



Wednesday, 05 December 2018

Rates: US stock market sell-off triggers even more bond gains

US equity markets lost more than 3% in US trading, causing a further bull flattening of the US yield curve with investors fretting about the remaining life span of the economic cycle. US markets are closed today in a day of national mourning. Risk sentiment, which improved overnight, will determine European action in absence of important eco data/events.

Currencies: Dollar trading mixed as US yields decline and global uncertainty

The flattening of the US yield curve intensified the risk-off trade yesterday. Initially, US weakness prevailed put finally a classical risk-off trade developed with USD/JPY, EUR/JPY and EUR/USD declining. The market repositioning might take breather today. The context is ambiguous for EUR/USD, but sustained EUR/USD gains will probably be difficult if global uncertainty persists.

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** plunged yesterday with losses over 3% as bond markets suggest severe growth concerns. **Asian equities** open in red as well despite China officially echoing Trump's optimism on the trade talks.
- **China's Ministry of Commerce is confident that a trade deal with the US will be reached within the 90 day deadline.** It is China's first response on Trump's positive remarks after he and China's president Xi Jinping met this weekend.
- **UK PM May faced a new blow in Parliament yesterday.** It can now potentially decide on UK's 'plan B' if the current deal is rejected. Her government was also found in contempt of Parliament, as it failed to release its Brexit legal advice.
- **Australia's Q3 GDP disappointed with 0.3% (QoQ),** coming from 0.9% in Q2 and less than the market expectation of 0.6%. GDP drops to 2.8% (YoY) coming from a downwardly revised 3.1% in Q2. The Aussie dollar lost ground on the news.
- **China's services sector rebounded in November** with the Caixin Services PMI printing 53.8 against 50.8 in October. The Composite PMI also rose to 51.9, up from 50.5. **Japanese PMI's are stable after it rebounded in October.**
- **The Belgian government failed to agree on the UN Migration pact,** but PM Michel will go to Marrakesh anyway. He now seeks support in Parliament instead. Majority party NV-A is said to pull the plug out of the government.
- **Today's economic calendar** contains EMU (final) and UK services PMI's & EMU retail sales. Several ECB members speak on banking supervision. US markets are closed in honour of former President George H.W. Bush.

Rates

US stock market sell-off triggers even more bond gains

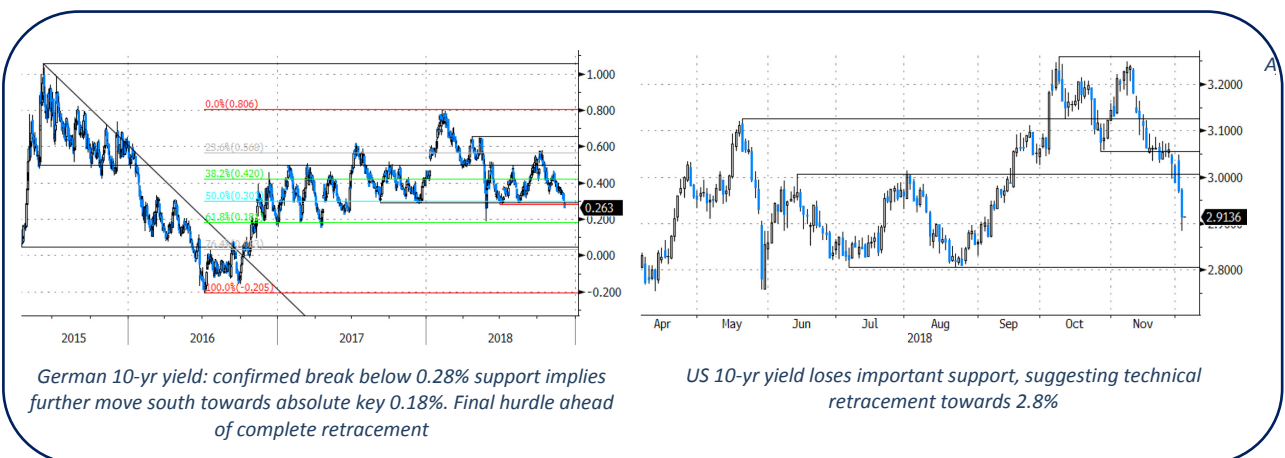
	US yield	-1d
2	2,79	-0,03
5	2,79	-0,03
10	2,91	-0,06
30	3,17	-0,08

	DE yield	-1d
2	-0,61	-0,01
5	-0,30	-0,03
10	0,26	-0,04
30	0,91	-0,06

Core bonds gained more ground yesterday as a US stock market sell-off restarted the rally in US Treasuries and to a lesser extent German Bunds. Main US equity indices lost more than 3%. The front end of the US yield curve (2yr-5yr) remains inverted. The US yield curve bull flattened with yields ending 2.6 bps (2-yr) to 8.1 bps (30-yr) lower. The German yield curve shifted in similar fashion with yields declining 1 bp (2-yr) to 6.6 bps (30-yr). **Investors worry that the global growth setback and downside of fiscal stimulus will end the US's strong expansion in the near term, anticipating that the Fed will respond by turning its rate cycle somewhere around 2021.** An optimistic review by NY Fed Williams didn't impress markets. He continues to expect that further gradual increases in interest rates will best foster a sustained economic expansion and sustained achievement of the Fed's dual mandate goals.

