



Friday, 12 April 2019

Rates: Q1 earnings might play important role in coming weeks

Today's eco calendar only contains second tier data with EMU production and Michigan consumer confidence. JP Morgan and Wells Fargo kick off Q1 earnings season. Earnings and especially corporate outlooks might play an important role in coming weeks if affected by the global growth slowdown.

Currencies: Euro resilience persists despite solid US eco data

EUR/USD dropped (temporary) off this week's top levels yesterday as the dollar was supported by higher yields and multi-year low US jobless claims. However, the EUR/USD correction was already reversed in Asia this morning. EUR/USD shorts stay in the defensive. Will EUR/USD clear the 1.13 mark today?

Calendar

Headlines

- **US equity markets** were close to unchanged yesterday with technology shares underperforming (Nasdaq -0.21%). **Asian equities** are trading mixed this morning with Chinese indices underperforming ahead of trade data.
- **France will oppose the opening of trade negotiations between the EU and US.** The Elysee said that the continuous threats of new tariffs and the decision to quit the Paris climate accord are not a good basis to start trade talks.
- **Herman Cain, US President Trump's nomination for a seat on the Fed board, is facing growing opposition.** As 4 out of 53 Republican senators publicly said not to back Cain, he would fall short of the 51 votes needed for confirmation.
- **The Reserve Bank of Australia warned for a “sharper downturn” in the global economy** in its semi-annual assessment. It also sees property prices fall further in Sydney as risks to Australian households have risen.
- The IMF said that new banking rules, emerged since the financial crisis, are keeping banks safer but that **the implications for market liquidity are worrying**. Recent abrupt gyrations in financial markets could be the “tip of the iceberg”.
- Eurogroup chief Centeno expects **a rebound in the EMU economy in the second half of 2019**, dependent on progress around Brexit and trade. He said that fundamentals remain strong and that the economic slowdown is still temporary.
- **Today's US eco calendar** only contains April University of Michigan consumer confidence. The **EMU** prints (final) industrial production figures for February. JPMorgan Chase and Wells Fargo kick off the new earnings season.

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

Earnings season to impact global trading?

	US yield	-1d
2	2.35	0.03
5	2.31	0.04
10	2.50	0.03
30	2.92	0.03

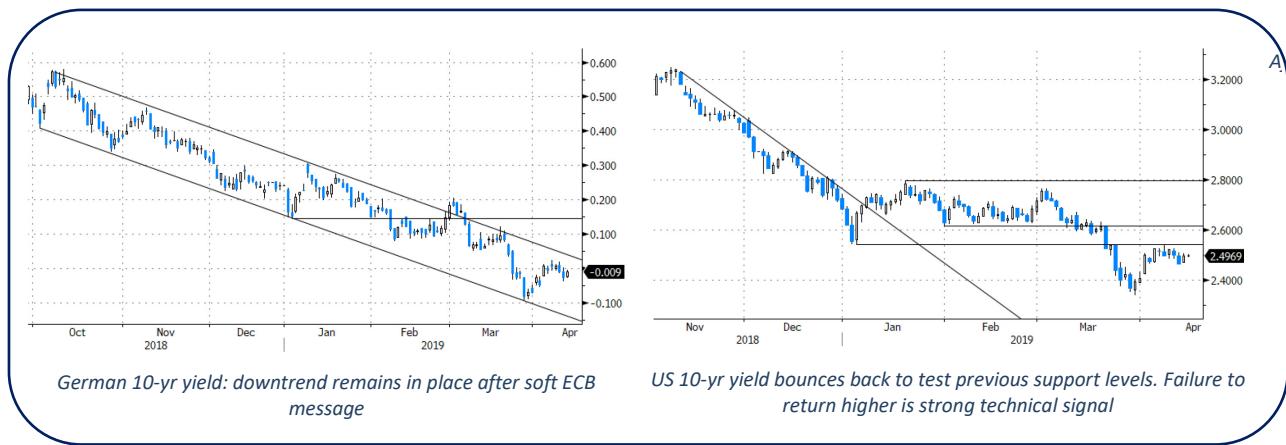
	DE yield	-1d
2	-0.58	0.01
5	-0.43	0.02
10	-0.01	0.02
30	0.63	0.01

