

**Friday, 22 February 2019**

### Rates: First signs of fatigue in the Bund?

Mixed EMU PMI's were no longer sufficient to add to Bund gains. On the contrary. Some investors decided to take some profit with the Bund testing first minor support. We hope to see a confirmation of this shift after today's German Ifo Business sentiment. Consensus expects a stabilization in February with risks slightly tilted to the upside.

### Currencies: EUR/USD idled in 1.13 area as (US & EMU) data fail to give guidance

The euro temporary outperformed the dollar yesterday, but finally US & EMU data were not able to give clear guidance for trading in the euro or the dollar. Today, German Ifo business sentiment might have some intraday significance for EUR/USD trading. Fed speaking on the balance sheet roll-off is a wildcard for (USD) trading.

### 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 equities** posted modest losses yesterday on weak economic data. **Asian equity markets** are mainly trading in red this morning with China outperforming on hopeful signals from the China/US trade negotiations.
- **US President Trump will meet China's vice-premier and lead negotiator Liu He today.** The meeting caps the latest round of trade talks, with both parties working towards a (preliminary) deal to avoid a new round of tariffs.
- **The European Union expects that UK PM May will be forced to request a three-month delay to Brexit.** The bloc sees this as a 'technical extension' to give the UK Parliament time to pass the necessary legislation.
- **Australian PM Morrison tried to reassure investors that the relationship with China is not as bad as it looks,** following the ban on Australian coal imports in a Chinese port. He said the move is common, but asked China for clarification.
- **Bank of Canada Governor Poloz signalled that the BoC is in no rush to continue monetary tightening.** He said that interest rates eventually need to move up into neutral range, but the economic uncertainty warrants patience for now.
- The Reserve Bank of New Zealand said that proposals to **increase bank capital requirements** could raise borrowing costs. **RBNZ governor Bascand hinted a rate cut could be necessary** to offset the resulting tighter monetary conditions.
- **Today's eco calendar** contains German IFO Business sentiment. Fed's Clarida speaks, while Fed's Bullard, Harker, Quarles and Williams discuss the Fed Balance Sheet. ECB Draghi features at a low key event. Italy sells bonds.

# Rates

	US yield	-1d
2	2,53	0,03
5	2,50	0,05
10	2,69	0,05
30	3,04	0,05

	DE yield	-1d
2	-0,56	0,01
5	0,69	0,03
10	0,13	0,03
30	0,75	0,02

## First signs of fatigue in German Bund?

**Global core bonds lost ground** yesterday. The US Note future and German Bund suffered a first downleg in Asian trading on bullish US-Sino trade comments. The second hit was inflicted by stronger-than-expected French PMI's. The Bund tried to stage a comeback after **mixed German/EMU PMI's with a strong services reading slightly outweighing weakness in the manufacturing area**. The Bund's failure to really gain on the outcome suggests that market positioning is stretched enough. **No additional bad news might be good news from now on**. Some investors decided to take some profit during the remainder of the session. **From a technical point of view, nothing has changed yet** with the Bund still north of first support (165.87) and the German 10-yr yield below 0.14%. Mixed US eco data didn't affect trading. The US yield curve bear steepened with yields adding 3.1 bps (2-yr) to 5.5 bps (30-yr). German yields increased by 1.4 bps (2-yr) to 3 bps (5-yr) with the belly of the curve outperforming the wings. Peripheral yield spreads vs Germany narrowed by 2 bps (Spain) to 5 bps (Italy).

**Most Asian stock markets record small losses this morning with China outperforming (>+1.5%)**. Chinese vice PM Liu He meets with US President Trump today to conclude this week's trade negotiations. Core bond futures trade stable, suggesting a neutral start for today.

