



Friday, 01 March 2019

Rates: German 10-yr yield breaks north of 0.15%

The German 10-yr yield broke through 0.15% resistance yesterday, ending the downleg since early October and paving the way towards 0.27%. Positive risk sentiment and decent eco data can inflict more pain on core bonds today. Markets seem to be embracing to new reflation bets with event risks vanishing, central banks sidelined and eco data gently improving.

Currencies: EUR/USD rally blocked as dollar restores balance on strong data

The revival of the reflation trade yesterday initially favored the euro, but the EUR/USD break beyond 1.14 was aborted by strong US data. Today, there are plenty of EMU/US eco data to inspire FX trading. USD/JPY is the preferred beneficiary of good news. The picture for EUR/USD is more balanced. The sterling rally stalled as Brexit headlines are receding?

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** lost modest ground yesterday for a third consecutive day with losses up to 0.3%. **Asian equities** are trading higher overnight with China and Japan outperforming following positive news from MSCI and stronger data.
- **Federal Reserve Chairman Powell** stated that a rise in productivity last year gives more room for wages to grow without the risk of higher inflation, offering **another reason why the US central bank can stay on the sidelines**.
- **North Korean leader Kim Jong Un vowed to meet with US President Trump again** after nuclear talks abruptly ended yesterday with no agreement. He said the summit was productive and hopes to continue talks in the near future.
- **UK farming minister George Eustice resigned from the UK government yesterday as he opposes any delay to Britain's exit**. He said May's proposed vote on extending article 50 would lead to the "final humiliation of our country".
- **MSCI Inc.**, the world's largest leading equity index provider, **will expand the weighting of China-listed shares in benchmark indexes**. The move could lead to an estimated \$125bn flowing into Chinese equities this year.
- **The Chinese Caixin PMI Mfg index rose to 49.9 in February** vs. 48.3 a month before and beating expectations (48.5). **The Japanese Tokyo CPI (ex fresh food) rose 1.1% (Y/Y) in February**, beating 1% Y/Y forecasts.
- **Today's US eco calendar** contains EMU consumer inflation (Feb), the UK Mfg PMI (Feb) and German retail sales (Jan). The US prints ISM Manufacturing (Feb) and Canada's Q4 results are released. Fed's Bostic speaks.

Rates

German 10-yr yield breaks above 0.15%

	US yield	-1d
2	2,51	0,02
5	2,52	0,03
10	2,72	0,03
30	3,08	0,02

	DE yield	-1d
2	-0,52	0,01
5	-0,27	0,02
10	0,18	0,04
30	0,81	0,04

Global core bonds took another step back yesterday. Wednesday's weakness persisted from the European start with the German 10-yr yield rapidly retaking the 0.15% mark. **Breaking this first resistance levels end the downmove since October with more upside potential towards 0.27%.** Technically inflicted losses caused initial underperformance of the Bund vs the Note future. This relationship changed in US dealings with **Treasuries taking a bigger hit following stronger than expected Q4 GDP data and a higher core PCE reading.** US yields added 1.5 bps (30-yr) to 3.3 bps (10-yr) with the belly of the curve underperforming the wings. The German yield curve bear steepened with yields rising between 0.7 bps (2-yr) and 4 bps (30-yr). 10-yr yield spread changes vs Germany narrowed by up to 2 bps with Greece and Italy (-7 bps) outperforming.

Asian stock market are positively oriented this morning with China and Japan gaining up to 1%. **The world's leading equity index provider (MSCI) announced that it will gradually increase the weighting of Chinese A shares in its emerging market index from 0.72% to 3.3% this year.** This helps further opening up Chinese markets for foreign investors and will lead to massive inflows. The Chinese Caixin manufacturing PMI rebounded more than expected in February, from 48.3 to 49.9, and Japanese inflation (Tokyo CPI) beat forecasts. **Core bonds lose some additional ground.**

