

Wednesday, 11 December 2019

Rates: Pressure finally off the Fed

The final FOMC meeting of the year is the first one without pressure on the Fed. Following three consecutive rate cuts, Powell and Co will stay sidelined and plan to do so throughout 2020. The bar to cut rates further in case of unexpected economic data weakness is lower than the one to hike given the Fed's tendency to allow for some inflation overshooting.

Currencies: EUR/USD again nears 1.11+ area ahead of Fed and other event risks

EUR/USD yesterday continued its gradual rebound of earlier this week. The Fed communication probably won't change the picture for the dollar in any profound way. Any focus on the symmetrical inflation target might be seen as a tentatively soft for the dollar. Recent sterling rally was blocked as a poll suggested a small Conservative majority at tomorrow's election.

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** slipped slightly lower as investors grew cautious amid tariff speculation and key central bank meetings later this week. **Asian equities** are mostly trading in the green. China outperforms (+1%).
- **US and Chinese trade officials are laying the groundwork for a delay of a fresh round of tariffs set to kick in on December 15**, the WSJ reported. US trade advisor Navarro said he has no indication of a delay so far, though.
- **The new USMCA trade pact, replacing NAFTA, gained backing from the House of Democrats** after securing revisions and is put up for a vote next week. The trade agreement is likely to be ratified by Congress in 2020.
- **A new survey showed a narrowing lead for Boris Johnson's Conservative Party.** A rerun of the YouGov MRP polling procedure, which projected a 68-seat Tory majority two weeks ago, now predicts a majority of just 28 seats.
- **New Zealand cut its growth forecast for 2019 and 2020** as global headwinds undermine the country's economy. The government flagged **a capital spending boost** to stimulate the economy, resulting in a budget deficit this year.
- The European Commission will today present its **Green New Deal** to push for more environmentally friendly investments. However, the FT reports that **Germany already warned for loosening EU budget rules for "green spending"**.
- **The final FOMC meeting of the year is key today.** Investors will mostly focus on the Fed's plans to mitigate money market strains, with the 2020 outlook probably stable. US/Swedish CPI data are due. The US sells 30-yr Bonds.

Rates

Pressure finally off the Fed

	US yield	-1d
2	1.65	0.04
5	1.68	0.03
10	1.84	0.02
30	2.26	0.01

	DE yield	-1d
2	-0.63	0.00
5	-0.56	0.01
10	-0.30	0.01
30	0.23	0.01

Core bond trading remained confined to tight ranges yesterday, despite several potential triggers. Initial European stock market weakness (eventually erased during US dealings) was bluntly ignored, as was **a strong improvement in the December German ZEW expectations component**. That component is regarded as a leading indicator for German growth and suggests that the stabilization in the likes of e.g. PMIs might flip in recovery early 2020. Core bonds marginally grinded lower around the start of US trading as DJ reported on plans to delay Sunday's scheduled US tariff increases on Chinese goods. US government officials later all denied such plans. **US President Trump meets tomorrow with his trade committee**. The US \$24bn 10-yr Note auction was plain vanilla. The US yield curve bear steepened with yields rising by 3.8 bps (2-yr) to 1.1 bp (30-yr). German yields added 0.1 bp (2-yr) to 1.2 bps (10-yr). Greece, Ireland (both -3 bps) and Italy (-5 bps) outperformed on EMU bond markets. Most Asian stock markets eke out gains this morning with Japan slightly underperforming. The German Bund and US Note future are going nowhere. **UK Gilts could outperform after the opening following the latest YouGov poll** (see below), but we don't expect spill-over effects to other bond markets. Today's eco calendar contains **November US CPI inflation and the final FOMC meeting of the year**. Core CPI is expected to remain above the Fed's 2% target (2.3% Y/Y), stressing the larger than usual gap between this price metric and the Fed's favorite PCE deflators (core running at 1.6% Y/Y). **The Fed is forecast to keep policy rates unchanged tonight following three consecutive 25 bps rate cuts**. Fed Chair Powell is happy with the mid-cycle policy rate adjustments and will stay side-lined for coming months. The recent data strength, mainly on the domestic (labor) market, supports his case. **We think the fresh Fed dot plot will point to a flat policy rate throughout 2020, with first normalization hints remaining in 2021**. Against the background of the Fed's ongoing policy review, Powell might stress that the central bank will allow for a period of inflation overshooting to compensate before taking fresh action. Finally, the Fed might take action on a **more permanent solution to stem strains in the US money market**. Overall, Powell will probably try to stem whatever expectations around 2020 policy. **The hurdle to hike rates will remain much higher than the one to cut in case of (unexpected) fresh eco data weakness**. We don't expect any strong directional action in the US Note future. The German 10-yr yield in October broke above -0.41% resistance, improving the technical picture. **Targets of this double bottom formation are -0.25% and -0.13%**. The 38% retracement level of the Oct-Aug decline stands at -0.24%. **The US 10-yr yield trades in the upper half of the 1.43%-1.94% sideways trading channel. First tests to take out 1.94% failed. First support kicks in around 1.7%. We expect more sideways action.**



German 10-yr yield: break above -0.41% opens new range capped by -0.13% and floored by previous resistance.



US 10-yr yield: trade and data cause volatility in upper half of trading range. Short term support around 1.7%.