Today's eco calendar contains **February German Ifo Business sentiment**. Consensus expects a stabilization in both the current assessment and the expectations sub-indices. **We side with consensus or even see some upside risks** after yesterday's strong German services PMI given that this sector carries the most weight in the Ifo indicator. **This will test our suggestion that no additional bad news is positive news for trading and can inflict some losses on the Bund**. **ECB President Draghi** is scheduled to speak at a low key event. It's uncertain that he'll touch on monetary policy. **An avalanche of Fed speakers gather at a Fed event in New York**. Topics of debate are inflation, quantitative tools and the Fed's balance sheet. The tone will probably be dovish, but that shouldn't surprise. The Fed used lack of inflationary pressure as one of the reasons to explain this year's U-turn. This week's FOMC Minutes hinted at a March announcement on ending the balance sheet run-off by the end of the year. The US 10-yr yield remain stuck in a 2.49%-2.78% sideways trading range.



German 10-yr yield: Rebreak of 0.15% necessary makes technical picture neutral



US 10-yr yield: 2.49%-2.78% sideways range

# Currencies

R2	1,1815	-1d
R1	1,1621	
<b>EUR/USD</b>	<b>1,1336</b>	<b>-0,0002</b>
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
<b>EUR/GBP</b>	<b>0,8692</b>	<b>0,0005</b>
S1	0,8620	
S2	0,8314	

## Mixed US/EMU data cement EUR/USD stalemate

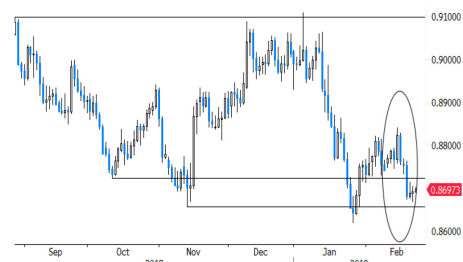
EMU and US data were mostly mediocre yesterday and didn't provide clear directional guidance for their respective currencies. Initially it looked that the euro could slightly outperform. The EMU composite PMI rebounded modestly. ECB members were not keen to provide concrete guidance on a new TLTRO program. The US durable orders and Philly Fed business outlook also reinforced the feeling that US growth might be over its peak. **At first, USD-German interest rate differentials narrowed** slightly as EMU yields rose. EUR/USD came within reach of Wednesday's ST top, but a real test didn't occur. Later, a further **rise in US yields restored the balance**. EUR/USD closed again little changed at 1.1336. USD/JPY also held in well-known territory, closing at 110.70.

Risk sentiment in Asia initially turned more cautious overnight as **investors await more concrete news from the US-China trade talks**. Japan core inflation (ex fresh food 0.8% Y/Y) rose marginally, but didn't change the prospect for monetary policy or for the yen. USD/JPY is trading near 111.75. **EUR/USD is also going nowhere (1.1340 area)**. The kiwi dollar (NZD/USD 0.6775 area) remains under pressure. The RBNZ indicated that tighter monetary conditions due to higher bank capital requirements, if necessary, might be counterbalanced by a rate cut. **Today**, there are no US data. In Europe the final German Q4 GDP and German IFO confidence are interesting. Several Fed governors will speak, mostly after the close of European markets. Yesterday, EUR/USD rose temporarily as the EMU PMI's were not that bad. A similar reaction is possible in case of a decent IFO. However, with several 'global issues' issues still clouding the eco outlook, it is unlikely to kick-start a clear directional EUR/USD move. Fed members speaking the balance sheet is USD wildcard. EUR/USD rebounded off last week lows but euro sentiment remains fragile. Of late, we assumed progress on **trade issues** and better EMU data are needed for a more protracted EUR/USD comeback. There are **hopeful signs on trade, but the jury is still out**. EUR/USD 1.1216 marks the Nov low. EUR/USD 1.1187 is 61% retracement (2016 low/2018 top).

The sterling price action more or less followed the tone of the Brexit headlines **yesterday**. Sterling resilience prevailed, but initial intraday gains evaporated as the hope in a 'quick' solution was said to be over-optimistic. EUR/GBP closed little changed at 0.8692. This morning's headlines suggested that the EU preparing for a three-month Brexit delay. Of late, markets tended to be positioned for a scenario that a no-deal Brexit could be avoided. This hope helped to put a floor for sterling, despite plenty of Brexit noise. **EUR/GBP 0.8621/17 is key MT support**.



