov)	--	61.8
<b>Germany</b>			
08:00	Factory Orders MoM / WDA YoY (Oct)	-0.4%/-3.1%	0.3%/-2.2%
09:30	Markit Germany Construction PMI (Nov)	--	49.8
<b>Events</b>			
06DEC	OPEC+ meeting		
08:30	ECB's Guindos Speaks in Frankfurt		
10:50	France to Sell 0.5% 2025, 3.5% 2026 and 0.25% 2026 Bonds		
11:00	BOE's Ramsden Speaks in London		
18:15	Fed's Bostic Speaks on the U.S. Economic Outlook		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,91	0,00		US	2,79	0,00	DOW	25027,07	0,00
DE	0,28	0,01		DE	-0,60	0,01	NASDAQ	7158,426	0,00
BE	0,75	0,01		BE	-0,54	0,01	NIKKEI	21501,62	-417,71
UK	1,32	0,03		UK	0,75	0,02	DAX	11200,24	-135,08
JP	0,06	-0,01		JP	-0,15	-0,01	DJ euro-50	3150,27	-38,98
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	-0,01	2,95	1,23	Eonia	-0,3580	0,0110			
5y	0,27	2,92	1,34	Euribor-1	-0,3670	0,0000	Libor-1	2,3795	0,0000
10y	0,87	2,98	1,51	Euribor-3	-0,3160	0,0000	Libor-3	2,7389	0,0000
				Euribor-6	-0,2460	0,0010	Libor-6	2,8964	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	1,1344	0,0001		EUR/JPY	128,41	0,49	CRB	183,75	-0,39
USD/JPY	113,19	0,42		EUR/GBP	0,8909	-0,0009	Gold	1242,60	-4,00
GBP/USD	1,2734	0,0015		EUR/CHF	1,1318	0,0003	Brent	61,56	-0,52
AUD/USD	0,7268	-0,0070		EUR/SEK	10,1877	-0,0412			
USD/CAD	1,3355	0,0093		EUR/NOK	9,6467	-0,0025			

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