



Tuesday, 16 April 2019

Rates: Wait-and-see

Friday's profit taking move on core bond markets didn't continue yesterday. Investors hold a wait-and-see approach ahead of key data later this week, including Chinese GDP, EMU PMI's and US retail sales. First non-financials publish Q1 results today and might set the tone for the rest of earnings season while affecting general risk sentiment.

Currencies: EUR/USD settles cautiously above 1.13

EUR/USD managed a close just above 1.13 yesterday but the situation is fragile. The turnaround in growth sentiment last week did not find full confirmation in yesterday's earnings and data. The earnings season will stay crucial for risk sentiment but we expect market moves to be rather muted ahead of important data later this week.

Calendar

Headlines

- **US equity markets** closed yesterday's session close to unchanged, recovering from intraday losses. **Asian equities** are largely trading higher this morning with Chinese indices outperforming and Japanese bourses lagging behind.
- **Chicago Fed president Charles Evans sees the federal fund rate unchanged into the fall of 2020** as inflation has been below the 2% target. Would core inflation move down to 1.5%, Evans said **a rate cut** could be needed.
- **François Villeroy**, ECB member and loudest critic of the ECB's negative interest-rate policy, said **the benefit of the measure still outweighs the drawbacks**. He added that if the measure has side effects, mitigation measures could be taken.
- **The Reserve Bank of Australia has discussed interest-rate cuts in a review of policy scenarios**, according to the April 2 board meeting minutes. The RBA concluded that there is "no strong case" for adjustments in the near term.
- **Toshimitsu Motegi, Japan's Minister of Economy said he had constructive talks with his US Trade Rep. Lighthizer**, but stressed that talks regarding currency rates should be held off for now and be discussed between finance ministers.
- **Khalifa Haftar**, Eastern Libyan and ex-general of dictator Gaddafi, **tried to stage a coup by issuing an arrest warrant for Libyan PM** Fayez al-Serraj. Haftar's troops advanced to Tripoli two weeks ago, but failed to take control of the capital city.
- **Today's US eco calendar** contains the NAHB Housing Market Index (Apr). The UK prints labour data (Feb), while the ZEW investor sentiment for the EMU and Germany will be released. Fed's Kaplan and ECB's Nowotny speak.

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

First non-financials earnings indicative for Q1 results?

	US yield	-1d
2	2.39	0.00
5	2.37	-0.01
10	2.55	-0.01
30	2.97	-0.01

	DE yield	-1d
2	-0.56	0.00
5	-0.38	0.00
10	0.06	0.00
30	0.72	0.01

Global core bonds stabilized yesterday following Friday's profit taking move.

News flow was thin apart from a mixed US empire manufacturing business survey. Stock markets floated between small gains (Europe) and losses (US) with Brent crude showing early signs of topping off. **Chicago Fed governors Evans and ECB Villeroy spoke after European close.** Evans, a dove, currently sees rates on hold until the fall of 2020. He added though that policy would actually be restrictive if core inflation (currently 1.8% Y/Y) were to move down to 1.5% Y/Y. That would naturally call for a lower funds rate, he said. ECB Villeroy was the strongest advocate of changing/reviewing the central bank's negative interest rate policy because of side-effects with regard to financial stability. Somewhat surprising, he argued that the benefits of this policy still outweigh the drawbacks. Their comments didn't trigger dovish repositioning in short term rate markets. Daily changes on the German yield curve were close to unchanged with the very long end of the curve underperforming (30-yr: 1.2 bps). US yields shed 0.1 bp (2-yr) to 1.1 bp (10-yr). 10-yr yield spreads vs Germany widened by 1 bp to 4 bps (Italy).

Asian stock markets are positively oriented overnight with China outperforming.

The US Note future trades directionless with the Bund underperforming. **Today's eco calendar contains German ZEW investor sentiment (April), US industrial production (March) and US NAHB housing index (April).** Risks for the ZEW are probably on the upside because of the strong stock market rebound early April. US production data will probably remain soft in light of global weakness in mainly external demand. The housing index could show more signs of bottoming out. **Data probably won't push markets in one specific direction. Speeches by ECB Nowotny and Fed Kaplan are wildcards for trading.** Johnson & Johnson, BlackRock and Netflix are amongst the firms reporting Q1 earnings today. **Earnings might play an important market-driving role in coming weeks depending on whether or not firms downwardly adjust their outlook given slowing growth momentum.**

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 now discount a 40% probability of a Fed rate cut by December.** The US 10-yr yield fell closed above the lower bound of the previous 2.5%-2.79% trading range. A confirmation would turn the technical picture more neutral again.



German 10-yr yield: downtrend remains in place so far. Upward break would turn the picture more neutral with -0.1%-0.15% the new trading range



US 10-yr yield manages to regain previous support after several failed tests. Confirmation would suggest return to old trading band.

Currencies

R2	1.1815	-1d
R1	1.1621	
EUR/USD	1.1304	0.0005
S1	1.1187	
S2	1.1119	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8630	-0.0011
S1	0.8500	
S2	0.8314	

EUR/USD cautiously settles above 1.13

Dollar volatility was very limited at the start of week. The dollar initially stayed in the defensive. EUR/USD retested Friday's intraday high (around 1.1320) multiple times going into US dealings but the move lacked momentum. New (US) earnings and data (NY manufacturing index) were insufficient to sustain Friday's rally of optimism. Risky assets (equities) and oil lost modest ground, the dollar recouped some of the previous losses. EUR/USD eventually closed virtually unchanged and was able to hold on to the 1.13-barrier. USD/JPY managed a close above 112.

