



**Tuesday, 14 May 2019**

### Rates: Investors flee to safe havens as China retaliates

China is not standing down and promised to retaliate with tariffs on US imports. US equities retreated heavily with investors fleeing to safe havens. US Treasuries heavily outperformed other core bonds. Sentiment eased overnight, but we remain cautious on further improvement. Today's eco calendar will need to take investors off-guard in order to have an impact.

### Currencies: USD decline takes a breather, at last for now.

The USD was captured in a new selling wave yesterday as China retaliated on last week's US tariffs hike. The dollar lost further interest rate support as markets anticipate a Fed rate cut later this year. Overnight, trade tension show tentative signs of cooling down. If so, the dollar might enter calmer waters, at least temporary.

### 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	

- **The US-Sino tit-for-tat trade war dealt a huge blow to stock markets yesterday with US indices losing 2.4% to 3.4%.** Losses on Asian markets are smaller this morning as remarks by US President Trump bring some minor reprieve.
- After first threatening to impose tariffs on another \$300bn worth of Chinese goods in one month's time, **US President Trump said that he has a feeling that trade talks are going to be very successful** in about 3 or 4 weeks.
- **Boston Fed Rosengren**, voter, warned that the accelerating trade war is **increasing the risk of something bad happening to the US economy.** Therefore it's wise to keep rates steady for now.
- **UK PM May's cabinet meets today to assess Brexit talks with Labour.** Key opposition demands, customs union & referendum on any deal, are probably insurmountable. A new series of Commons votes on Brexit options is then likely.
- The Financial Times reports that **global market regulators are beginning to offer big concessions to help banks struggling away from Libor.** They would be allowed to develop new rates to more closely match funding and lending costs.
- **Facebook is raising its minimum wage for contract workers** from \$15/hour to \$18 or \$20 because current standards are no longer enough for those who live in expensive areas like the San Francisco Bay Area.
- **Today's economic calendar** contains UK labour market data, German ZEW investor sentiment, US NFIB small business optimism and export/import prices. Italy taps the bond market. ECB Villeroy, Fed Williams and Fed George speak.

# Rates

## Investors flee to safe havens as China retaliates

### Global core bonds spurred higher yesterday with a clear outperformance of US Treasuries.

Market sentiment was grim at the start of the week as the US and China had raised the ante over the weekend after the US tariff increase on Friday. Investors turned to safe haven assets, including core bonds. Just before the US opening bell, China announced it would retaliate by targeting \$60bn of US imports. Some local Chinese media added that China, a large and important purchaser of US public debt, is discussing the possibility of dumping US Treasuries. US equities fell at the opening and eventually closed yesterday's session with losses around 2-3%. **The US yield curve moved lower with yield changes varying between -5.1 bps (30-yr) and -8.0 bps (5-yr).** Outperformance at the short-end of the curve indicates investors are expecting the Fed to lower its policy rate sooner rather than later. The Fed funds futures fully priced in a cut by Q1 next year. Meanwhile, the EU is preparing a list of possible US goods to slap tariffs on in case the US imposes levies on car imports. **The German yield curve bull flattened with changes up to -3.8 bps (30-yr).**

**Risk-off continues across Asia overnight, although with clear signs of moderation.** US President Trump said he will know more in three or four weeks if China talks are leading somewhere but added that he thinks "it's going to be very successful". Both US Treasuries and German Bunds are cautiously retreating this morning, but the jury is still out.

**The trade story will continue to dominate trading today.** The US walking the talk is the last thing the fragile global economy can use right now. The increase of US tariffs and China immediately retaliating suggests **a deal is not to be expected short-term. We hold our positive bias towards core bonds. The correction lower on stock markets has room to go further.** Today's economic calendar will have to take investors off-guard to play a role. The US prints NFIB Small Business Optimism for April, while the UK prints March labour data. Germany releases the ZEW survey results and the April Final CPI. Sweden publishes inflation data (April). Fed's Williams and George take the stance.

