



**Tuesday, 17 April 2018**

## Rates: Consolidation on core bond markets continues

Risk sentiment and speeches by Fed governors will probably set the tone for today's trading session. Fed governors are expected to keep the scenario of at least 2 additional rate hikes this year alive. We have a minor downward bias for core bonds today, but within the established sideways consolidation ranges.

## Currencies: Dollar stays in the defensive

Geopolitical tensions eased yesterday. US equities outperformed and US yields rose slightly. However, it couldn't help the dollar. A mercantile approach of US president Trump supports the view that the US likes a weaker dollar. Focus for USD trading is on Fed's Williams' assessment today. Sterling traders will keep a close eye at the UK labour data.

## 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	→

- **US stock markets outperformed yesterday, closing up to 0.8% higher.** Netflix reported strong Q1 earnings after the close, putting US equity futures in the green overnight. **Asian equity indices are mixed with China underperforming.**
- US President Trump revealed his latest picks to fill empty seats on the Fed Board, saying he would nominate Columbia University economist **Clarida as vice chairman and Kansas banking regulator Bowman as a governor.** (WSJ)
- **China's economic expansion held up in Q1 (6.8% Y/Y)** amid robust consumer spending (10.1% Y/Y), underpinning global growth, while the industrial sector showed signs of modest slowdown (6% Y/Y).
- The Washington Post reports that **President Trump pit the brakes on a preliminary plan to impose additional economic sanctions on Russia,** walking back a Sunday announcement by US Ambassador to the UN Haley.
- **China's holdings of US Treasuries rose in February,** as net new foreign purchases increased to their largest since May 2017, data from the Treasury Department showed.
- **Australia's central bank saw scant reason to raise interest rates this month given inflation remained below target** and likely to remain subdued in the face of sluggish wage growth. (Reuters)
- **Today's eco calendar** contains German ZEW investor confidence, US housing starts, building permits and industrial production. Fed governors Williams, Quarles, Harker, Evans and Bostic are scheduled to speak.

# Rates

## Risk sentiment and Fed speeches will set the tone

	US yield	-1d
2	2,38	0,02
5	2,69	0,01
10	2,83	0,00
30	3,03	0,00

Global core bonds had a strange opening session of the week. They initially lost ground as geopolitical tensions eased slightly during the weekend, but soon found a bottom, gradually returning to opening levels during US trading. Mixed to disappointing US eco data and improving US risk sentiment played no role of significance. The German yield curve bear steepened with yields 0.5 bps (2-yr) to 1.4 bps (30-yr) higher. The US yield curve flattened with yield changes varying between +2.1 bps (2-yr) and -0.3 bps (30-yr). Dovish Fed governor Kashkari sounded supportive of interest rate hikes given fiscal stimulus. 10-yr yield spread changes vs Germany narrowed 1 to 2 bps with Greece outperforming (-7 bps).

	DE yield	-1d
2	-0,58	0,00
5	-0,08	0,01
10	0,53	0,01
30	1,20	0,01

Most risk barometers point to a neutral opening to today's session. Only Chinese equities underperform for a second straight session. US President Trump nominated two new Fed governors, including a vice chair (still subject to Senate confirmation), Richard Clarida, who is known as an inflation hawk. He might flip the balance in the dot plot to 3 additional hikes this year. Markets didn't react to the news though.

Today's eco calendar contains German ZEW investor sentiment, US housing data and US industrial production. Recent sentiment indicators disappointed in EMU, suggesting a bigger setback than the projected 88 (current) and -1 (expectations) in the ZEW-indicator. The US data on the agenda generally don't draw that much of attention. Risk sentiment and Fed speakers will be key. The US is said to delay imposing additional sanctions on Russia, suggesting a further short term improvement of risk sentiment. Regarding central bankers, we especially eye the speech by SF Fed President Williams who will be bumped to the head of the NY Fed and probably keeps the door open to at least 2 more rate hikes this year. Those items suggest a minor downward bias for core bonds today, but definitely within the established consolidation ranges.

The German 10-yr yield reached key support levels (0.46%/0.48%). We think that the slide went far enough against the background of the ECB slowly turning the corner and embracing policy normalization. We turn neutral going forward. The US 10-yr yield lost its upward momentum mid-March. Rising geopolitical risks weighed on risk sentiment and pulled long term yields down as well. We favour sideways action, roughly between 2.7% and 2.9%.



German 10-yr yield bounced off key support (0.46%/0.48%), entering a consolidation phase



US 10-yr yield: only limited correction during risk aversion as US central bank isn't considering changing its normalisation plans

# Currencies

## US dollar stays in the defensive

R2	1,2598	-1d
R1	1,2555	
<b>EUR/USD</b>	<b>1,2380</b>	<b>0,0049</b>
S1	1,2165	
S2	1,2055	

The easing of geopolitical tensions had an uneven impact on markets. Core yields initially rose a few basis points. Equities traded mixed with the US outperforming. US retail sales were close to expectations, being not strong enough to support the dollar. At the same time, US president Trump accused Russia and China to play a 'currency devaluation game'. **The Trump headlines weighed on the dollar, giving the impression that the US likes a weaker dollar. EUR/USD jumped to just below 1.24 and closed at 1.2380.** USD/JPY finished at 107.12, near the intraday lows, despite a decent US equity performance and (slightly) higher US yields.