Today's eco calendar contains EMU February inflation data, US personal income/spending, US PCE deflator and non-manufacturing ISM. Inflation is expected to hold steady for the core gauge (1.1% Y/Y) and accelerate somewhat for the headline reading (1.5% Y/Y). We expect no deviations following the release of yesterday's national data in Germany, France, Spain and Italy. December income and spending data and PCE deflator could normally be derived from yesterday's Q4 GDP release and therefore be of less importance for trading. The US non-manufacturing ISM is expected to fall from 56.6 to 55.6 in February. We side with consensus following mixed regional outcomes. **Overall, these settings (positive risk environment, decent eco data) could inflict some more pain on core bonds** which have been losing momentum since Wednesday. **Markets seem to be embracing some new reflation bets with central banks side-lined, event risk evaporating and (global) growth slowdown fears exaggerated.**

Technically, the US 10-yr yield is moving higher in a 2.49%-2.78% sideways trading range. The German 10-yr yield regained 0.15% support, paving the way for a further rise towards 0.27%.



German 10-yr yield: break above 0.15% ends downleg. More room for rebound towards 0.27%



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

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1371	0,0001
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8574	0,0031
S1	0,8543	
S2	0,8314	

Strong US data restored EUR/USD balance

Sentiment in Europe remained rather constructive **yesterday**, despite geopolitical tensions in Asia (failed meeting between the US and North Korea, Pakistan-India). Still, investors saw **growing chances of a bottoming in EMU growth and inflation** even as CPI's from EMU member states printed mixed. EMU yields and the euro rebounded further. **EUR/USD traded north of 1.14 before the publication of the US data.** Q4 growth printed at 2.6% QoQa (2.2% expected) and the core PCE deflator was higher than expected. The Chicago PMI also succeeded an impressive beat (64.7 vs 57.5 expected). The strong US data triggered an intraday USD rebound. EUR/USD finished little changed at 1.1371. USD/JPY rallied to a new ST correction top (close at 111.39).

Overnight, sentiment in Asia remains risk-on. The China Caixin manufacturing PMI rose to 49.9 (48.5 expected), easing market doubts on the country's slowdown. Japanese equities profit from a weaker yen. USD/JPY extends its gains (111.70 area). Asian markets also feel some comfort from solid US data yesterday.

Today, the calendar is well filled with the final EMU manufacturing PMI's and EMU February inflation. Several EMU countries will also publish labour market data. In the US, the December spending and income data will get less attention after yesterday's Q4 GDP release, **but the more timely/forward-looking Manufacturing ISM is interesting.** A modest easing from 56.6 to 55.8 is expected. Another solid US figure might revive some kind of reflation trade. However, with sentiment on Europe also improving, the impact on EUR/USD isn't that straightforward.

USD/JPY is probably the first beneficiary of better eco news.

We started this week with a cautious USD bias **after some disappointing US data last week. At the same time** EUR/USD show tentative signs of a rebound and drifted back higher in the 1.12/1.15 range. Yesterday's US data restored the balance in favour of the dollar. Still have the impression that the EUR/USD downside remains well protected. A bottoming in EMU inflation data might support this process.

Yesterday, **sterling finally fell prey to profit taking.** FX markets had apparently discounted the declining probability of a no-deal Brexit. EUR/GBP rebounded and closed the session at 0.8573. Brexit headlines are becoming a bit less prominent for GBP-trading short-term. **Today, the UK credit data and the manufacturing PMI might grab some market attention** as markets might start to ponder the chances for a BoE rate hike in case a no deal Brexit is avoided. We expect some further EUR/GBP consolidation, further digesting recent sterling rally.



EUR/USD: rally running into resistance as strong US data restore balance



EUR/GBP: sterling falling prey to profit taking as Brexit headlines are moving temporary to back ground.