Global core bonds declined yesterday with US Treasuries underperforming German Bunds. The real downleg occurred around the early US data releases with weekly jobless claims unexpectedly falling below the 200k mark for the first time since 1969 and (headline) producer price inflation accelerating faster than forecast (0.6% M/M, 2.2% Y/Y). (European) stock markets managed to overcome initial weakness, while Brent crude slightly drifted off cycle highs. US stocks eventually closed with minor losses. Risk sentiment didn't influence bond trading. Fed governors Brainard, Clarida, Williams and Bullard sounded unison: the bar to hike rates is very high given tepid inflation. **A rather weak 30-yr US bond auction triggered some underperformance of the very long end of the curve near the end of the US trading session.** US yields added 3.1 bps (10-yr) to 3.9 bps (5-yr) in a daily perspective. The German yield curve shifted 1 bp to 1.6 bps with the belly of the curve underperforming the wings. Peripheral yield spreads vs Germany narrowed by 5 bps to 9 bps.

Asian stock markets trade mixed this morning with China underperforming. Investors await the publication of monthly Chinese trade data. Core bonds hover sideways.

Today's eco calendar is extremely thin with only outdated EMU industrial production figures (February) and April US Michigan consumer confidence. National production data suggest upward risks compared to the -0.5% M/M consensus. Consumer confidence is forecast to stabilize at March levels which would suggest that January weakness was a one-off. JP Morgan Chase and Wells Fargo kick off Q1 earnings season. **Earnings might play an important market-driving role in coming weeks if firms start downwardly adjusting their outlook given slowing growth momentum.** We have no strong view for today's session.

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 with the all-time low (-0.2%) in sight. **Regarding Fed policy, markets now discount a 60% probability of a Fed rate cut by December.** The US 10-yr yield fell through the lower bound of the 2.5%-2.79% trading range, continuing the downward trend since the beginning of March. The previous support was retested last week, strengthening the break lower. Next support levels are the 2.3% area (intermediate) and 2% zone (key)



Currencies

R2	1.1815	-1d
R1	1.1621	
EUR/USD	1.1253	-0.0021
S1	1.1187	
S2	1.1119	

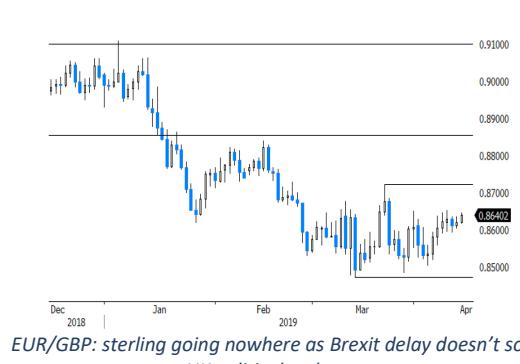
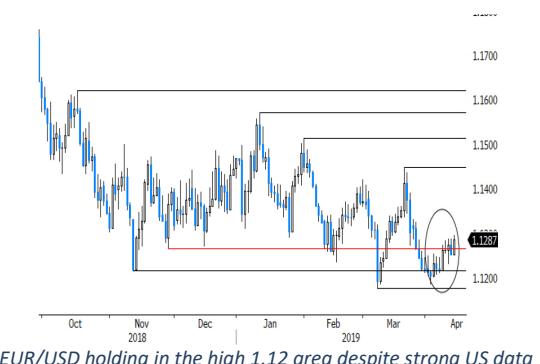
R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8621	0.0009
S1	0.8500	
S2	0.8314	

Euro shows remarkable resilience

EUR/USD initially held near 1.1285 **yesterday** despite soft comments of ECB's Draghi on Wednesday. There were no important EMU data. The US-German interest rate differential rewidened slightly in favour of the US currency. **US jobless claims** printed at a multi decade low and supported the intraday USD momentum. EUR/USD drifted off recent top (closed 1.1253). USD/JPY also rebounded (close at 111.66).