R2	0,9307	-1d
R1	0,9033	
<b>EUR/GBP</b>	<b>0,8634</b>	<b>-0,0027</b>
S1	0,8627	
S2	0,8541	

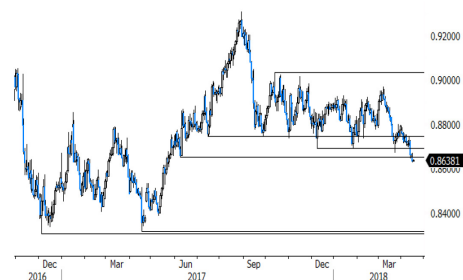
**Overnight**, Chinese Q1 GDP printed close to expectations (6.8% Y/Y). Retail sales were good. Industrial production disappointed slightly. The data didn't prevent a further underperformance of Chinese equities. The dollar remains in the defensive (USD/JPY near 107, EUR/USD 1.2385). The Aussie dollar dropped from 0.7790 to the 0.7765 area as the RBA in the Minutes saw no reason for an interest rate hike in the near future.

**Today, German ZEW investor sentiment** is expected to ease further, confirming the easing in other EMU sentiment indicators. This might be a slightly negative for the euro. US housing data are expected to recover modestly. March production is expected soft (0.3% M/M). However, the focus in US dealings will be on Fed speeches, especially of Fed Williams and on corporate earnings. Williams will probably keep the door open for a total of four rate hikes this year. **Of late the dollar showed an inconvincing picture.** USD/EUR and USD/JPY held slightly above recent/ cycle lows, but didn't profit from potentially USD supportive news, including higher US yields/interest rate differentials. **This pattern might continue today.** Fed speakers remain a wildcard. However, there is little reason to expect the dollar to start a real upleg. EUR/USD is perfectly holding in the 1.2155/1.2550 consolidation pattern.

**Yesterday, sterling preserved last week's gains, also against a rather strong euro.** The EUR/GBP 0.8650 support remained under intense pressure. Today, the UK labour market data will be published. Average weekly earnings are expected to rise to 3.0%. Positive real wage growth might support the case for more than one BoE rate hike this year. In a longer term perspective, we assume that enough good news on Brexit is discounted for now. However, **good eco data and the prospect of further BoE rate hikes might keep sterling supported short-term. 0.8541 is the next intermediate support. 0.8305 is key.**



EUR/USD: drifting higher in the established range as USD doubts persist



EUR/GBP: testing key support area. This week, the focus for sterling trading turns to the eco data.

# Calendar

Tuesday, 17 April		Consensus	Previous
<b>US</b>			
14:30	Housing Starts / MoM (Mar)	1267k/2.5%	1236k/-7.0%
14:30	Building Permits / MoM (Mar)	1321k/0.0%	1321k/-4.1%
15:15	Industrial Production MoM (Mar)	0.3%	0.9%
15:15	Manufacturing (SIC) Production (Mar)	0.1%	1.2%
15:15	Capacity Utilization (Mar)	77.9%	77.7%
<b>China</b>			
04:00	GDP SA QoQ / YoY (1Q)	A:1.4%/6.8%	1.6%/6.8%
04:00	Retail Sales YoY / YTD YoY (Mar)	A:10.1%/9.7%	9.4%/9.7%
04:00	Industrial Production YoY / YTD YoY (Mar)	A: 6%/6.8%	6.2%/7.2%
04:00	Fixed Assets Ex Rural YTD YoY (Mar)	A: 7.5%	7.9%
<b>UK</b>			
10:30	Claimant Count Rate (Mar)	--	2.4%
10:30	Jobless Claims Change (Mar)	--	9.2k
10:30	Average Weekly Earnings 3M/YoY (Feb)	3.0%	2.8%
10:30	Weekly Earnings ex Bonus 3M/YoY (Feb)	2.8%	2.6%
10:30	ILO Unemployment Rate 3Mths (Feb)	4.3%	4.3%
10:30	Employment Change 3M/3M (Feb)	55k	168k
<b>EMU</b>			
11:00	ZEW Survey Expectations (Apr)	--	13.4
<b>Germany</b>			
11:00	ZEW Survey Current Situation (Apr)	88.0	90.7
11:00	ZEW Survey Expectations (Apr)	-1.0	5.1
<b>Events</b>			
Q1 Earnings	Johnson & Johnson (12:40), Goldman Sachs (13:30), ...		
03:30	RBA April Meeting Minutes		
15:15	Fed's Williams Speaks on Economic Outlook at Event in Madrid		
16:00	Fed's Quarles to Testify Before House Financial Services panel		
17:00	Fed's Harker Speaks on the Economics of Equitable Education		
19:10	Fed's Evans Discusses Economic Outlook		
23:40	Fed's Bostic to Speak on Economy at Bloomberg Event in Atlanta		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,83	0,00	US	2,38	0,02	DOW	24573,04	212,90	
DE	0,53	0,01	DE	-0,58	0,00	NASDAQ	7156,285	49,64	
BE	0,79	0,00	BE	-0,50	0,01	NIKKEI	21847,59	12,06	
UK	1,46	0,03	UK	0,92	0,01	DAX	12391,41	-50,99	
JP	0,04	0,00	JP	-0,15	0,00	DJ euro-50	3441,04	-6,96	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,03	2,76	1,29	Eonia	-0,3670	-0,0030	Libor-1	1,8955	0,0000
5y	0,37	2,81	1,42	Euribor-1	-0,3710	0,0000	Libor-3	2,3528	0,0000
10y	0,97	2,86	1,58	Euribor-3	-0,3290	0,0000	Libor-6	2,4900	0,0000
				Euribor-6	-0,2700	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2380	0,0049	EUR/JPY	132,61	0,23	CRB	199,55	-0,15	
USD/JPY	107,12	-0,23	EUR/GBP	0,8634	-0,0027	Gold	1350,70	2,80	
GBP/USD	1,4339	0,0101	EUR/CHF	1,1884	0,0016	Brent	71,42	-1,16	
AUD/USD	0,7781	0,0017	EUR/SEK	10,4196	-0,0298				
USD/CAD	1,2567	-0,0041	EUR/NOK	9,6258	0,0364				

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