

Wednesday, 17 April 2019

Rates: Chinese growth data put worst growth scenario's (temporarily?) to bed

Core bonds edge lower this morning as Chinese eco data shelve most pessimistic growth scenarios, at least for now. The US 10-yr yield regains the 2.5%-2.55% area, turning the technical picture more neutral again. European investors build in some more caution ahead of tomorrow's EMU PMI's.

Currencies: EUR/USD holds ground above 1.13 after strong Chinese data

EUR/USD slipped below 1.13 yesterday, yet temporarily. This morning's Chinese growth figures displayed economic resilience and pushed the couple back above 1.13. Market moves stay fairly subdued however as more important data and earnings are due in short notice. Sterling stays in defensive mode even as Brexit temporarily moved to the background.

Calendar

Headlines

S&P	→
Eurostoxx 5C	↔
Nikkei	→
Oil	↔
CRB	→
Gold	↓
2 yr US	↔
10 yr US	↔
2yr DE	→
10 yr DE	→
EUR/USD	→
USD/JPY	→
EUR/GBP	→

- **US equity markets** closed yesterday's session little higher with technology shares outperforming (Nasdaq +0.30%). **Asian equities** are largely trading higher this morning with Chinese indices struggling to profit on strong growth data.
- **The US government is considering other potential nominees for the two open seats on the Fed board** as President Trump's preferred candidates, Cain and Moore, have drawn widespread criticism, incl. from Republican Senators.
- **US crude inventories unexpectedly decreased (-3.1m barrels) last week**, adding to the concerns of a shrinking global market. The news pushed the price for one barrel Brent crude oil to \$72, the highest level in five months.
- **Chinese GDP grew faster than expected in the first quarter of this year.** The economy expanded 6.4% (YoY) vs. 6.3% expected. Industrial production and retail sales both beat estimates in March, supporting the growth.
- **New Zealand's first quarter inflation dropped to 1.5% (YoY)**, down from 1.9% the quarter before and below market expectations (1.7%). The New Zealand dollar slid on the result to a three-month low
- **The Canadian right-wing United Conservative Party (UCP) retook office in Alberta**, Canada's largest oil-producing province. The UCP aims to take Canadian PM Trudeau under fire ahead of the federal elections in October.
- **Today's US eco calendar** only contains second-tier data. Canada, the UK and the EMU (final) print consumer inflation data for March. Fed governors Harker and Bullard speak, while the Fed's beige book is released. Q1 earnings continue.

Rates

Chinese data put growth worries (temporarily?) to bed

	US yield	-1d
2	2.41	0.02
5	2.41	0.03
10	2.59	0.04
30	2.99	0.02

Global core bonds suffered some losses yesterday with US Treasuries underperforming German Bunds. Bunds took an early lead after Reuters reported that a “significant minority” of ECB governors didn’t believe in an H2 growth recovery. The upleg was undone by another ECB story based on “people close to the matter”, this time run by Bloomberg. The second article suggested little willingness for tiering negative rates. A tiered system is synonymous to a pledge of keeping rates lower for longer. Core bonds started drifting lower during US trading despite disappointing March US production data. The NAHB housing index recovered slightly further, as expected. Stock markets and oil prices remained supported. US yields added 2.1 bps (2-yr) to 3.6 bps (10-yr) on a daily basis. The German yield curve steepened with yield changed between -0.8 bps (2-yr) and +1.2 bps (30-yr). 10-yr yield spread changes vs Germany ended narrowly mixed.

	DE yield	-1d
2	-0.57	-0.01
5	-0.36	0.00
10	0.07	0.01
30	0.75	0.01

Core bonds edge further down this morning after Chinese eco data silences the most pessimistic growth scenarios. Q1 GDP grew by 1.4% SA Q/Q and 6.4% Y/Y (vs 6.3% forecast). More importantly, industrial production showed a significant rebound in March (8.5% Y/Y vs 5.9% Y/Y) with also retail sales (8.7% Y/Y) beating consensus. Asian stock markets profit only marginally from the news while Brent crude rises above the technical \$72/barrel hurdle.

The onus of today’s eco calendar is behind us. We think that core bonds might lose some more ground on hopes that the through of the Chinese economic downturn is now behind us. Final EMU CPI data won’t impact trading. Speeches by Fed Harker and Bullard are wildcards. The Fed releases its Beige Book which assesses regional economic momentum in greater detail. We expect it to underpin the Fed’s cautious attitude and thus conflict with this morning’s “enthusiasm”. Q1 earnings continue with amongst others Morgan Stanley and Alcoa.

