



Thursday, 17 January 2019

Rates: Looking for new clues

Technically-inspired and sentiment-driven trading characterizes core bond moves the past days. The thin eco/event calendar today and tomorrow, suggests more of the same. Italian BTP's profited from a relief rally following Wednesday's bumper 15y syndicated deal.

Currencies: How long will USD maintain the benefit of the doubt?

The dollar rebounded this week as markets focused on US economic outperformance (especially versus EMU) instead of on a softer Fed. However, as there is also plenty of event risk in the US, this trade might run into resistance soon. Sterling rallied on market hopes for a softer Brexit or a delay. This move might also halt unless there are concrete signs of progress.

Calendar

Headlines

- **US equity markets** gained modest ground yesterday as earnings season started better than expected. **Asian equities** opened mainly in green, but very cautiously.
- **UK PM May remains in the saddle** as her government survived the no-confidence vote, called by opposition and Labour leader Corbyn, very narrowly (325/306). Afterwards, she invited opposition leaders to join the talks.
- **US federal prosecutors are said to take a more aggressive stance against the Chinese company Huawei**, as the investigation of the tech giant for stealing trade secrets from US partner companies is entering an advanced stage.
- **Greek PM Tsipras survived a 4th vote of no confidence (151/149) of his term in office**. He lost majority after his coalition partner pulled out of the government in protest over a reform with its northern neighbouring Republic of Macedonia.
- **Italian PM Conte said that his cabinet will approve the final budget today** and confirms that it contains key measures of income support for the poor and a lower retirement age for some.
- **Fed's beige book paints a rather positive picture for the US economy** but said optimism is fading among businesses. Trade disputes, government shutdown and rising borrowing costs causes companies to scale back planned investments.
- **Today's US economic calendar** contains the Philadelphia Fed Business Outlook for January and weekly jobless claims. The earnings season continues (Morgan Stanley, Netflix,...) and several ECB/Fed governors speak. Spain taps the market.

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

Looking for new trading theme

	US yield	-1d
2	2,54	0,01
5	2,53	0,01
10	2,72	0,01
30	3,06	0,00

	DE yield	-1d
2	-0,60	0,02
5	-0,37	0,02
10	0,22	0,02
30	0,83	0,02

Global core bonds lost some ground in a technically uneventful trading session. German Bunds underperformed vs US Treasuries with a soft 30-yr Bund auction drawing some attention. The US NAHB housing index stabilized for a second straight month, soothing fears of a slowdown in the sector. **The Fed's Beige Book shows that most districts record modest to moderate growth. While outlooks generally remained positive, many districts reported that contacts had become less optimistic in response to increased financial markets volatility, rising short-term interest rates, falling energy prices and elevated trade & political uncertainty.** German yields added 1.6 bps (2-yr) to 2.4 bps (5-yr) in a daily perspective. Changes on the US yield curve ranged between -0.3 bps (30-yr) and +1 bp (10-yr). 10-yr yield spread changes vs Germany narrowed with Greece (-5 bps) and Italy (-14 bps) outperforming. Greek PM Tsipras narrowly survived a confidence vote while Italian BTP's enjoy a relief rally after this week's huge 15y syndicated deal.

Most Asian stock markets record small gains this morning. News flow is thin apart from May's confidence vote win. Core bonds trade marginally higher. **We expect a neutral opening for today.**

The eco calendar contains US weekly jobless claims and the January Philly Fed Business Outlook. Claims are forecast to continue hovering near cycle lows, but might start getting distorted by the government shutdown. The Philly Fed index is expected to more or less stabilize, but bear in mind the plunge of the Empire Manufacturing Survey earlier this week. **Downside risks to US eco data won't necessarily translate into stronger US Treasuries though.** Q4 earnings and central bank speakers are wildcards. **In absence of a strong driver, we expect more of core bond trading within known short term boundaries.**

Technically, the German 10-yr yield bounced off 0.15% support, but the picture didn't change yet. Therefore, the 10-yr yield needs to clear the 0.31% hurdle. The US 10-yr yield lost the 2.75%-2.8% area by the end of last year. This zone now works as resistance in a trading band floored by 2.5%. **In both Germany and the US, we think that sufficient bad news is discounted at current levels. Policy normalization expectations in the US and EMU have become extremely/too dovish. However, a clear trigger is needed before declaring a sustained turnaround.**



German 10-yr yield bounced off 0.15% support, but no change to technical picture yet. 0.31% is first resistance



US 10-yr yield. No clear trigger available to regain 2.75%-2.8% area. Sideways action ahead, floored by 2.5%?

Currencies

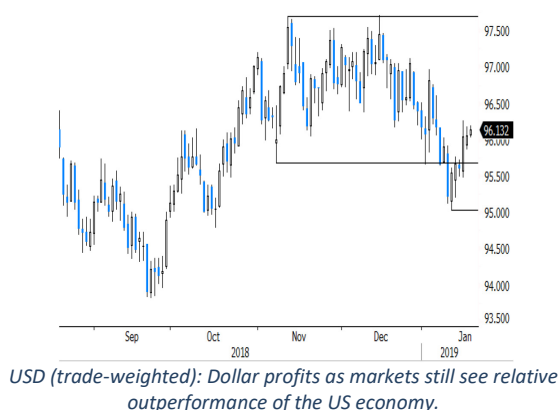
R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1392	-0,0021
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8844	-0,0031
S1	0,8700	
S2	0,862	

USD rally to shift into lower gear?