EUR/USD idled in the mid 1.13 area as (US & EMU) data fail to give guidance



EUR/GBP: sterling holding strong as hopes for avoiding a no-deal Brexit remain high

# Calendar

Friday, 22 February		Consensus	Previous
<b>Canada</b>			
14:30	Retail Sales MoM (Dec)	-0.3%	-0.9%
14:30	Retail Sales Ex Auto MoM (Dec)	-0.3%	-0.6%
<b>Japan</b>			
00:30	Natl CPI YoY (Jan)	0.2%A	0.3%
00:30	Natl CPI Ex Fresh Food YoY (Jan)	0.8%A	0.7%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Jan)	0.4%A	0.3%
<b>EMU</b>			
11:00	CPI Core YoY (Jan F)	1.1%	1.1%
11:00	CPI MoM/YoY (Jan F)	-1.1%/1.4%	0.0%/1.6%
<b>Germany</b>			
08:00	GDP SA QoQ/WDA YoY (4Q F)	0.0%/0.6%	0.0%/0.6%
10:00	IFO Business Climate (Feb)	98.9	99.1
10:00	<b>IFO Expectations (Feb)</b>	<b>94.3</b>	<b>94.2</b>
10:00	IFO Current Assessment (Feb)	103.9	104.3
<b>Belgium</b>			
15:00	Business Confidence (Feb)	-1.9	-1.5
<b>Events</b>			
14:15	Atlanta Fed's Bostic Delivers Opening Remarks in New York		
16:00	Bank of France Governor Speaks at Conference in Lisbon		
16:15	<b>Fed's Williams Discusses Inflation at Policy Forum in New York (voter)</b>		
16:30	<b>ECB President Draghi Speaks in Bologna, Italy</b>		
17:00	Italy to Sell Bonds		
18:00	<b>Clarida Speaks in New York on Fed Tools, Communications (vice-chair)</b>		
18:30	New York Fed's Potter Discusses Quantitative Tools		
19:30	<b>Fed's Bullard to Speak on Balance Sheet in New York (voter)</b>		
19:30	<b>Fed's Harker Takes Part in Panel Discussion on Balance Sheet (non-voter)</b>		
19:30	<b>Quarles Speaks in New York on Future of Fed Balance Sheet (voter)</b>		
23:30	<b>New York Fed's Williams Gives Closing Remarks at Fed Event (voter)</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,69	0,05		US	2,53	0,03	DOW	25850,63	-103,81
DE	0,13	0,03		DE	-0,56	0,01	NASDAQ	7459,708	-29,36
BE	0,67	0,02		BE	-0,42	0,02	NIKKEI	21425,51	-38,72
UK	1,20	0,02		UK	0,76	0,01	DAX	11423,28	21,31
JP	-0,04	0,00		JP	-0,18	0,01	DJ euro-50	3263,7	4,21
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,58	1,13	Eonia	-0,3700	0,0000			
5y	0,14	2,57	1,23	Euribor-1	-0,3680	-0,0010	Libor-1	2,4811	0,0000
10y	0,66	2,70	1,40	Euribor-3	-0,3100	-0,0020	Libor-3	2,6634	0,0000
				Euribor-6	-0,2310	0,0000	Libor-6	2,6934	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1336	-0,0002		EUR/JPY	125,49	-0,19	CRB	183,41	0,14
USD/JPY	110,7	-0,15		EUR/GBP	0,8692	0,0005	Gold	1327,80	-20,10
GBP/USD	1,3043	-0,0007		EUR/CHF	1,1346	-0,0003	Brent	67,07	-0,01
AUD/USD	0,7092	-0,0073		EUR/SEK	10,6133	0,0441			
USD/CAD	1,3232	0,0056		EUR/NOK	9,7761	0,0374			

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## 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
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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