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 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	1.1281	-0.0023
S1	1.1187	
S2	1.1119	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8645	0.0015
S1	0.8500	
S2	0.8314	

Chinese growth data supports EUR/USD

A strong Asian session initially supported euro buying yesterday. EUR/USD retreated from its intraday high around 1.1314 however. Reuters reported that “a significant minority” of ECB officials doubt the projected growth recovery in the second half of this year. The couple staged a comeback on a lack of enthusiasm within the ECB regarding deposit tiering. EUR/USD eventually did slip below 1.13 (1.1281) as US/German interest rate differentials widened in favour of the dollar, despite weak US industrial data. USD/JPY closed unchanged at 112.

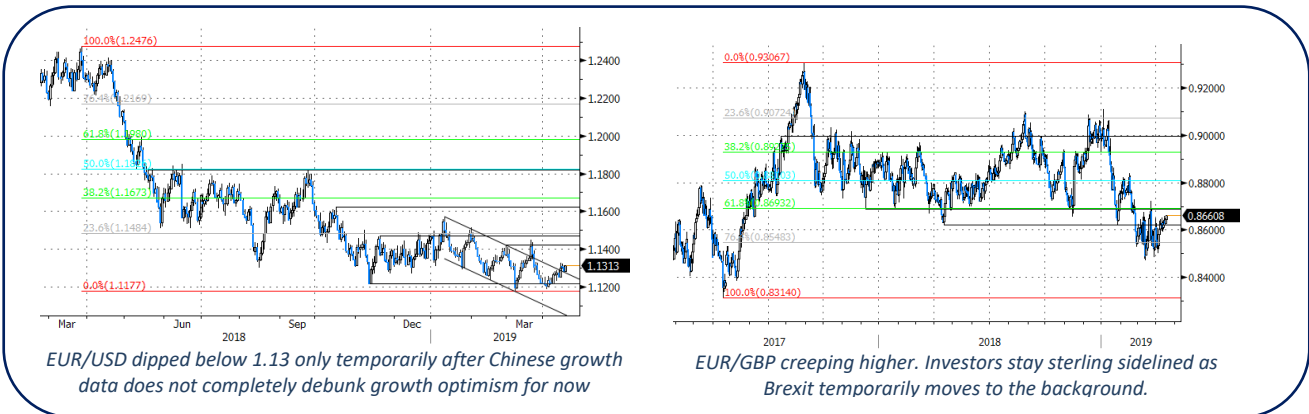
China’s growth data took centre stage during today’s Asian session. 2019Q1 GDP growth slightly beat estimates and other high profile data equally showed resilience. EUR/USD jumped back above 1.13. The Aussie dollar advanced near 0.72. The Chinese yuan performs rather disappointingly, suggesting some investor fatigue. The kiwi dollar (0.67) slipped after soft (inflation) data before recovering on the Chinese data. The yen traded a similar pattern. USD/JPY changes hands close at 112.

Today’s economic data flow basically ran dry after the Chinese batch this morning.

The numbers at first sight have further eased investor growth concerns. But will the anecdotal evidence in the Fed’s beige book later today do so too? Speeches by Fed’s Harker and Bullard are wildcards for trading. Meanwhile the earnings season gains traction. The next important point of reference are tomorrow’s EMU PMI’s.

Global economic sentiment has recently turned for the better. Chinese GDP data did not completely debunk that. Last week’s price actions shows the euro is still net benefiter of such circumstances. The currency recaptured 1.13 but the situation remains fragile. We watch for Q1 earnings and EMU PMI’s to further confirm the sentiment turnaround. We maintain the view that a EUR/USD break lower isn’t evident given the Fed’s wait-and-see bias unless EMU/US data come in surprisingly weak/strong. **A break above 1.13 introduces resistance at 1.1448.**

Yesterday’s UK job report was strong. Nevertheless, sterling traded with a slight negative bias, testing the upper bound of the 0.85/0.865 range (EUR/GBP closed at 0.864). Brexit temporarily moved to the background as British MP’s enjoy the Easter holidays. March CPI data might trigger some sterling volatility today. However, it won’t change the BoE’s assessment. In a broader perspective we stay cautious on sterling as long as Brexit and the political impasse drags on. **We assume the EUR/GBP 0.85 support area to be solid.**



