

Friday, 14 February 2020

Rates: US data to cause slight UST outperformance

Core bond yields rebounded from an intraday dip as sentiment gradually turned better. Today's economic calendar (US retail sales, industrial production and Michigan consumer confidence) might cause some slight outperformance of US Treasuries vs. the German Bund. We expect only a minor impact from potentially disappointing EMU growth.

Currencies: EUR/USD continues fighting an uphill battle

Euro weakness rather than USD strength was still the dominant topic on global FX markets. Poor growth prospects are clouding the eco picture. Several euro cross rates dropping below important technical levels reinforced global stop-loss selling. Today's data probably won't be a big help for the euro. Sterling profits from investor speculation on fiscal spending.

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	➔

- **WS** had a turbulent Thursday, fluctuating between gains and losses amid mixed news on the coronavirus outbreak, eventually grinding lower (up to -0.43%, DJI). **Asian markets** are trading mixed with China outperforming (+0.56%).
- **S&P Global warned China**, that is currently rated A+ with a stable outlook, **could be downgraded** if the government responded to the economic consequences of the coronavirus epidemic with a spending splurge.
- **The NY Fed said it will further scale back (term) repo operations in March** after trimming the amount by \$5 bn starting next week. Thereby it reduces support to the money market that was intended to keep a lid on ST interest rates.
- **The Fed's Williams asserted the US economy is in a "very, very good place"** and expects it to grow at around trend this year. **Yet, some risks to the outlook persist** such as subdued global growth and developments like the coronavirus.
- **The IMF expects the Chinese economy to remain resilient and weather the coronavirus outbreak in the medium- to long-term.** Yet, the IMF acknowledged it remains challenging to gauge the short-term impact of the fast-moving virus.
- Ireland's centre-right party **Fianna Fail announced it doesn't consider going into a government with left-wing nationalist party Sinn Fein.** The decision is likely to prevent the latter from entering power for the first time.
- **In today's economic calendar** retail sales and consumer confidence is due. China and the US are expected to lower tariffs on respective imports. In EMU, euro area Q4 GDP is due as well as Spanish inflation. Belgium taps the bond market.

Rates

US data to cause slight UST outperformance

	US yield	-1d
2	1.44	0.00
5	1.43	-0.01
10	1.62	-0.02
30	2.05	-0.02

	DE yield	-1d
2	-0.64	-0.01
5	-0.60	-0.01
10	-0.39	-0.01
30	0.13	-0.01

Risk-off in the wake of China’s shocker corona announcement dominated trading yesterday. Sentiment gradually turned slightly for the better with stocks and core bond yields bottoming around noon, though both still finished with declines. Close-to-consensus US CPI had little impact on (bond) markets. The **NY Fed said it will further shrink repo operations starting in March** after trimming term offerings by \$5 billion starting next week. The US yield curve eventually flattened with yields barely changed at the short end of the curve but slipping up to -1.8 bps at the 30 year tenor following a solid auction (bid-to-cover 2.43). German yields were pretty much unchanged after reversing almost completely an intraday decline. Spreads vs. the German 10y yield were negligible. UK yields’ intraday bounce back was reinforced by **speculation on more fiscal spending after Chancellor of the Exchequer Javid’s resignation**.

Stocks in Asia are trading mixed. Japan underperforms following a surge in the yen yesterday. Chinese province Hubei reported an additional 4 800 corona cases, suggesting the Thursday spike (> 15 000) following a revised methodology is a one-off. NY Fed president Williams painted a rather rosy picture of the US economy during a speech. Still, US Treasuries are headed south (yield decline about 2 bps across the curve).

Today’s economic calendar heats up with the US in focus. We would err on the side of caution. Last month’s bounce in the manufacturing ISM is unlikely to be reflected already in January industrial production figures while retail sales are prone for a negative surprise after a strong December. U. of Michigan consumer confidence is likely to stay strong but the outbreak of corona might have dented sentiment somewhat. The German economy unexpectedly stagnated in the previous quarter, raising downside risks for the EMU growth figure later today. The impact on the Bund might stay limited though given the outdated character and with Q3 revised upwardly, triggering some underperformance vs. USTs.

Technically: core bond yields failed to take out resistance levels at **-0.18% (July high)/-0.15% (38% retracement of Feb ’18 – Sep ’19 decline) for the German 10-yr yield and 1.94% for the US 10-yr yield**. The Chinese coronavirus took markets hostage via risk aversion, pulling core bond yields below first support. We hold our view that this won’t be a lasting market theme. The Chinese return to trading after Lunar NY holidays proved to be a turning point. German politics remain a short term wild card.



US 10-yr yield: 1.94% proved to be tough resistance. Today’s data might keep a lid on US yields.



German 10-yr yield bounced off key support (-0.41%).

Currencies

EUR/USD fighting an uphill battle

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.0841	-0.0033
S1	1.1000	
S2	1.0879	

R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8312	-0.0079
S1	0.8275	
S2	0.8117	

Bonds and equities traded indecisively yesterday. Investors pondered incoming news on corona after China applied a new methodology of reporting. **Still, the euro downtrend remained firmly in place.** The EMU economy already suffered 'pre-corona' and last year's evidence showed EMU is vulnerable to disruptions in supply chains from China. **Technical factors were also in play.** EUR/USD, EUR/JPY and EUR/GBP more or less simultaneously dropped below technically relevant levels, reinforcing a stop-loss repositioning. The euro even struggles against some smaller currencies (PLN, NOK, HUF...). EUR/USD closed at 1.0841 (from 1.0874). USD/JPY closed at 109.82, still within reach of the 110 handle. **This morning,** Asian equities are mostly trading higher with Japan underperforming. US equity futures try to resume their uptrend after yesterday's pause. The yuan eases marginally but USD/CNY is holding below the 7.00 reference. USD/JPY stabilizes in the 108.80 area. EUR/USD remains under pressure (1.0835 area).