Losses on Asian stock markets are smaller this morning with main bourses losing between 0.5% and 1.5%. **Chinese officials confirmed US President Trump's optimism** following this weekend's bilateral meeting with Chinese President Xi Jinping. **The Chinese Caixin services PMI beat consensus by a wide margin** (53.8 from 50.8 vs 50.7 forecast). The Bund could still open slightly higher though in a catch-up move. **US Treasury markets are closed for a day of mourning in the US in honour of ex-president Bush.** Scheduled US eco data and Fed speeches (incl. testimony of Fed chair Powell) are delayed.

Today's eco calendar thus focuses on EMU, but we only get final services PMI's and (outdated) retail sales. These aren't expected to move markets. ECB Draghi, Nouy and Lautenschlaeger speak on banking supervision. **Risk sentiment will probably set the tone for trading on other markets. Brent crude trades very volatile ahead of tomorrow's OPEC+ meeting which could pave the way for production cuts in 2019.** The German 10-yr yield closed below 0.28% support yesterday. If confirmed, it suggests a further move south towards 0.18% (62% retracement of 2016-2018 upleg).



Currencies

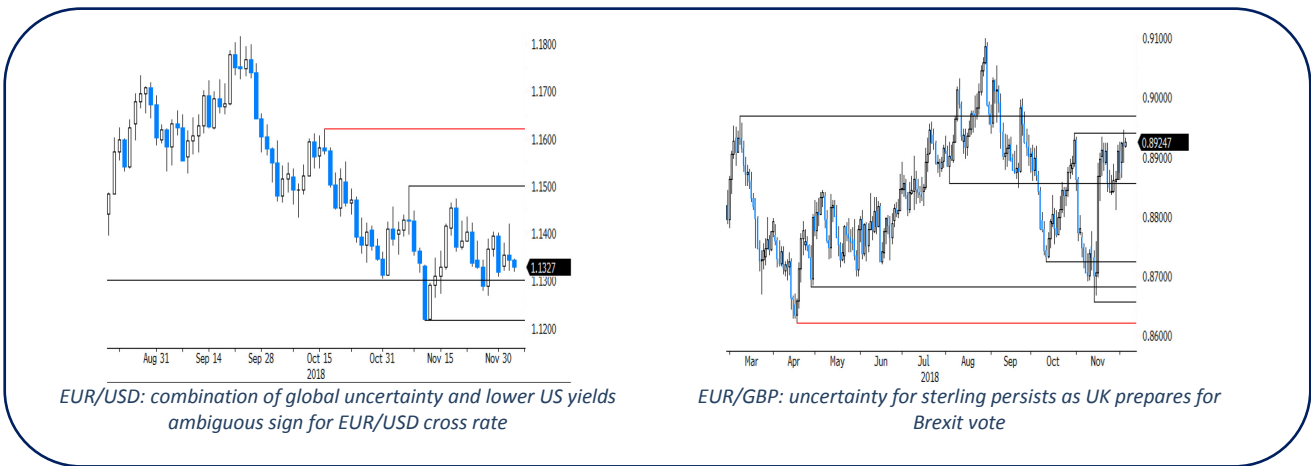
R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1343	-0,0011
S1	1,1187	
S2	1,1119	

R2	0,8997	-1d
R1	0,894	
EUR/GBP	0,8918	-0,0005
S1	0,8700	
S2	0,862	

Dollar trading mixed as global uncertainty mounts

Worries on US/global growth dominated FX trading **yesterday**, even as there was little concrete news to ‘explain’ growing investor uncertainty. Investors also weren’t convinced that the truce in the US-China trade dispute will yield a positive outcome. **The fattening US yield curve was seen as a harbinger of more difficult economic times ahead.** Initially, USD weakness prevailed. Later an acceleration of US equity selling triggered a classic FX risk-off trade, with USD/JPY, EUR/USD and EUR/JPY all trending south. There were no (US) eco data to ‘support’ this risk-off trade. EUR/USD closed the session at 1.1343. USD/JPY finished the day at 112.77 (from 113.66). **Overnight**, sentiment in Asia remains risk-off, but losses are more modest compared to the 3%+ sell-off in the US. The **China Caixin PMI’s unexpectedly rebounded**, but it is far from sure they will be able to remove uncertainty in a sustainable way. Chinese officials held a constructive tone on US-trade relations after last weekend’s meeting. Australia Q3 growth unexpectedly eased to 0.3% Q/Q and 2.8% Y/Y (0.6% Q/Q expected). The release, in combination with the risk-off trade, broke recent AUD-constructive momentum, **pushing AUD/USD below the 0.73 handle.** EUR/USD is holding a cautious negative bias (1.1320 area). USD/JPY regains a few ticks (113.05 area). US markets are closed **today** to honor President Bush. In EMU, the final PMI’s will be published. **Global sentiment will remain the main driver.** At least today, the flattening US yield curve won’t stoke further unrest. Still, the context of at the same time global uncertainty and declining US yields (and a flattening yield curve) is **ambiguous for EUR/USD.** The jury is still out, but it is not evident to see a sustained EUR/USD rebound in case of a profound global risk-off context. In a daily perspective we change our ST bias to neutral. We still assume the 1.12/1.15 trading range to hold. The day-to-day momentum looks slightly more USD constructive.