Calendar

Wednesday, 17 April		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-5.6%
14:30	Trade Balance (Feb)	-\$53.4b	-\$51.1b
16:00	Wholesale Inventories MoM (Feb)	0.3%	1.2%
16:00	Wholesale Trade Sales MoM (Feb)	0.3%	0.5%
Canada			
14:30	CPI Core YoY% (Mar)	1.8%	1.8%
14:30	CPI MoM/YoY (Mar)	0.7%/1.9%	0.7%/1.5%
Japan			
01:50	Trade Balance Adjusted (Mar)	-¥177.8bA	¥26.5b
01:50	Exports/Imports YoY (Mar)	-2.4%A/1.1%A	-1.2%/-6.6%R
06:30	Capacity Utilization MoM (Feb)	--	-4.7%
UK			
10:30	CPIH YoY (Mar)	1.9%	1.8%
10:30	CPI MoM/YoY (Mar)	0.2%/2.0%	0.5%/1.9%
10:30	CPI Core YoY (Mar)	1.9%	1.8%
10:30	RPI MoM/YoY (Mar)	0.2%/2.6%	0.7%/2.5%
10:30	RPI Ex Mort Int.Payments (YoY) (Mar)	2.6%	2.4%
10:30	PPI Input NSA MoM/YoY (Mar)	0.3%/3.9%	0.6%/3.7%
10:30	PPI Output NSA MoM/YoY (Mar)	0.2%/2.1%	0.1%/2.2%
10:30	PPI Output Core NSA MoM/YoY (Mar)	0.1%/2.3%	0.1%/2.2%
10:30	House Price Index YoY (Feb)	1.2%	1.7%
EMU			
08:00	EU27 New Car Registrations (Mar)	--	-1.0%
11:00	Trade Balance SA (Feb)	--	17.0b
11:00	CPI Core YoY (Mar F)	0.8%	0.8%
11:00	CPI MoM/YoY (Mar F)	1.0%/1.4%	0.3%/1.4%
China			
04:00	Fixed Assets Ex Rural YTD YoY (Mar)	6.3%A	6.1%
04:00	Industrial Production YTD YoY (Mar)	6.5%A	5.3%
04:00	Retail Sales YTD YoY (Mar)	8.3%A	8.2%
04:00	Surveyed Jobless Rate (Mar)	5.2%A	5.3%
04:00	GDP SA QoQ/YoY (1Q)	1.4%A/6.4%A	1.5%/6.4%
04:00	Property Investment YTD YoY (Mar)	11.8%A	11.6%
Events			
2019Q1 earnings	PepsiCo (12:00), Morgan Stanley (13:00), Alcoa (aft-mkt) ...		
11:00	Germany to Sell 1 Bln Euros of 2.5% 2044 Bonds		
15:00	BOE's Carney, BOF's Villeroy de Galhau Speak in Paris		
18:30	Fed's Harker Speaks on the Economic Outlook (non-voter)		
18:45	Fed's Bullard Speaks on US and global economy at Hyman Minsky Conference (voter)		
20:00	U.S. Federal Reserve Releases Beige Book		
23:30	New York Fed's Logan Speaks at Money Marketeers of New York		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2.59	0.04		US	2.41	0.02	DOW	26452.66	67.89
DE	0.07	0.01		DE	-0.57	-0.01	NASDAQ	8000.225	24.21
BE	0.52	0.00		BE	-0.47	-0.01	NIKKEI	22277.97	56.31
UK	1.22	0.00		UK	0.80	0.01	DAX	12101.32	81.04
JP	-0.01	0.01		JP	-0.15	0.00	DJ euro-50	3463.36	12.90
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.13	2.45	1.13	Eonia	-0.3660	0.0000	Libor-1	2.4739	0.0000
5y	0.06	2.44	1.23	Euribor-1	-0.3670	0.0000	Libor-3	2.5880	0.0000
10y	0.56	2.58	1.40	Euribor-3	-0.3100	0.0000	Libor-6	2.6376	0.0000
				Euribor-6	-0.2320	-0.0010			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1281	-0.0023		EUR/JPY	126.36	-0.29	CRB	187.28	-0.14
USD/JPY	112	-0.04		EUR/GBP	0.8645	0.0015	Gold	1277.20	-14.10
GBP/USD	1.3048	-0.0052		EUR/CHF	1.1370	0.0020	Brent	71.72	0.54
AUD/USD	0.7175	0.0002		EUR/SEK	10.4431	-0.0342			
USD/CAD	1.335	-0.0017		EUR/NOK	9.5839	-0.0193			

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