



Sunrise

Friday, 26 April 2019

Rates: Temporary relief from US Q1 GDP data?

Core bonds lacked inspiration yesterday, but that will change today with US Q1 GDP up for release. Bond markets are positioned to take some more bad news. However, we deem the bar of consensus (2.3% Q/Qa) rather low which could be the cue for some short term profit taking. Longer term, we hold our upward bias for bonds.

Currencies: Dollar remains in driver's seat ahead of US Q1 GDP release

The dollar touched the highest level in almost two years yesterday, but the rally took a breather after mixed US eco data. Today, the focus for USD trading is on the US Q1 GDP release. A solid report might confirm the US economic outperformance compared to most other major developed countries and support the USD positive momentum.

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 mixed yesterday after staging an intraday comeback. The Dow Jones (-0.51%) underperformed. **Asian equities** mostly trade in negative territory. Korea is underperforming.
- Trump's top economic adviser **Larry Kudlow thinks the Fed is moving towards rate cuts**, saying the "funds rate has traded a bit high". Kudlow also said that **US Q1 growth**, published later today, "**may be very close to 3%**".
- President Xi Jinping reiterated that **China won't engage in currency depreciation**. He pledged to keep the yuan stable and wants markets to play a bigger role in setting the exchange rate. The yuan strengthened (6.73 USD/CNY).
- **April inflation in Japan** (Tokyo CPI) beat expectations with headline CPI at 1.4% (vs. 1.1% expected) and core measures coming in at 0.9% (vs. 0.7%). **Retail sales** in March matched consensus but **industrial production** was very disappointing.
- The **ECB's vice president de Guindos isn't very optimistic on the EMU economy** but expects the forces that were behind the 2018 slowdown will ebb, adding however that QE can be used again if required.
- Argentina's former leftist president **Fernández is gaining traction in the presidential election polls**. Although no official candidate yet, markets' fear over potential interventionist policies sent the Argentine Peso to a record low.
- **Today's economic calendar** is thin yet important as markets will closely watch US GDP numbers for the first quarter this year. Investors expect Q1 growth at 2.3% QoQ (annualized), slightly up from 2.2% in 2018Q4.

Rates

Temporary relief from US Q1 GDP data?

	US yield	-1d
2	2,33	0,01
5	2,31	0,02
10	2,53	0,01
30	2,94	0,01

	DE yield	-1d
2	-0,59	0,00
5	-0,43	0,00
10	-0,01	0,00
30	0,64	0,01

Core bonds had an uneventful trading session yesterday. US Treasuries marginally underperformed German Bunds. Mixed US eco data (durable goods orders & weekly jobless claims) failed to impact trading. The \$32bn 7-yr Note auction tailed slightly and was the weakest from this end-of-month refinancing operation. The US yield curve added 0.7 bps (30-yr) to 1.4 bps (10-yr) in a daily perspective. The German yield curve steepened with yield changes ranging between -0.5 bps (2-yr) and +1.3 bps (30-yr). 10-yr yield spread changes vs Germany widened somewhat with Ireland (+4 bps) and Italy (+5 bps) underperforming.

Asian stock markets are mixed this morning with Japan and China underperforming. Japanese data included higher than expected inflation figures and retail sales, but disappointing production data and an unexpected uptick in the unemployment rate. Japanese markets are now closed until Tuesday May 7 (Golden week holidays). The German Bund and US Note future trade directionless.

Today's eco calendar is empty apart from US Q1 GDP data. Bond markets are positioned to take some more disappointing news, but we think that the outcome can beat the 2.3% Q/Qa estimate, triggering some (short term) profit taking on bonds. Q1 trade data and retail sales probably contributed positively. US Treasuries can underperform German Bunds. Longer term, we hold our positive bias for bonds. Companies reporting earnings include Exxon. These are wildcards for trading. Stock markets are showing early signs of topping off, even if most corporates manage to surpass (low) earnings estimates. A more profound correction would play in the advantage of bonds.

Long term view: markets concluded that the ECB missed out on this cycle. They even start pondering the possibility of an additional deposit rate cut. The downtrend in the German 10-yr remains in place so far. Regarding Fed policy, markets now discount a 60% probability of a Fed rate cut by December. The US 10-yr yield closed last week above the lower bound of the previous 2.5%-2.79%. This turned the picture more neutral again, but the move lacks conviction.



German 10-yr yield: downtrend remains in place so far.



US 10-yr yield manages to regain previous support area after several failed tests, but move lacks conviction.

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1132	-0,0023
S1	1,1110	
S2	1,0864	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8631	-0,0013
S1	0,8500	
S2	0,8314	

Dollar remains in the driver's seat

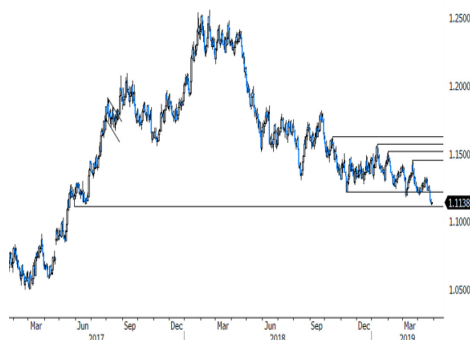
The (trade-weighted) dollar touched the highest level in almost two years early in US dealings **yesterday**. EUR/USD developed a similar pattern as the pair tested the 1.1119 support. However, US investors finally turned a bid more cautious. US data were mixed with solid durable goods orders but at the same time an unexpected uptick in jobless claims. It is too early to draw conclusions from a weekly claims release, but the report maybe inspired some **ST USD profit taking after recent rally**. US equities also struggled as corporate earning brought a balanced/mixed outcome. EUR/USD closed at 1.1132 (from 1.1155). The loss in USD/JPY was even bigger with a close at 111.63 (from 111.19).