Sterling gained temporary ground yesterday on headlines that the UK could unilaterally revoke the exit of the EU. Later in the session, the government lost votes in Parliament forcing the government to publish a legal advice on Brexit. Parliament will also get more initiative in case of May’s deal being rejected next week. Chance of the Brexit dealing being approved are low, but at the same time, the Parliament’s actions might mitigate chance of a hard Brexit. **However, for now, political visibility remains too low to expect a positive/orderly outcome. We remain cautious on sterling long exposure.**



Calendar

Wed., 5 December		Consensus	Previous
US			
US financial markets are closed in honour of George H.W. Bush			
Canada			
16:00	Bank of Canada Rate Decision	1.75%	1.75%
Japan			
01:30	Nikkei Japan PMI Services (Nov)	52.3A	52.4
01:30	Nikkei Japan PMI Composite (Nov)	52.4A	52.5
China			
02:45	Caixin China PMI Composite (Nov)	51.9A	50.5
02:45	Caixin China PMI Services (Nov)	53.8A	50.8
UK			
10:00	New Car Registrations YoY (Nov)	--	-2.9%
10:30	Official Reserves Changes (Oct)	--	-\$127m
10:30	Markit/CIPS UK Services PMI (Nov)	52.5	52.2
10:30	Markit/CIPS UK Composite PMI (Nov)	52.3	52.1
EMU			
10:00	Markit Eurozone Services PMI (Nov F)	53.1	53.1
10:00	Markit Eurozone Composite PMI (Nov F)	52.4	52.4
11:00	Retail Sales MoM / YoY (Oct)	0.2%/2.0%	0.0%/0.8%
Germany			
09:55	Markit Germany Services PMI (Nov F)	53.3	53.3
09:55	Markit/BME Germany Composite PMI (Nov F)	52.2	52.2
France			
09:50	Markit France Services PMI (Nov F)	55.0	55.0
09:50	Markit France Composite PMI (Nov F)	54.0	54.0
Italy			
09:45	Markit/ADACI Italy Services PMI (Nov)	49.3	49.2
09:45	Markit/ADACI Italy Composite PMI (Nov)	49.1	49.3
Spain			
09:00	Industrial Production MoM (Oct)	0.5%	-0.7%
09:15	Markit Spain Services PMI (Nov)	53.9	54.0
09:15	Markit Spain Composite PMI (Nov)	53.3	53.7
Sweden			
08:30	Swedbank/Silf PMI Services (Nov)	--	56.3
Events			
09:30	ECB President Draghi Speaks in Frankfurt		
09:45	SSM's Daniele Nouy Speaks in Frankfurt		
10:30	Spain to Sell Bonds		
11:15	ECB's Lautenschlaeger Chairing a Panel in Frankfurt		
20:00	U.S. Federal Reserve Releases Beige Book		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,91	-0,06		US	2,79	-0,03	DOW	25027,07	-799,36
DE	0,26	-0,04		DE	-0,61	-0,01	NASDAQ	7158,426	-283,09
BE	0,74	-0,03		BE	-0,55	-0,01	NIKKEI	21919,33	-116,72
UK	1,28	-0,03		UK	0,73	0,00	DAX	11335,32	-130,14
JP	0,07	0,00		JP	-0,14	-0,01	DJ euro-50	3189,25	-25,74
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,95	1,23	Eonia	-0,3690	-0,0140			
5y	0,24	2,92	1,31	Euribor-1	-0,3670	0,0010	Libor-1	2,3789	0,0000
10y	0,84	2,98	1,47	Euribor-3	-0,3160	0,0000	Libor-3	2,7513	0,0000
				Euribor-6	-0,2470	0,0010	Libor-6	2,8953	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1343	-0,0011		EUR/JPY	127,92	-1,11	CRB	184,14	0,63
USD/JPY	112,77	-0,89		EUR/GBP	0,8918	-0,0005	Gold	1246,60	7,00
GBP/USD	1,2719	-0,0006		EUR/CHF	1,1315	-0,0016	Brent	62,08	0,39
AUD/USD	0,7338	-0,0020		EUR/SEK	10,2289	-0,0053			
USD/CAD	1,3262	0,0065		EUR/NOK	9,6492	-0,0338			

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