Calendar

Friday, 1 March		Consensus	Previous
US			
	Wards Total Vehicle Sales (Feb)	16.80m	16.60m
14:30	Personal Income (Jan)	0.3%	--
14:30	Personal Spending (Dec)	-0.3%	0.4%
14:30	PCE Deflator MoM/YoY (Dec)	0.0%/1.7%	0.1%/1.8%
14:30	PCE Core MoM/YoY (Dec)	0.2%/1.9%	0.1%/1.9%
16:00	ISM Manufacturing (Feb)	55.8	56.6
16:00	ISM Employment (Feb)	--	55.5
16:00	ISM Prices Paid (Feb)	51.8	49.6
16:00	ISM New Orders (Feb)	--	58.2
16:00	U. of Mich. Sentiment (Feb F)	95.9	95.5
Canada			
14:30	Quarterly GDP Annualized (4Q)	1.0%	2.0%
14:30	GDP MoM/YoY (Dec)	0.0%/1.4%	-0.1%/1.7%
15:30	Markit Canada Manufacturing PMI (Feb)	--	53.0
Japan			
00:30	Job-To-Applciant Ratio (Jan)	A: 1.63	1.63
00:30	Jobless Rate (Jan)	A: 2.5%	2.4%
00:30	Tokyo CPI YoY (Feb)	A: 0.6%	R: 0.5%
00:30	Tokyo CPI Ex-Fresh Food YoY (Feb)	A: 1.1%	1.1%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Feb)	A: 0.7%	0.7%
UK			
10:30	Net Consumer Credit (Jan)	0.8b	0.7b
10:30	M4 Ex IOFCs 3M Annualised (Jan)	--	4.3%
10:30	Markit UK PMI Manufacturing SA (Feb)	52.0	52.8
EMU			
10:00	Markit Eurozone Manufacturing PMI (Feb F)	49.2	49.2
11:00	Unemployment Rate (Jan)	7.9%	7.9%
11:00	CPI Core YoY (Feb A)	1.1%	1.1%
11:00	CPI Estimate YoY (Feb)	1.5%	1.4%
Germany			
08:00	Retail Sales MoM/YoY (Jan)	2.0%/1.2%	-3.1R/-2.1%
09:55	Unemployment Change (000's) (Feb)	-5k	-2k
09:55	Unemployment Claims Rate SA (Feb)	5.0%	5.0%
Italy			
09:45	Markit/ADACI Italy Manufacturing PMI (Feb)	47.2	47.8
10:00	Unemployment Rate (Jan P)	10.4 %	10.3%
Belgium			
11:00	Unemployment Rate (Jan)	--	5.5%
China			
02:45	Caixin China PMI Mfg (Feb)	A: 49.9	48.3
Norway			
09:00	DNB/NIMA PMI Manufacturing (Feb)	56.3	58.3
10:00	Unemployment Rate (Feb)	2.5%	2.6%
Spain			
09:15	Markit Spain Manufacturing PMI (Feb)	51.7	52.4
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Feb)	51.4	51.5
Events			
14:30	BEA to Release Dec. income/spending & Jan income		
18:50	Fed's Bostic Remarks at Luncheon at Economic Policy Conference (non-voter)		
19:15	Fed's Bostic Speaks on the Economic Outlook, Monetary Policy (non-voter)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,72	0,03		US	2,51	0,02	DOW	25916	-69,16
DE	0,18	0,04		DE	-0,52	0,01	NASDAQ	7532,532	-21,98
BE	0,69	0,01		BE	-0,41	0,01	NIKKEI	21602,69	217,53
UK	1,30	0,03		UK	0,83	0,00	DAX	11515,64	28,31
JP	-0,02	0,01		JP	-0,15	0,00	DJ euro-50	3298,26	15,49
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,57	1,19	Eonia	-0,3650	0,0060			
5y	0,17	2,57	1,31	Euribor-1	-0,3680	0,0000	Libor-1	2,4893	0,0000
10y	0,70	2,73	1,49	Euribor-3	-0,3090	0,0010	Libor-3	2,6261	0,0000
				Euribor-6	-0,2290	0,0000	Libor-6	2,6850	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1371	0,0001		EUR/JPY	126,67	0,47	CRB	182,75	-0,48
USD/JPY	111,39	0,39		EUR/GBP	0,8574	0,0031	Gold	1316,10	-5,10
GBP/USD	1,3263	-0,0046		EUR/CHF	1,1349	-0,0037	Brent	66,31	-0,27
AUD/USD	0,7094	-0,0044		EUR/SEK	10,5061	-0,0353			
USD/CAD	1,3172	0,0016		EUR/NOK	9,735	0,0080			

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