Asian equities mostly show modest losses this morning. Japan March production data (-0.9% M/M) raised questions on the countries' growth. At the same time, Tokyo CPI printed slightly higher than expected. USD/JPY hovers in the 111.65 area as Japanese markets prepare for the Golden Week holidays. The yuan gained a few ticks in a daily perspective (USD/CNY 6.7350 area) as the Chinese president reiterated China doesn't intend a weakening of its currency that harms other nations. EUR/USD (1.1135 area) is holding within reach of yesterday's low.

Today, there are again few data in EMU except for the French consumer confidence. The focus for FX/USD trading will be on the US Q1 GDP. The market expects 2.3% annualised growth. This level looks feasible and might convince markets that the US economy avoids a big slowdown. A report in line or better than expected might support recent USD positive momentum.

Poor EMU data (PMI's) last week pushed EUR/USD to the low 1.12 area. At the same time, the **dollar is supported by relative resilience** of the US economy. These trends finally pushed EUR/USD below the 1.1177 MT range bottom. We expect any further USD gains to develop in a gradual way. Even so, there is no reason to row against the USD positive tide. Next support at 1.1110/19 (May/June 2017 lows) is within reach.

Sterling showed no clear trend **yesterday**. **EUR/GBP still felt some modest negative spill-overs from EUR/USD**. The pair closed at 0.8631 (from 0.86644). Even so, the Brexit process still provides little support for sterling. The negotiations between the conservative party and labour to reach a compromise on Brexit look to have stalled and it looks ever more likely that the UK will have to participate in the May EU elections. Euro and sterling weakness might keep each other in balance short-term.



EUR/USD: nearing the 1.1111/19 support area



EUR/GBP: sterling going nowhere as Brexit stalemate persists.

Calendar

Friday, 26 April		Consensus	Previous
US			
14:30	GDP Annualized QoQ (1Q A)	2.3%	2.2%
14:30	Personal Consumption (1Q A)	1.0%	2.5%
14:30	GDP Price Index (1Q A)	1.2%	1.7%
14:30	Core PCE QoQ (1Q A)	1.4%	1.8%
16:00	U. of Mich. Sentiment (Apr F)	97.0	96.9
Japan			
01:30	Jobless Rate (Mar)	2.5%A	2.3%
01:30	Job-To-Applicant Ratio (Mar)	1.63A	1,63
01:30	Tokyo CPI YoY (Apr)	1.4%A	0.9%
01:30	Tokyo CPI Ex-Fresh Food YoY (Apr)	1.3%A	1.1%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Apr)	0.9%A	0.7%
01:50	Industrial Production MoM / YoY (Mar P)	-0.9%A/-4.6%A	0.7%/1.1%
01:50	Retail Sales MoM / YoY (Mar P)	0.2%A/1%A	0.4%R/0.6%R
UK			
10:30	UK Finance Loans for Housing (Mar)	38675	39083
12:00	CBI Trends Total Orders (Apr)	2	1
12:00	CBI Trends Selling Prices (Apr)	8	7
12:00	CBI Business Optimism (Apr)	-16	-23
France			
08:45	Consumer Confidence (Apr)	97	96

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,53	0,01	US	2,33	0,01	DOW	26462,08	-134,97	
DE	-0,01	0,00	DE	-0,59	0,00	NASDAQ	8118,682	16,67	
BE	0,47	0,02	BE	-0,51	-0,01	NIKKEI	22258,73	-48,85	
UK	1,16	-0,02	UK	0,74	-0,02	DAX	12282,6	-30,56	
JP	-0,05	-0,02	JP	-0,15	-0,01	DJ euro-50	3491,92	-10,71	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,14	2,36	1,08	Eonia	-0,3660	0,0030	Libor-1	2,4834	0,0000
5y	0,03	2,37	1,17	Euribor-1	-0,3680	0,0000	Libor-3	2,5864	0,0000
10y	0,51	2,52	1,33	Euribor-3	-0,3120	0,0000	Libor-6	2,6198	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1132	-0,0023	EUR/JPY	124,36	-0,77	CRB	185,96	-0,54	
USD/JPY	111,63	-0,56	EUR/GBP	0,8631	-0,0013	Gold	1279,70	0,30	
GBP/USD	1,2899	-0,0003	EUR/CHF	1,1360	-0,0025	Brent	74,35	-0,22	
AUD/USD	0,7015	0,0000	EUR/SEK	10,6194	0,0953				
USD/CAD	1,3485	-0,0008	EUR/NOK	9,6519	0,0168				

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