



Monday, 17 February 2020

Rates: US markets closed for President's Day

US markets are closed for US President's Day today which will severely reduce traded volumes. Asian risk sentiment is mixed this morning with China outperforming thanks to monetary and (pledged) fiscal stimulus. Today's thin EMU eco calendar suggests order-driven trading within technical ranges.

Currencies: EUR/USD stabilizes near 3-y low

The euro decline slowed on Friday but the technical picture remains fragile. Later this week, we look out whether/to what extent the corona outbreak weighs on EMU economic confidence. If so, the euro might stay in the defensive. In the UK, a series of eco data will give a more timely update on the economy. A post-election rebound might keep sterling well bid.

Calendar

Headlines

- **WS** swung between gains and losses Friday, eventually extending its streak of records (0.20%, Nasdaq) amid solid eco data and better than expected Q4 earnings. **Asian markets** are trading mixed with China outperforming (2.63%).
- **The PBOC provided 200bn yuan medium-term funding to banks and cut the interest rate it charges by 10bps to 3.15%** to cushion the Chinese economy from the coronavirus outbreak. The finance ministry also pledged fiscal stimulus.
- **The Japanese economy shrank 1.6% (Q/Q) in Q4/2019, the deepest contraction in 5 years.** The economy suffered from October's sales tax hike and typhoons, dampening domestic consumption (-2.9%) and investments (-3.7%).
- **Hungarian PM Viktor Orban** warned of difficult times ahead for the economy hampered by a stagnation in the euro area and **pledged corporate and labour tax cuts** after the government cut its growth forecast for 2020 from 4% to 3.5%.
- **The USTR announced it's raising tariffs on Airbus planes imported from the EU from 10% to 15%, effective March 18.** The aerospace giant said in a statement it deeply regrets the decision as it further escalates US-EU trade tensions.
- **BoJ's Kuroda** marked the coronavirus the "biggest uncertainty" for the economy and disclosed the central bank would consider **"additional easing steps without hesitation"** if the virus threatens the Japanese economy, Sankei reported.
- **Today's economic calendar** is little inspiring. Euro area December construction output is due. EU foreign ministers are set to meet (general and foreign affairs council) and ECB's Lane speaks. US markets are closed for President's Day.

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

Muted trading with US markets closed

	US yield	-1d
2	1.43	-0.02
5	1.42	-0.03
10	1.58	-0.03
30	2.04	-0.03

	DE yield	-1d
2	-0.66	-0.01
5	-0.62	-0.01
10	-0.40	-0.02
30	0.12	-0.01

Core bonds traded with an upward bias going into the weekend. **Disappointing US eco data and the long weekend ahead (US markets closed for President's Day) caused outperformance of US Treasuries vs German Bunds.** The US yield curve bull flattened with yields decreasing by 1.6 bps (2-yr) to 3.2 bps (30-yr). German yields lost 1.1 bps to 1.5 bps across the curve. 10-yr yield spread changes vs Germany were virtually zero with Italy (+3 bps) underperforming. Main European and US stock markets hovered sideways near recent highs following Thursday's sharp intraday bounce.

Asian stock markets are mixed this morning. **Japan (-0.75%) underperforms** after **an ugly Q4 GDP reading** (-1.6% Q/Q following rise in consumption tax). **Chinese stocks outperform (+2%) with authorities gearing up support to shield the economy from a corona-related hit.** The PBOC cut its MT funding rate by 10 bps while the government pledged additional fiscal support. The German Bund and US Note future lose a few ticks.

Today's economic calendar is extremely meagre. **Traded volumes will be thinned by the US absence while the EMU eco calendar is empty. The German Bundesbank's monthly report will be closely monitored after Friday's downward revision to Q4 growth to 0% Q/Q. A downbeat tone could support German Bunds.** A speech by ECB board member Lane will probably be ignored given the subject of central bank statistics. Ministers of Finance of the euro zone meet in Brussels (Eurogroup). **Attention shifts to Minutes of the Fed (Wednesday) and ECB (Thursday) meetings later this week with EMU February PMIs due on Friday.** An avalanche of Fed and ECB speakers features on the agenda as well. Will they already hint at altering their outlooks by giving more weight to the impact of the coronavirus?

Technically: core bond yields failed to take out resistance levels at **-0.18% (July high)/-0.15% (38% retracement of Feb '18 – Sep '19 decline) for the German 10-yr yield and 1.94% for the US 10-yr yield.** The Chinese coronavirus took markets hostage via risk aversion, pulling core bond yields below first support. We hold our view that this won't be a lasting market theme. The Chinese return to trading after Lunar NY holidays proved to be a turning point, ending the decline since mid-January.



German 10-yr yield bounced off key support (-0.41%).



US 10-yr yield fell to lower half (1.42%-1.67%) of sideways trading range.

