



Sunrise

Monday, 14 October 2019

Rates: Tentative trade truce & Brexit progress weigh on bonds

Core bonds sold off last Friday as trade and Brexit negotiations made some progress. The Fed announced a more permanent fix for strains on US money markets. Most US markets are closed for Columbus Day today. Sentiment might be less ebullient as EU officials tempered progress made with time running out ahead of this week's key EU Summit.

Currencies: EUR/USD shows only limit follow-through gains beyond 1.10

The risk rebound last week supported USD/JPY and EUR/USD. EUR/USD regained the 1.10 barrier. However, the positive impact of the US-China deal on global (and EMU growth) will probably remain limited. The EUR/USD rebound might slow. Last week's sterling rally also meets resistance as there is still a lot of Brexit work to do ahead of this week's EU Summit.

Calendar

Headlines

- **WS** closed the week in green (+1.09%) as easing Sino-US trade tensions and a thaw in the Brexit deadlock have sparked renewed optimism. **Asian markets** pushed higher, with China outperforming (+1.37%).
- **US and China agreed to a partial deal** as Washington announced the suspension of a tariff hike, due to start next week, on Chinese imports in exchange for some concessions from the Asian nation, primarily on agricultural purchases.
- **Brexit-deal optimism fades this morning** after EU's chief Brexit negotiator Barnier told diplomats that **Boris Johnson's Brexit plan isn't good enough to be the basis of a deal** as the proposals were too complex and lacked detail.
- **The Fed will start buying \$60 billion per month in Treasury bills at least into the second quarter of 2020** to ensure "ample reserves" in the banking system, but stressed the new program does not mark a change in monetary policy.
- **China's imports and exports shrank more than expected in September**, leaving a trade surplus of \$39.65 billion (consensus at \$34.75 billion) as existing US tariffs and the ongoing slowdown in global trade continue to drag on demand.
- **Hungarian PM Orban's Fidesz' candidate lost a Budapest mayoral election** against the joint opposition contender. **In Poland, early results suggest that the ruling and conservative Law & Justice party has retained its majority.**
- **Today's economic calendar** is centred around the eurozone's the industrial production numbers for August. BoE's deputy governor Cunliffe is scheduled to speak on UK monetary policy. In the US, markets are closed for Columbus Day.

