



Sunrise

Tuesday, 18 February 2020

Rates: Belgium to launch 20-yr OLO via syndication

The Kingdom of Belgium will issue its 2nd syndicated OLO this year (Jun2040) following the successful €6bn 10-yr deal (Jun2030) mid-January. Risk sentiment is spoiled this morning by Apple's coronavirus related Q1 revenue warning. Adding downside risks to German ZEW readings suggests core bonds could be in demand today.

Currencies: ZEW to cause more pain for the euro?

Yesterday, EUR/USD hovered near a 3-year low in technical trading. Today's eco data (German ZEW and US Empire Manufacturing) may illustrate the divergence between US and EMU economy. If so, it won't help to block the euro decline. In the UK, the labour data kick off a week with plenty of important UK data. Will EUR/GBP revisit the 0.8276 support?

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	➔

- **WS** was closed yesterday for President's Day. **Asian markets** are colouring red as the coronavirus outbreak is taking its toll on corporate earnings amid slowing production and weaker demand. Japan underperforms (-1.51%).
- **China released a list of 696 US products** including key agricultural and energy products (e.g. pork, beef, crude oil, etc.) that would be **exempted from punitive tariffs** as part of the phase one trade agreement.
- **The BoJ is no longer inclined to pursue its ambitious 2% inflation target**, Reuters reported. Instead, the BoJ's policy has now shifted toward keeping the economy on a sustainable recovery path amid intensifying (global) pressures.
- **Japan's finance minister Taro Aso announced his ministry is keeping an eye on the spreading coronavirus outbreak** and its impact on the economy. Aso ensured that fiscal policy steps would be taken as needed.
- **UK's chief Brexit negotiator launched an attack on the EU's conditions for a post-Brexit trade deal** saying the UK will never accept them. David Frost claims the UK should have the freedom to diverge from EU rules and regulations.
- **RBA minutes show it contemplated a rate-cut this month but voted against it to avoid climbing house prices.** The RBA expects rates to remain low for "an extended period" yet retains a positive view of the economy's prospects.
- **In today's economic calendar** we keep an eye on the German ZEW investor survey, UK employment figures and the US Empire Manufacturing index. Germany taps the bond market and Belgium launches a new 20-yr OLO.

Rates

	US yield	-1d
2	1.43	0.00
5	1.38	0.00
10	1.58	0.00
30	2.00	0.00

	DE yield	-1d
2	-0.65	0.00
5	-0.62	0.00
10	-0.40	0.00
30	0.12	0.00

Belgium to launch 20-yr OLO via syndication

The absence of US traders (President's Day) and the empty EMU eco calendar clearly influenced yesterday's low volume trading session. The German Bund hovered listless near opening levels while European stock markets chose China's optimism (monetary & pledged fiscal spending) over Japanese pessimism (weak Q4 GDP print). Daily changes on the German yield curve ranged between -0.1 bp and +0.6 bps. **The Kingdom of Belgium announced its intention to issue a new 20-yr government bond (OLO 90; Jun2040).** The bond will likely be launched today, depending on market conditions. It's the second syndicated deal after 10-yr OLO 89 (€6bn 0.1% Jun2030) mid-January. The Belgian 2020 gross borrowing requirement amounts to €31.46bn (vs €35.67bn last year), mainly covering net financing requirements (€9.6bn) and maturing debt (€18.46bn). The lion share of this amount will be raised by OLO issuance (€28bn vs €29.74bn in 2019).