**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 are now largely discounting a Fed rate cut by December.** The US 10-yr yield earlier this month temporarily returned above the lower bound of the previous 2.5%-2.79%. However, the cycle low (2.34% is again on the radar).



# Currencies

R2	1.1815	-1d
R1	1.1621	
EUR/USD	1.1222	-0.0011
S1	1.1110	
S2	1.0864	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8660	0.0021
S1	0.8500	
S2	0.8314	

## Dollar sell-off to take a breather?

Investors yesterday awaited the next steps in the US China trade war. This next step occurred early in US dealings as China imposed reciprocal measures against last week's US tariffs hike. US yields and the US-German rate differential declined sharply as markets prepared for Fed rate cuts. The dollar took another hit. However, the US currency soon found a floor. Especially, the loss against the euro was reversed quite easily, probably as markets realised that the trade fall-out on Europe will also be substantial. EUR/USD even closed slightly lower at 1.1222. USD/JPY closed at 109.30 (from 109.95)

**This morning**, Asian equities show modest losses as president Trump gave some 'comforting comments' even as the US is still preparing additional tariffs. The trade-weighted dollar stabilizes near 97.30. USD/JPY rebounds (109.65 area), but so does EUR/USD (1.1240 area). The yuan basically stabilizes (USD/CNY 6.8725 area). China apparently doesn't seek further yuan weakness as a weapon in the trade war.

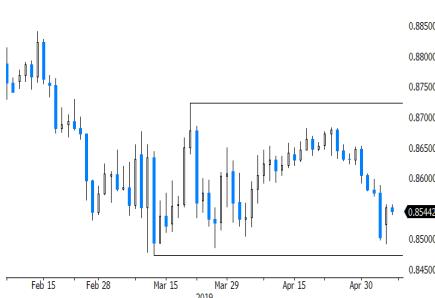
The final German final CPI is expected at 2.1% Y/Y. ZEW confidence is forecast to improve from 3.1 to 5. A downward surprise, especially for the CPI might ease the euro positive momentum. US NFIB small business confidence and import prices will be released. **Price action suggests the trade war narrative is turning less aggressive, allowing investors to take a breather after the risk sell-off.**

Last week, the trade dispute weighed more on the USD than on the euro (and the yen) as markets see a rising chance for Fed cuts as tensions might undermine US growth. However, the USD decline slowed yesterday. EMU growth is also at risk. In this context, it isn't evident to see sustained euro outperformance. We expect the EUR/USD 1.11/1.14 range to hold. **Intermediate resistance is coming in at 1.1265 (almost tested yesterday) and 1.1324.**

Yesterday, **EUR/GBP drifted higher in the 0.86 big figure.** Initially, the moves in EUR/GBP and cable were at least partially USD and/or euro driven. Still underlying sentiment on sterling remained weak as markets saw momentum in the Brexit talks between labour and the government further eroding. Today, the **UK labour data** will be published. We doubt the rapport will be able to help sterling. **The stalemate in the Brexit talks and rising tensions in the conservative party on PM May's position will probably keep sterling in the defensive.** 0.8682 resistance and the 0.8722 MT range top are within reach.



EUR/USD: dollar decline to slow, at least temporary?



EUR/GBP nearing MT range top as momentum in Brexit talks is eroding.