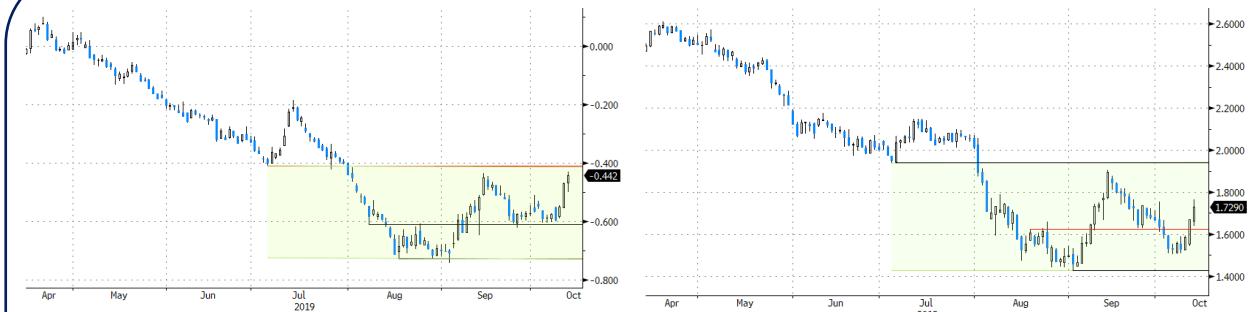


Rates

Tentative trade truce & Brexit progress weigh on bonds

Global core bonds sold off last Friday as white smoke emerged both from Brexit and from US-Sino trade talks. The first selling wave originated in the UK Gilt market after key political actors confirmed Thursday's progress made by UK PM Johnson and Irish PM Varadkar, taking negotiations to a higher level. General risk sentiment flared and turned even more upbeat after Washington trade talks resulted in a partial trade accord, yet to be put on paper, on IP, financial services and agriculture. US Treasury Mnuchin added that planned tariff increases won't be implemented this week. US Treasuries underperformed German Bunds towards the end of dealings. US yields rose by 3.3 bps (30-yr) to 6.6 bps (5-yr) on a daily basis. The German yield curve steepened with yield differences ranging between -0.9 bps (2-yr) and +5.1 bps (30-yr). 10-yr yield spread changes vs Germany narrowed by up to 4 bps with Ireland (-7 bps) outperforming. **The US Fed also announced around the European close a more permanent fix to control the level of the federal funds rate and other short-term interest rates.** The Fed will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019. The initial pace will be \$60bn/month. In addition, it will extend overnight repo operations (at least \$75bn/operation) at least through January of next year while also offering multiday repos of at least \$35bn/month, generally twice a week. **Asian stock markets** trade positive with China and South Korea (>1%) outperforming and Japan closed for Health-Sports Day. The move is mainly a catching up one with Europe and WS last Friday. Core bonds are positively oriented this morning. **Dismal September Chinese trade data and the EU pouring cold water over Johnson's Brexit proposal both dampen Friday's party mood.** Today's eco calendar only contains outdated EMU industrial production figures. **Most US markets are closed for Columbus Day.** The tentative trade truce will be overshadowed by Brexit talks in the run-up to this week's EU Summit. Friday's optimism – which nevertheless ended on a sour note for US stock indices – will be tested. **Without additional news, we think the German 10-yr yield will run into resistance. US trade volumes will be extremely low.**

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Both fell short of really testing first resistance levels, respectively at -0.41% and 1.94% as disappointing eco data ended the run. Bullish risk sentiment now causes a return to the upper bounds. Going forward, we expect range trading with August lows protecting the downside (German 10y: -0.73%; US 10y: 1.43%).



German 10-yr yield: turning higher within sideways trend channel between -0.73% and -0.41%

US 10-yr yield: sideways range between 1.43% and 1.94%. Drift to lower bound stopped by fresh trade optimism

Currencies

EUR/USD: few follow-through gains beyond 1.10

Friday's positive expectations on a US-China trade truce supported a continuation of the risk rebound. The move was mainly visible in equities and in core yields. Initially, EUR/USD, USDJPY and EUR/JPY joined the risk rally, but the move slowed later as a limited agreement was revealed. Especially EUR/USD reversed part of its earlier gains. The US-German interest rate differential also rewidened. EUR/USD finished at 1.1042 (1.1005 on Thursday). USD/JPY closed at 108.29 (from 107.98).

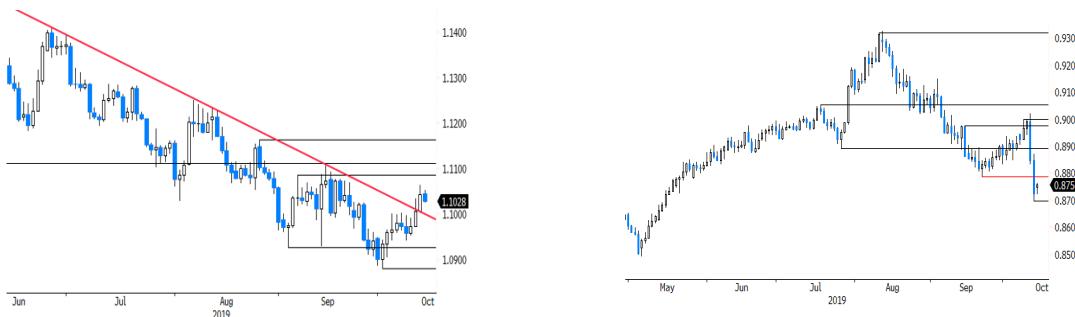
Overnight, Asian equities mostly show gains of 1%+ as investors try to make their view on the LT impact of the 'trade agreement'. The yuan strengthens (USD/CNY 7.0550) even as China September import and export data disappointed. USD/JPY (108.30/35 area) maintains most of its recent gains. EUR/USD 1.1030 shows no clear trend. Japanese markets are closed.

