



**Wednesday, 21 November 2018**

### Rates: Key US yield support levels stand their ground

Yesterday's full blown risk off session caused classic safe haven flows into German Bunds, but not in US Treasuries. Key US yield support levels played their role and didn't budge. US eco data and the cautious improvement in risk sentiment this morning, suggest that the yields could gain some additional ticks ahead of the US long weekend.

### Currencies: Dollar regained benefit of the doubt as US yields prevent further decline

Fortunes changed in favour of the USD yesterday. US yields held up well despite an outright risk-off market. This supported the dollar instead of the euro. US data have intraday USD moving potential today. The EU assessment of the Italian budget is a euro wildcard. Yesterday's price action suggests that the EUR/USD 1.15/1.1621 resistance won't be that easy to clear.

### Calendar

## Headlines

- **US equities** continue to suffer as all major indices lose more than 1.5%. Dow Jones (-2.21%) underperforms. **Asian stock markets** opened with steep losses, but trade with an upward intraday bias with China already in positive territory.
- In a report by Trade Representative Robert Lighthizer, **the US is repeating its accusation that China continues a campaign of intellectual property and technology theft**, just 10 days before Presidents Trump and Xi Jinping meet.
- **Theresa May is considering technological solutions to maintain a soft Irish border** in an attempt to woo the Eurosceptics of her Conservative party. She is exploring the previously discarded "maximum facilitation" option.
- **Oil prices plunged again on Tuesday (-6.5%)** with Brent crude now below \$64 on demand worries and fears of oversupply. Trump fuelled these concerns yesterday by saying he'd love to see oil prices even lower.
- Italian media reports that Deputy PM **Salvini would be open to revise the 2019 budget proposal** by lowering spending on citizen's income and on beneficiaries of the lower retirement age. The EC reports on EMU budgets today.
- **Bank of Canada governor Wilkins said it is time to review the BOC's monetary policy framework.** It will have some key challenges as the central bank is likely to run out of "conventional firepower" in the event of an economic downturn.
- **Today's economic calendar** contains i.a. US Durable Goods Orders for October and Initial Jobless Claims. The European Commission publishes opinions on the draft budget reviews of EMU countries. Germany taps the bond market.

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

## US yield support levels prevent further decline

	US yield	-1d
2	2,80	0,01
5	2,90	0,02
10	3,06	0,00
30	3,32	-0,01

	DE yield	-1d
2	-0,59	-0,01
5	-0,24	-0,01
10	0,35	-0,02
30	1,01	-0,03

Core bonds chose a different path yesterday with German Bunds outperforming US Treasuries. The positive price action in the Bund was a “logic” consequence of the risk-off climate with more losses on stock markets (-1.5%-2% in Europe/US), widening corporate/peripheral spreads and crashing oil prices (Brent crude -6.5%). The German yield curve bull flattened with yields losing 0.8 bps (2-yr) to 3.4 bps (30-yr). Peripheral spreads widen up to 4 bps (Italy) with Greece (+12 bps) underperforming. **US Treasuries initially also gained ground, but the move ran into technical issues as US yields rebounded off key support across the US yield curve (5-yr: 2.9%; 10-yr: 3.05%; 30-yr: 3.3%).** Daily yield changes ranged between +1.4 bps (2-yr) and -0.6 bps (30-yr). US President Trump’s latest attack against the Fed, calling for lower rates, passed unnoticed.

Most Asian stock markets still flash red, but intraday risk sentiment seems to be improving. The US Note future loses a few ticks. We expect a slightly weaker opening for the Bund as well.

**Today’s eco calendar** contains October US durable goods orders, weekly jobless claims and existing home sales. Headline durables will be distorted by aircraft orders, but capital goods shipments nondefense ex aircraft – a proxy for investments in US GDP– is expected to pick up by 0.3% M/M. Weekly jobless claims are forecast to hover near historically low levels (215k), confirming US labour market strength. Existing home sales are predicted to stabilize following some steep drops in recent months. **We don’t expect negative surprises from eco data, possibly adding to the technical rebound higher in US yield ahead of the long weekend (Thanksgiving – Black Friday). This morning’s cautious improvement in risk sentiment also suggests that yields could gain a few notches.** The EMU calendar is empty. The EC publishes its recommendation on the adjustments to Draft Budgetary Plans. Italy refused to submit changes, leaving the EC no other choice than formally starting procedures that could lead to Italy entering the “excessive deficit procedure” somewhere by the beginning of next year. We think this scenario is currently discounted in Italian assets. **Risk sentiment will be today’s main driver for Bunds.** A cautious, but still fragile, recovery could inflict some losses.



German 10-yr yield closes in October low as risk aversion reigns



Key support in US 10-yr yield prevents further decline amid risk off settings

# Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1370	-0,0084
S1	1,1187	
S2	1,1119	

R2	0,8997	-1d
R1	0,894	
EUR/GBP	0,8892	-0,0019
S1	0,8700	
S2	0,862	

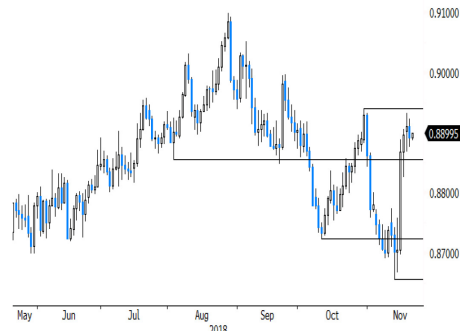
## USD profits as US yields resist risk-off trade