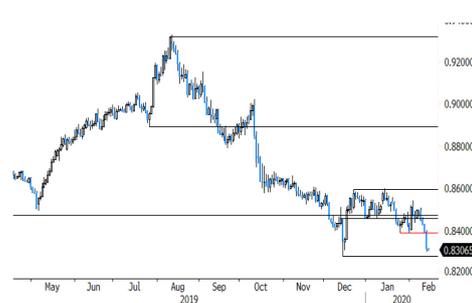
EMU growth to be published later today (expected at a meagre 0.1% Q/Q) is a bit outdated. Still, any negative surprise or poor details could raise further questions on the health of the economy already before corona and on the ECB's reaction, with **the risk of further negative implications on the euro.** In the US, retail sales, industrial production and Michigan consumer confidence will be published. We keep an eye at the retail/consumer data after a loss of momentum in Q4 consumer spending. **However, US data probably have to be quite weak to break the USD bid and to change fortunes for EUR/USD.**

The **EUR/USD** technical picture **deteriorated substantially** after breaking subsequent supports, including the 1.0879 2019 low. 1.0778 is next reference (2017 gap). A sustained rebound above 1.0879/1.0925 would be first tentative sign that pressure might be easing.

Yesterday, UK political turmoil turned out to be supportive for UK yields and for sterling. Fin Min Javid resigned after a dispute with PM Johnson. **His successor Rishi Sunak is seen as more open to a less strict budgetary approach.** Sterling extended gains after the reshuffle. Euro weakness accelerated the EUR/GBP decline to the 0.83 area. The post-election low (0.8277) is on the radar. There are no UK eco data today. Further euro weakness still might cause a retest of correction low.



EUR/USD: technical picture deteriorates after 1.0879 break.



EUR/GBP: sterling supported by hope on more fiscal spending.

Calendar

Friday, 14 February		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (Jan)	0.30%	0.30%
14:30	Retail Sales Ex Auto MoM (Jan)	0.30%	0.70%
14:30	Retail Sales Ex Auto and Gas (Jan)	0.30%	0.50%
14:30	Retail Sales Control Group (Jan)	0.20%	0.50%
15:15	Industrial Production MoM (Jan)	-0.20%	-0.30%
15:15	Capacity Utilization (Jan)	76.80%	77.00%
15:15	Manufacturing (SIC) Production (Jan)	-0.10%	0.20%
16:00	U. of Mich. Sentiment (Feb P)	99.5	99.8
16:00	U. of Mich. Current Conditions (Feb P)	114.0	114.4
16:00	U. of Mich. Expectations (Feb P)	90.0	90.5
16:00	U. of Mich. 1 Yr Inflation (Feb P)	2.40%	2.50%
16:00	U. of Mich. 5-10 Yr Inflation (Feb P)	--	2.50%
EMU			
11:00	Trade Balance SA (Dec)	19.3b	19.2b
11:00	Employment QoQ/YoY (4Q P)	--/--	0.10%/0.90%
11:00	GDP SA QoQ (4Q P)	0.10%/1.00%	0.10%/1.00%
Germany			
08:00	GDP SA QoQ/WDA YoY (4Q P)	0.10%/0.30%	0.10%/0.50%
Events			
14FEB	China and US lower tariffs on respective imports		
11:30	Belgium to Sell 2.25% 2057 Bonds and 2.15% 2066 Bonds		
17:45	Fed's Mester Discusses Payments Modernization		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.62	-0.02		US	1.44	0.00		DOW	29423.31	-128.11
DE	-0.39	-0.01		DE	-0.64	-0.01		NASDAQ	9711.968	-13.99
BE	-0.16	0.00		BE	-0.58	-0.01		NIKKEI	23687.59	-140.14
UK	0.65	0.04		UK	0.56	0.03		DAX	13745.43	-4.35
JP	-0.03	0.01		JP	-0.13	0.02		DJ euro-50	3846.74	-7.69
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.35	1.44	0.72	Eonia	-0.4560	0.0000		Libor-1	1.6501	0.0000
5y	-0.29	1.44	0.74	Euribor-1	-0.4800	-0.0100		Libor-3	1.7038	0.0000
10y	-0.04	1.57	0.82	Euribor-3	-0.4110	0.0020		Libor-6	1.7254	0.0000
				Euribor-6	-0.3570	0.0050				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.0841	-0.0033		EUR/JPY	119.06	-0.67		CRB	172.28	0.51
USD/JPY	109.82	-0.27		EUR/GBP	0.8312	-0.0079		Gold	1578.80	7.20
GBP/USD	1.3046	0.0086		EUR/CHF	1.0618	-0.0019		Brent	56.34	0.55
AUD/USD	0.6719	-0.0018		EUR/SEK	10.4873	0.0120				
USD/CAD	1.3267	0.0017		EUR/NOK	10.0297	-0.0067				

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