Today, EMU August production is expected to rebound (0.3% M/M), but won't change expectations on sluggish growth. Most US markets are closed in observance of the Columbus Day holiday. **Investors obviously aren't convinced that the US-China deal will remove uncertainty on global growth**. So, the risk rebound might soon peter out. Amongst others, the focus will turn to the earnings season, Brexit and new incoming data.

Last week's risk rebound helped EUR/USD to regain the 1.10 area.

However, the break didn't trigger meaningful follow-through gains. **An easing in the trade tensions** might provide some comfort for the export-reliant EMU economy, but growth prospects will probably remain mediocre, at best. At the same time, it might also reduce the chance for further aggressive Fed easing. We look out whether EUR/USD can hold north of the 1.10 area. If so, it could signal a more neutral ST bias. However, we're not convinced this will be the start of a protracted EUR/USD up-leg. **1.1110 is the next reference on the charts.**

Sterling rallied further on Friday as markets saw the positive tone of Thursday's meeting between UK PM Johnson and Irish PM Varadkar as raising the chance for a deal. EUR/GBP dropped to the 0.87 area. During the weekend, practical stumbling blocks regarding trade flows and on the Irish border resurfaced. Parties involved admit that still quite some work has to be done in the run-up to the EU summit. A final solution, if any, probably will only be reached last minute. In this context, further sterling gains might become more difficult.



EUR/USD: tries to sustain above key trendline.

EUR/GBP: GBP rally slows as plenty of work is till to be done

Calendar

Monday, 14 October			Consensus	Previous
US				
	US markets closed for Columbus Day			
EMU				
11:00	Industrial Production SA MoM/WDA YoY (Aug)		0.3%/-2.5%	-0.4%/-2.0%
China				
14OCT	Trade Balance (Sep)		\$34.75b	\$34.84b
14OCT	Imports/Exports YoY (Sep)		-8.5%A/-3.2%A	-5.6%/-1%
11OCT-15OCT	Aggregate Financing CNY (Sep)		1900.0b	1980.0b
11OCT-15OCT	Money Supply M2 YoY (Sep)		8.2%	8.2%
Sweden				
06:00	PES Unemployment Rate (Sep)		3.8%A	3.8%
Events				
14OCT	UK's Queen Elizabeth II opens a new session of Parliament			
09:15	ECB's De Guindos, Hernandez de Cos speak in Madrid			
14:10	BOE's Cunliffe Speaks on Monetary Policy in London			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.73	0.06	US	1.59	0.05	DOW	26816.59	319.92	
DE	-0.44	0.03	DE	-0.72	-0.01	NASDAQ	8057.039	106.26	
BE	-0.14	0.01	BE	-0.65	-0.02	NIKKEI	21798.87	0.00	
UK	0.71	0.12	UK	0.55	0.08	DAX	12511.65	347.45	
JP	-0.18	0.00	JP	-0.29	0.00	DJ euro-50	3569.92	75.96	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.41	1.58	0.79	Eonia	-0.4670	0.0000			
5y	-0.33	1.55	0.80	Euribor-1	-0.4730	-0.0070	Libor-1	1.9135	-0.0078
10y	-0.02	1.65	0.87	Euribor-3	-0.4180	0.0000	Libor-3	2.0009	0.0148
				Euribor-6	-0.3580	0.0170	Libor-6	1.9756	0.0401
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1042	0.0037	EUR/JPY	119.71	0.88	CRB	176.04	2.46	
USD/JPY	108.29	0.31	EUR/GBP	0.8724	-0.0123	Gold	1488.70	-12.20	
GBP/USD	1.2668	0.0225	EUR/CHF	1.1006	0.0034	Brent	60.51	1.41	
AUD/USD	0.6794	0.0033	EUR/SEK	10.8269	-0.0045				
USD/CAD	1.3203	-0.0088	EUR/NOK	10.0233	-0.0186				

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