Global (equity) markets faced **an outright risk-off session** yesterday. Several (corporate) credit spread indicators also widened further. At the same time, US govt yields held up rather well as key support levels came in play. This resilience supported the USD. At the same time, EMU topics (Italian budget, Spain raising questions on Brexit deal) were potential euro negatives. The trade-weighted dollar rebounded from the low 96 area to close the day at 97.84, reversing a big part of the loss at the end of last week. EUR/USD lost almost one big figure and finished at 1.1370. The yen didn't really profit from the risk-on sentiment. USD/JPY even closed the session with a modest gain at 112.77. **Overnight**, losses on Asian equities are moderate given the sell-off in the US. However, it's too early to already see this as a sign of a genuine trend reversal on the risk-off trade. Headlines on US China talks ahead of the G20 remain negative. US president Trump again attacked the Fed rate hike policy. EUR/USD regains a few ticks (1.1385 area). USD/JPY is changing hands at around 112.80. USD/CNY is holding a tight range in the 6.94 area. **Today**, the US calendar contains durable goods orders, claims and existing home sales. The latter might be at least as important as the first one. In Europe, the focus will be on the EU assessment of the Italian budget and its reaction of Italian spreads. Global sentiment of course remains also an important driver. A risk rebound is often a euro rather than a USD positive. However, if US-German spreads would re-widen and given uncertainty on Italy, a sustained euro rebound might not be that evident. We had **a neutral bias on EUR/USD** of late. The USD lost momentum as investors doubt whether the US economy remains strong enough to support 3 additional Fed rate hikes next year. **Even so, we assume it's too early for a sustained market repositioning away from the USD.** The news from Europe is mixed at best. We see yesterday's price action as confirming our working hypothesis that EUR/USD 1.15/1.1621 resistance won't give away anytime soon.

Sterling gained a few ticks against the euro yesterday but ceded ground against the dollar. The BoE hearing before the Treasury committee didn't bring concrete news for GBP-traders. **Today, PM May goes to Brussels** to fine-tune the Brexit deal and address issues on the future relationship. After last week's tensions, the Brexit debate temporarily calmed down. This might be slightly GBP-positive in a daily perspective. We stay cautious on sterling as long as uncertainty on final vote persists.



EUR/USD: topside test rejected, at least for now



EUR/GBP: sterling sell-off takes breather, but no U-turn yet as uncertainty on final vote persists

# Calendar

Wednesday, 21 November		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-3.2%
14:30	<b>Durable Goods Orders (Oct P)</b>	<b>-2.6%</b>	<b>0.7%</b>
14:30	Durables Ex Transportation (Oct P)	0.4%	0.0%
14:30	Cap Goods Orders Nondef Ex Air (Oct P)	0.2%	-0.1%
14:30	Cap Goods Ship Nondef Ex Air (Oct P)	0.3%	-0.1%
14:30	<b>Initial Jobless Claims</b>	<b>215k</b>	<b>216k</b>
14:30	Continuing Claims	1650k	1676k
16:00	Existing Home Sales Total/MoM(Oct)	5.20m/1.0%	5.15m/-3.4%
16:00	U. of Mich. Sentiment (Nov F)	98.3	98.3
<b>Japan</b>			
05:30	All Industry Activity Index MoM (Sep)	-0.9%A	0.5%
06:00	Supermarket Sales YoY (Oct)	-0.7%A	1.9%
06:30	Nationwide Dept Sales YoY (Oct)	1.6%A	-3.0%
06:30	Tokyo Dept Store Sales YoY (Oct)	2.6%A	0.3%
<b>UK</b>			
10:30	PSNB ex Banking Groups (Oct)	6.1b	4.1b
10:30	Public Finances (PSNCR) (Oct)	--	15.8b
<b>Norway</b>			
08:00	Unemployment Rate AKU (Sep)	4.0%	4.0%
<b>Events</b>			
21NOV	<b>EC publishes opinions on the budget plans of EMU countries</b>		
11:00	OECD Economic Forecasts		
11:30	Germany to Sell EUR3 Bln 0% 2023 Bonds		
16:15	Bank of England Governor Carney Speaks on Sustainability		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	3,06	0,00		US	2,80	0,01	DOW	24465,64	-551,80
DE	0,35	-0,02		DE	-0,59	-0,01	NASDAQ	6908,823	-119,65
BE	0,82	-0,02		BE	-0,55	-0,02	NIKKEI	21507,54	-75,58
UK	1,38	0,00		UK	0,71	0,01	DAX	11066,41	-178,13
JP	0,09	-0,01		JP	-0,14	0,00	DJ euro-50	3116,07	-44,26
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	3,02	1,23	Eonia	-0,3620	0,0000			
5y	0,32	3,03	1,35	Euribor-1	-0,3690	0,0000	Libor-1	2,3003	0,0000
10y	0,92	3,13	1,56	Euribor-3	-0,3160	0,0000	Libor-3	2,6458	0,0000
				Euribor-6	-0,2570	0,0000	Libor-6	2,8658	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	1,1370	-0,0084		EUR/JPY	128,24	-0,68	CRB	183,78	-4,97
USD/JPY	112,77	0,22		EUR/GBP	0,8892	-0,0019	Gold	1221,20	-4,10
GBP/USD	1,2788	-0,0066		EUR/CHF	1,1317	-0,0063	Brent	62,53	-4,26
AUD/USD	0,7214	-0,0080		EUR/SEK	10,3404	0,0292			
USD/CAD	1,3306	0,0135		EUR/NOK	9,752	0,0405			

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