The (trade-weighted) dollar continued its rebound **yesterday**. Doubts on the EMU economy counterbalanced expectations for a cautious Fed and capped the EUR/USD rebound from the start of the year. US equities outperformed and interest rate differentials widened in favour of the US dollar. Good results from major US banks gave investors some further confidence on the resilience of the US economy. The Fed Beige book reported respondents to become less optimistic but had little impact on the dollar. EUR/USD closed at 1.1392 (from 1.1413). USD/JPY ended the day at 109.09 (from 108.68). Asian indices show a mixed picture **This morning**. Headlines on the US probing Huawei is bringing the China-US trade tensions again to the forefront, slowing the global risk rally. Changes in the major USD cross rates are limited, but the (trade-weighted) dollar (DXY 96.15 area) maintains a tentative upward bias. EUR/USD is trading near 1.1385. USD/JPY is running into resistance. The pair struggles not to fall back below 109. **Later today**, the EMU CPI is expected to be confirmed at 1.6% Y/Y. US housing data are postponed due to the government shutdown. The Philly Fed Business outlook is expected little changed (9.5 from 9.1) after a decline in previous months. Maybe there are downside risks. Last week, the dollar eased on a softer Fed. This week the focus turned to the relative performance between the US and EMU economies. Markets currently see more risks to EMU growth than is the case for the US. This balance might tilt again (e.g. due to the shutdown) but for now the dollar gets the benefit of the doubt. **We still see no hard case for a sustained USD rally, but the day day-to-day momentum is EUR/USD negative.** We look for a bottoming out process. EUR/USD 1.1309 is first minor support. We also look out whether the dollar can maintain its positive spin if the (US-inspired) risk rally and the rise in US yields were to slow.

Sterling maintained recent gains against the euro and the dollar yesterday, as markets saw a rising chance of a delay of the March 29 Brexit deadline and/or a softer Brexit. UK PM May surviving a no-confidence vote, didn't change the overall picture on Brexit. PM now tries to work out a new deal with parliament. We don't expect a break-through anytime soon. **If so, the recent sterling rally might run into resistance and more sideways, erratic-like sterling trading might again be on the cards** with Monday's appearance of PM before Parliament the next milestone. The low EUR/GBP 0.88 area is first minor support.



Calendar

Thursday, 17 January		Consensus	Previous
US			
14:30	Housing data postponed by government shutdown		
14:30	Philadelphia Fed Business Outlook (Jan)	9.5	9.1R
14:30	Initial Jobless Claims	220k	216k
14:30	Continuing Claims	--	1722k
UK			
01:01	RICS House Price Balance (Dec)	-19%A	-11%
EMU			
11:00	Construction Output MoM/YoY (Nov)	--/--	-1.6%/1.8%
11:00	CPI Core YoY (Dec F)	1.0%	1.0%
11:00	CPI MoM/YoY (Dec F)	0.0%/1.6%	-0.2%/1.9%
Events			
2018Q4 earnings	Morgan Stanley (13:00), Netflix Inc (22:00) ...		
17JAN	OPEC issues ist monthly oil market report		
10:30	Spain to Sell Bonds		
12:00	ECB's Lautenschlaeger Speaks in Dublin		
00:30	Fed's Kashkari Speaks on Panel About Financial Crisis (non-voter)		
16:45	Fed's Quarles Speaks at Insurance Industry Forum (voter)		
19:00	US to Sell USD13 Bln 10-Year TIPS		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,72	0,01		US	2,54	0,01	DOW	24207,16	141,57
DE	0,22	0,02		DE	-0,60	0,02	NASDAQ	7034,693	10,86
BE	0,69	0,01		BE	-0,54	0,01	NIKKEI	20402,27	-40,48
UK	1,31	0,05		UK	0,83	0,02	DAX	10931,24	39,45
JP	0,01	0,00		JP	-0,17	-0,01	DJ euro-50	3077,22	9,17
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	-0,07	2,65	1,25	Eonia	-0,3700	-0,0010			
5y	0,17	2,63	1,34	Euribor-1	-0,3690	0,0000	Libor-1	2,5075	0,0000
10y	0,78	2,76	1,49	Euribor-3	-0,3080	0,0000	Libor-3	2,7734	0,0000
				Euribor-6	-0,2360	0,0000	Libor-6	2,8458	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	1,1392	-0,0021		EUR/JPY	124,28	0,25	CRB	179,64	0,66
USD/JPY	109,09	0,41		EUR/GBP	0,8844	-0,0031	Gold	1293,80	5,40
GBP/USD	1,2885	0,0024		EUR/CHF	1,1284	0,0011	Brent	61,32	0,68
AUD/USD	0,7168	-0,0033		EUR/SEK	10,2525	0,0178			
USD/CAD	1,3255	-0,0011		EUR/NOK	9,728	-0,0209			

If you no longer wish to receive this mail, please contact us: “kbcmarketresearch@kbc.be” to unsubscribe

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