Asian markets are trading mostly in positive territory following a lacklustre US session. The Aussie dollar took a hit after minutes of the central bank revealed a rate cut would "likely be appropriate" if inflation does not increase and unemployment rises. AUD/USD slipped from 0.715. EUR/USD hovers around 1.13. USD/JPY again fell just below 112.

In today's economic calendar we'll watch for the German ZEW investor sentiment to leave the sub zero area behind. Markets expect an uptick from -3.6 to 0.5. Risks are on the upside given the strong equity performance during the survey period. In the US the NAHB housing market index and March industrial data is worth watching. Investors will look for signs of (hard and soft) data to bottom out after a weaker series. We're also keeping an eye at the first set of high profile Q1 non-financial earnings. But market positioning might stay muted ahead of tomorrow's Chinese Q1 GDP (and EMU PMI's on Thursday).

In a broader perspective the euro drifts further away from the 1.1177/87 support, despite a soft ECB. EUR/USD even recaptured the 1.13 level although the situation is fragile. Global economic sentiment has turned for the better recently. Last week's price actions shows the euro is still net benefiter of such circumstances. We watch for Q1 earnings/guidance, Chinese GDP and EMU PMI's to confirm that turnaround. We maintain the view that a EUR/USD break lower ST isn't evident given the Fed's wait-and-see bias unless surprisingly weak/strong EMU/US data. **In case of a sustained break above 1.13, next high-profile EUR/USD resistance comes in at 1.1448.**

Sterling found itself in calm waters yesterday. Talks between May and Corbyn are ongoing but little news escapes the room. EUR/GBP edged lower to around 0.862 (down from 0.865) during a predominantly technical trading session. Brexit has been postponed but the impasse remains. **We see little reasons to turn more positive on the pound and assume the EUR/GBP 0.85 support area to be solid.**



EUR/USD holds on to the 1.13 level but the situation is fragile as markets look for confirmation of the sentiment turnaround.



EUR/GBP set for more technical and headline driven trading as the Brexit impasse persists.

Calendar

Tuesday, 16 April		Consensus	Previous
US			
15:15	Industrial Production MoM (Mar)	0.2%	0.0%R
15:15	Manufacturing (SIC) Production (Mar)	0.1%	-0.4%
16:00	NAHB Housing Market Index (Apr)	63	62
UK			
10:30	Claimant Count Rate (Mar)	--	2.9%
10:30	Jobless Claims Change (Mar)	--	27.0k
10:30	Average Weekly Earnings 3M/YoY (Feb)	3.5%	3.4%
10:30	Weekly Earnings ex Bonus 3M/YoY (Feb)	3.4%	3.4%
10:30	ILO Unemployment Rate 3Mths (Feb)	3.9%	3.9%
10:30	Employment Change 3M/3M (Feb)	181k	222k
EMU			
11:00	Construction Output MoM/YoY (Feb)	--/--	-1.4%/-0.7%
11:00	ZEW Survey Expectations (Apr)	--	-2.5
Germany			
11:00	ZEW Survey Current Situation (Apr)	8.5	11.1
11:00	ZEW Survey Expectations (Apr)	0.5	-3.6
Events			
2019Q1 earnings	Johnson & Johnson (12:45), BlackRock (bef-mkt), Netflix (22:00) ...		
02:00	Fed's Rosengren Speaks at Davidson College in North Carolina (voter)		
15:50	ECB's Nowotny Speaks at Event in New York City		
20:00	Fed's Kaplan Speaks at Community Forum in New Mexico (non-voter)		

Tuesday, 10 April 2018

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2.55	-0.01		US	2.39	0.00	DOW	26384.77	-27.53
DE	0.06	0.00		DE	-0.56	0.00	NASDAQ	7976.012	-8.15
BE	0.52	0.02		BE	-0.46	0.01	NIKKEI	22221.66	52.55
UK	1.22	0.01		UK	0.79	0.01	DAX	12020.28	20.35
JP	-0.02	0.00		JP	-0.15	0.00	DJ euro-50	3450.46	2.63
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.13	2.43	1.13	Eonia	-0.3660	-0.0020			
5y	0.06	2.41	1.24	Euribor-1	-0.3670	0.0000	Libor-1	2.4774	0.0000
10y	0.55	2.55	1.41	Euribor-3	-0.3100	0.0000	Libor-3	2.6010	0.0000
				Euribor-6	-0.2310	0.0010	Libor-6	2.6378	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1304	0.0005		EUR/JPY	126.65	0.08	CRB	187.41	-0.95
USD/JPY	112.04	0.02		EUR/GBP	0.8630	-0.0011	Gold	1291.30	-3.90
GBP/USD	1.31	0.0026		EUR/CHF	1.1350	0.0023	Brent	71.18	-0.37
AUD/USD	0.7173	0.0000		EUR/SEK	10.4773	0.0037			
USD/CAD	1.3367	0.0044		EUR/NOK	9.6032	0.0137			

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