Overnight, Asian equities show no clear trend with China again underperforming. EUR/USD and EUR/JPY jumped higher. We didn't see specific news to explain the euro uptick. The move is said to be due to strong euro demand at the Tokyo fixing. EUR/USD is again trading in the 1.1290 area. USD/JPY gained a few tricks (111.75 area). Commodity related currencies like the Aussie dollar, the kiwi dollar and the Canadian dollar lost momentum yesterday as the oil rally ran into resistance. In its financial stability rapport, the RBA warns on additional risk to Australian households from elevated house prices. There was little negative impact on the Aussie dollar (AUD/USD 0.7135 area). **Today**, the EMU February production is expected to decline 0.5% M/M. The figure is outdated, but euro bulls might look for signs of bottoming after recent soft patch of the European economy. In the US, U. of Michigan consumer confidence is expected little changed after last month's rebound. **First Q1 earnings** from major US banks will set the tone for (US) equity trading. Earlier this week, the **euro was remarkably resilient** despite a soft ECB. Yesterday, EUR/USD declined (temporarily) due to overall USD strength. The jury is still out, but the overnight price action suggests that euro shorts remain in the defensive. At same time, the Fed's wait-and-see bias doesn't help the dollar. Last week, EUR/USD came close to the 1.1177/87 support, but a break didn't occur. For that to happen, big negative EMU news or surprisingly strong US data are needed. Recent evidence doesn't support this scenario. **We keep the view that a sustained EUR/USD break lower isn't evident. In case of a break above 1.13, next high-profile EUR/USD resistance comes in at 1.1448.**

EUR/GBP held a sideways consolidation pattern in the lower part of the 0.86 big figure. Markets are awaiting the next steps in the Brexit saga as the UK secured a delay on Brexit. Overnight, EUR/USD gains also spilled over into the EUR/GBP cross rate. There are no important UK eco data today. With the UK heading for a new period of domestic political uncertainty, **we see no reason to turn more positive on sterling**. We assume the EUR/GBP 0.85 support area to be solid.



Calendar

Friday, 12 April			Consensus	Previous
US				
14:30	Import Price Index MoM/YoY (Mar)		0.4%/-0.6%	0.6%/-1.3%
14:30	Import Price Index ex Petroleum MoM (Mar)		0.0%	0.1%
14:30	Export Price Index MoM/YoY (Mar)		0.2%/-	0.6%/0.3%
16:00	U. of Mich. Sentiment (Apr P)		98.2	98.4
16:00	U. of Mich. Current Conditions (Apr P)		--	113.3
16:00	U. of Mich. Expectations (Apr P)		--	88.8
16:00	U. of Mich. 1 Yr Inflation (Apr P)		--	2.5%
16:00	U. of Mich. 5-10 Yr Inflation (Apr P)		--	2.5%
EMU				
11:00	Industrial Production SA MoM/WDA YoY (Feb)		-0.5%/-0.9%	1.4%/-1.1%
China				
12APR	Imports/Exports YoY (Mar)		-0.1%/6.7%	-5.2%/-20.7%
12APR	Trade Balance (Mar)		\$7.65b	\$4.12b
Spain				
09:00	CPI EU Harmonised MoM (Mar F)		1.4%/1.3%	1.4%/1.3%
Events				
2019Q1 earnings	JPMorgan Chase (12:45), Wells Fargo (14:00) ...			
14:45	ECB's Praet Speaks in Washington			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
US	2.50	0.03	US	2.35	0.03	DOW	26143.05	-14.11
DE	-0.01	0.02	DE	-0.58	0.01	NASDAQ	7947.359	-16.88
BE	0.43	0.01	BE	-0.50	0.01	NIKKEI	21870.56	159.18
UK	1.15	0.05	UK	0.74	0.04	DAX	11935.2	29.29
JP	-0.05	0.00	JP	-0.17	0.00	DJ euro-50	3435.34	10.69
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d
3y	-0.15	2.36	1.08	Eonia	-0.3670	0.0000		
5y	0.02	2.34	1.18	Euribor-1	-0.3670	0.0000	Libor-1	2.4820
10y	0.50	2.48	1.34	Euribor-3	-0.3100	0.0000	Libor-3	2.6035
				Euribor-6	-0.2320	-0.0010	Libor-6	2.6270
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1253	-0.0021	EUR/JPY	125.66	0.51	CRB	187.33	-2.34
USD/JPY	111.66	0.65	EUR/GBP	0.8621	0.0009	Gold	1293.30	-20.60
GBP/USD	1.3058	-0.0033	EUR/CHF	1.1292	-0.0012	Brent	70.83	-0.90
AUD/USD	0.7124	-0.0047	EUR/SEK	10.453	0.0103			
USD/CAD	1.3383	0.0064	EUR/NOK	9.6062	0.0270			

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