Currencies

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1092	0.0028
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8431	0.0015
S1	0.8500	
S2	0.8314	

EUR/USD stays resilient ahead of Fed decision

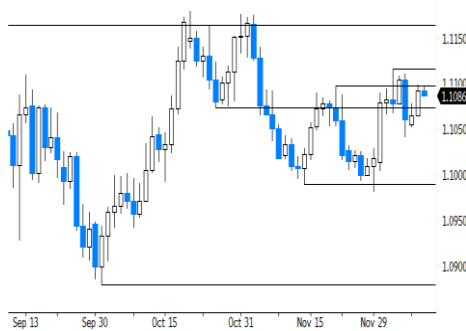
EUR/USD maintained a cautious upward yesterday. The move had only a loose link with price action in core bond and equity markets. A strong ZEW maybe was slightly euro supportive. Later, the EUR/USD rebound accelerated on headlines that the US considers delaying the December 15 deadline to impose additional tariffs on Chinese goods. The pair closed at 1.1092. EUR/JPY and USD/JPY also succeeded an intraday uptick even as (US) equities struggled. USD/JPY finished at 108.72.

This morning, Asian equities opened mostly negative, but gradually improved. A report signalled an overshoot in the Japan budget deficit to be covered by more bond sales. The news is mixed, maybe even a tentative positive for the yen. USD/JPY hovers near 108.75. EUR/USD is running into resistance as the 1.11 resistance is again with reach. The kiwi dollar eases after the recent rebound. The government cut the 2019/20 growth forecast to 2.3% but announced further fiscal stimulus.

Today's, US CPI is expected at 2.0% (from 1.8%). The core is expected unchanged at 2.3%. The dollar probably needs a big surprise as markets mainly watch the PCE deflators. Later, the Fed will likely confirm a pause after cutting rates three times. Powell will probably repeat that the economy is in a good place. Any focus on **the symmetric inflation target** might be a tentative USD negative. Even so, the FOMC communication probably won't be key for the dollar. **The focus is on other event risks** (ECB, tariffs, UK election). The outcome of the UK election and the trade talks remains binary in nature. We still see as slightly bigger chance for a euro supportive rather than a USD supportive outcome.

EUR/USD eased off the 1.11 after last week's US payrolls EUR/USD soon found its composure. The EUR/USD 1.0989/81 area looks quite solid support. The jury is still out, but we slightly prefer to sell the USD on upticks, against the euro and the yen.

Sterling held strong yesterday with EUR/GBP again drifting close to the 0.84 barrier. Overnight, a new You Gov poll caused some renewed uncertainty as it predicted a smaller Conservative majority (28 vs 68 two weeks ago). EUR/GBP returned back higher to the mid 0.84 area. Headlines on the election will continue to guide intraday sterling trading, but we don't expect a big sterling correction before the publication of the election result.



EUR/USD again nears ST resistance near 1.11+



EUR/GBP: sterling rally running into resistance as poll suggests smaller Conservative majority

Calendar

Wednesday, 11 December		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-9.20%
14:30	Real Avg Weekly Earnings YoY (Nov)	--	1.10%R
14:30	CPI MoM/YoY (Nov)	0.20%/2.00%	0.40%/1.80%
14:30	CPI Ex Food and Energy MoM/YoY (Nov)	0.20%/2.30%	0.20%/2.30%
14:30	Real Avg Hourly Earning YoY (Nov)	--	1.40%R
20:00	FOMC Rate Decision	1.50%/1.75%	1.50%/1.75%
Canada			
14:30	Capacity Utilization Rate (3Q)	82.10%	83.30%
Japan			
00:50	PPI MoM/YoY (Nov)	0.20%A/0.10%A	1.10%/-0.40%
00:50	BSI Large All Industry QoQ (4Q)	-6.2A	1.1
00:50	BSI Large Manufacturing QoQ (4Q)	-7.8A	-0.2
Sweden			
09:30	CPI MoM/YoY (Nov)	0.00%/1.70%	0.00%/1.60%
09:30	CPIF MoM/YoY (Nov)	0.00%/1.60%	0.00%/1.50%
09:30	CPIF Excl. Energy MoM/YoY (Nov)	-0.10%/1.70%	0.00%/1.70%
Events			
20:30	Powell Holds Post FOMC Meeting Press Conference		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.84	0.02	US	1.65	0.04	DOW	27881.72	-27.88	
DE	-0.30	0.01	DE	-0.63	0.00	NASDAQ	8616.184	-5.64	
BE	-0.01	0.01	BE	-0.63	0.00	NIKKEI	23391.86	-18.33	
UK	0.80	0.04	UK	0.59	0.02	DAX	13070.72	-34.89	
JP	0.01	0.02	JP	-0.10	0.01	DJ euro-50	3671.78	-0.40	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.30	1.64	0.85	Eonia	-0.4560	0.0000	Libor-1	1.7176	0.0000
5y	-0.19	1.65	0.90	Euribor-1	-0.4480	0.0030	Libor-3	1.8884	0.0000
10y	0.11	1.77	1.00	Euribor-3	-0.3930	-0.0010	Libor-6	1.8801	0.0000
				Euribor-6	-0.3330	-0.0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1092	0.0028	EUR/JPY	120.6	0.49	CRB	182.17	0.99	
USD/JPY	108.72	0.16	EUR/GBP	0.8431	0.0015	Gold	1468.10	3.20	
GBP/USD	1.3156	0.0009	EUR/CHF	1.0920	-0.0010	Brent	64.34	0.09	
AUD/USD	0.6809	-0.0014	EUR/SEK	10.5369	-0.0122				
USD/CAD	1.323	-0.0009	EUR/NOK	10.1777	0.0595				

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