Currencies

EUR/USD stabilizes near 3-y low

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.0831	-0.0010
S1	1.0821	
S2	1.0738	

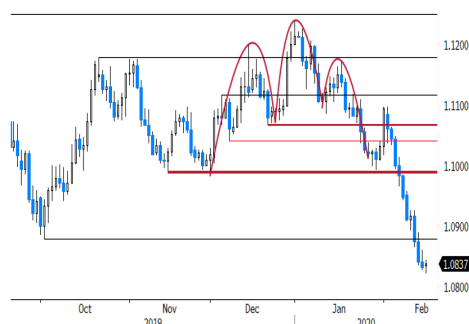
R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8301	-0.0011
S1	0.8275	
S2	0.8117	

On Friday, a promising calendar failed to overthrow reigning FX trading patterns. German/EMU Q4 growth were weak but **EUR/USD stabilized in the mid 1.08 area**. US **retail sales** and production were unconvincing. Michigan consumer confidence stayed strong. **The dollar lost temporarily a few ticks, but EUR/USD still closed at 1.0831**, the strongest since April 2017. The equity rally paused as markets pondered the balance between the economic fall-out of corona versus a favourable context of expected prolonged policy stimulus. **USD/JPY held a tight sideways range in the upper part of the 109 big figure** (close 109.78).

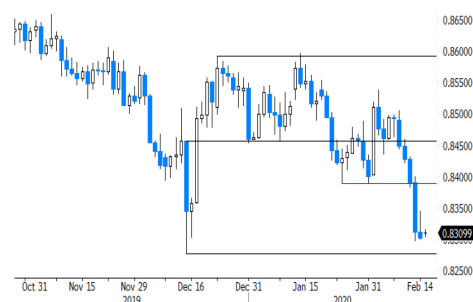
This morning, Asian/Chinese equity markets extended gains as the **PBOC lowered the funding cost for medium-term loans** and added liquidity to the market. Still the yuan gains marginal ground (USD/CNY 6.98 area). Japanese equities underperform and the yen weakens slightly after the country reported an unexpected sharp contraction in Q4 (-1.6% Q/Q) after the sales tax hike. USD/JPY is trading near 109.85. EUR/USD hovers in the 1.0835/40 area. Trading will probably develop **in rather thin market conditions** today as US markets are closed for **President's Day**. There are few eco data in EMU today. Later this week, we keep an eye at **EMU confidence indicators**, including German ZEW confidence (Tuesday) and the EMU PMIs Friday. Will uncertainty on corona put further pressure on the outlook for the EMU economy (and for the euro)?

The **EUR/USD** technical picture **deteriorated substantially** after breaking subsequent supports, including the 1.0879 2019 low. 1.0778 is the next reference (2017 gap). The pair is moving into oversold territory, but this factor alone is unlikely to trigger a rebound. A rise above the 1.0900 area would be a first tentative sign that pressure might be easing.

On Friday, EUR/GBP stabilized north of 0.83. Sterling maintained most of the gains against a weak euro for earlier last week. Investors hope that fiscal stimulus will support UK growth. This morning, UK house prices (Rightmove) were solid (0.8% M/M). Later this week, we receive an **in extenso update on the UK economy** with labour data, CPI, retail sales and confidence data. A rebound in activity/confidence after the election might support the sterling bid, despite the noise on the EU-UK trade talks.



EUR/USD: technical picture deteriorates after 1.0879 break.



EUR/GBP: will better UK eco data support further sterling gains?

Calendar

Monday, 17 February		Consensus	Previous
Japan			
00:50	GDP SA QoQ (4Q P)	-1.60%A	0.40%
00:50	GDP Annualized SA QoQ (4Q P)	-6.30%A	0.50%R
00:50	GDP Private Consumption QoQ (4Q P)	-2.90%A	0.50%
00:50	GDP Business Spending QoQ (4Q P)	-3.70%A	0.50%R
UK			
01:01	Rightmove House Prices MoM/YoY (Feb)	0.80%A/2.90%A	2.30%/2.70%
EMU			
11:00	Construction Output MoM/YoY (Dec)	--/--	0.70%/1.40%
China			
02:30	New Home Prices MoM (Jan)	0.27%A	0.35%
14FEB-18FEB	Money Supply M1 YoY (Jan)	4.50%	4.40%
Events			
17FEB	US financial markets are closed for President's Day		
17FEB	Euro area finance ministers meet		
15:00	ECB Board Member Lane Speaks in Lisbon		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.58	-0.03		US	1.43	-0.02	DOW	29398.08	-25.23
DE	-0.40	-0.02		DE	-0.66	-0.01	NASDAQ	9731.176	19.21
BE	-0.17	-0.02		BE	-0.59	-0.01	NIKKEI	23523.24	-164.35
UK	0.63	-0.02		UK	0.54	-0.02	DAX	13744.21	-1.22
JP	-0.04	-0.01		JP	-0.14	-0.01	DJ euro-50	3840.97	-5.77
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	-0.36	1.41	0.72	Eonia	-0.4550	0.0000			
5y	-0.30	1.41	0.73	Euribor-1	-0.4800	0.0000	Libor-1	1.6583	-0.0003
10y	-0.05	1.53	0.81	Euribor-3	-0.4130	-0.0020	Libor-3	1.6918	0.0001
				Euribor-6	-0.3590	-0.0020	Libor-6	1.7100	-0.0029
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0831	-0.0010		EUR/JPY	118.95	-0.11	CRB	172.95	0.68
USD/JPY	109.78	-0.04		EUR/GBP	0.8301	-0.0011	Gold	1586.40	7.60
GBP/USD	1.3047	0.0001		EUR/CHF	1.0644	0.0026	Brent	57.32	0.98
AUD/USD	0.6714	-0.0005		EUR/SEK	10.5314	0.0441			
USD/CAD	1.3252	-0.0015		EUR/NOK	10.0188	-0.0109			

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