# Calendar

Tuesday, 14 May		Consensus	Previous
<b>US</b>			
12:00	<b>NFIB Small Business Optimism (Apr)</b>	<b>102</b>	<b>101.8</b>
14:30	Import Price Index MoM/YoY (Apr)	0.70%/0.30%	0.60%/0.00%
14:30	Import Price Index ex Petroleum MoM (Apr)	0.20%	0.20%
14:30	Export Price Index MoM/YoY (Apr)	0.60%/-	0.70%/0.60%
<b>Japan</b>			
01:50	BoP Current Account Adjusted (Mar P)	A: ¥1271.0b	R: ¥1896.7b
07:00	Eco Watchers Survey Current SA (Apr)	A: 45.3	44.8
07:00	Eco Watchers Survey Outlook SA (Apr)	A: 48.4	48.6
<b>UK</b>			
10:30	Claimant Count Rate (Apr)	--	3.00%
10:30	Jobless Claims Change (Apr)	--	28.3k
10:30	Average Weekly Earnings 3M/YoY (Mar)	3.40%	3.50%
<b>10:30</b>	<b>Weekly Earnings ex Bonus 3M/YoY (Mar)</b>	<b>3.30%</b>	<b>3.40%</b>
<b>10:30</b>	<b>ILO Unemployment Rate 3Mths (Mar)</b>	<b>3.90%</b>	<b>3.90%</b>
10:30	Employment Change 3M/3M (Mar)	140k	179k
<b>EMU</b>			
11:00	Industrial Production SA MoM/WDA YoY (Mar)	-0.3%/-0.8%	-0.2%/-0.3%
11:00	ZEW Survey Expectations (May)	--	4.5
<b>Germany</b>			
08:00	CPI EU Harmonized MoM/YoY (Apr F)	1.00%/2.10%	1.00%/2.10%
08:00	Wholesale Price Index MoM/YoY (Apr)	-/-	0.3%/1.8%
11:00	ZEW Survey Current Situation (May)	6.3	5.5
<b>11:00</b>	<b>ZEW Survey Expectations (May)</b>	<b>5</b>	<b>3.1</b>
<b>Sweden</b>			
06:00	PES Unemployment Rate (Apr)	--	3.60%
09:30	CPI MoM/YoY (Apr)	0.70%/2.10%	0.20%/1.90%
09:30	CPIF MoM/YoY (Apr)	0.60%/2.00%	0.20%/1.80%
<b>09:30</b>	<b>CPIF Excl. Energy MoM/YoY (Apr)</b>	<b>0.60%/1.60%</b>	<b>0.30%/1.50%</b>
<b>Events</b>			
09:00	ECB's Villeroy speaks in Paris		
<b>09:15</b>	<b>Fed's Williams Speaks at SNB/IMF Event in Zurich (voter)</b>		
11:00	Italy to Sell Bonds (1% 2022, 2.1% 2026 & 3.85% 2049)		
<b>18:45</b>	<b>Fed's George Speaks to Economic Club of Minnesota (voter)</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2.40	-0.07	US	2.19	-0.08	DOW	25324.99	-617.38	
DE	-0.07	-0.03	DE	-0.63	-0.01	NASDAQ	7647.024	-269.92	
BE	0.44	0.00	BE	-0.51	0.00	NIKKEI	21067.23	-124.05	
UK	1.10	-0.03	UK	0.71	-0.03	DAX	11876.65	-183.18	
JP	-0.05	0.00	JP	-0.16	0.00	DJ euro-50	3320.78	-40.27	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.16	2.21	1.03	Eonia	-0.3680	-0.0030			
5y	-0.01	2.21	1.13	Euribor-1	-0.3660	0.0010	Libor-1	2.4490	0.0000
10y	0.45	2.37	1.28	Euribor-3	-0.3110	-0.0020	Libor-3	2.5279	0.0000
				Euribor-6	-0.2310	0.0000	Libor-6	2.5870	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1222	-0.0011	EUR/JPY	122.68	-0.84	CRB	177.64	-1.31	
USD/JPY	109.3	-0.65	EUR/GBP	0.8660	0.0021	Gold	1301.80	14.40	
GBP/USD	1.2958	-0.0040	EUR/CHF	1.1294	-0.0075	Brent	70.23	-0.39	
AUD/USD	0.6944	-0.0058	EUR/SEK	10.8182	0.0209				
USD/CAD	1.3478	0.0061	EUR/NOK	9.8383	0.0485				

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