Asian stock markets tumble lower this morning (up to -1.5%) after Apple said that it didn't expect to meet revenue guidance provided for the first quarter due to temporarily constrained iPhone supply and softer Chinese demand. Both are related to the outbreak of the coronavirus. **Core bonds leapfrog higher this morning.**

Today's eco calendar contains German ZEW investor sentiment and the US Empire Manufacturing survey (both February releases). The German ZEW current situation index recorded its third consecutive increase in January which often seen as a change in trend. Consensus expects stabilization in February (-10 from -9.5). **The big question mark is how big the impact from the coronavirus will already be.** The Bundesbank warned in yesterday's monthly bulletin for cyclical downside risks, but the drag could be more clear in German PMI's (Friday) or Ifo Business Sentiment (Monday). The forward looking ZEW expectations component is forecast to return some of the past month's stellar gains (21.5 from 26.7 which was the highest level since 2015). The US Empire Manufacturing index is forecast to stabilize around 5 but will be less relevant to trading. **Cautiousness surrounding German data and negative risk sentiment could underpin core bonds in a daily perspective.**

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

ZEW to cause more pain for the euro ?

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.0836	0.0005
S1	1.0821	
S2	1.0738	

R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8333	0.0031
S1	0.8275	
S2	0.8117	

On Monday, global (FX) markets experienced a lacklustre session. US markets were closed and there were no key EMU data. China (and the yuan) initially held a constructive bias as the PBOC provided cheap money and the government prepared (selective) fiscal support to ease the impact of corona. **However, the positive spill-over to Europe and the rest of the world was modest.** EUR/USD held a tight sideways range near recent lows and closed at 1.0836. USD/JPY kept a cautious intraday uptrend but again failed to regain the 110 barrier. (close 109.88).

This morning, the market assessment on corona turned again 'negative' after Apple indicated it doesn't expect to meet its revenue guidance as production and demand of iPhones are negatively impacted by corona. The yuan weakens close to USD/CNY 7.00. The yen strengthens slightly (USD/JPY 109.75 area). EUR/USD again tested the 1.0825 area, but for now a new down-leg is avoided. The **Aussie dollar** again dropped below the 0.67 barrier. The minutes of the February RBA meeting are seen as rather soft as the bank discussed the pros and cons of further easing.

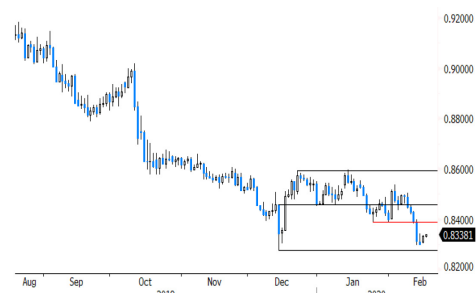
In Europe, ZEW investor confidence will be closely monitored. A sharp deterioration in confidence due to the impact of corona might weigh further on the euro. The US Empire Manufacturing index is expected little changed. **Today's data may confirm the divergence in economic performance between Europe and the US.** This shouldn't be a big surprise. Even so, it won't help 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 Monday, sterling fell prey to modest profit taking. There were few important UK data. Sterling traders focused more on the **highly divergent positions of the EU and the UK** at the start of the trade negotiations. **Today, the UK labour data** will be published. Job growth is expected to slow to a still solid 148 k (3M/3M). UK eco data recently showed signs of improvement. However, the labour market is a lagging indicator and last month's report was strong. So, a positive, sterling supportive outcome maybe isn't that evident for this series. Still we keep a sterling constructive bias going into the eco data later this week.



EUR/USD: euro holding near lowest level in 3 year.



EUR/GBP hovering near post-election low. UK data to decide on a break ?

Calendar

Tuesday, 18 February		Consensus	Previous
US			
14:30	Empire Manufacturing (Feb)	5	4.8
16:00	NAHB Housing Market Index (Feb)	75	75
22:00	Net Long-term TIC Flows (Dec)	--	\$22.9b
UK			
10:30	Output Per Hour YoY (4Q P)	--	0.10%
10:30	Claimant Count Rate (Jan)	--	3.50%
10:30	Jobless Claims Change (Jan)	--	14.9k
10:30	Average Weekly Earnings 3M/YoY (Dec)	3.00%	3.20%
10:30	Weekly Earnings ex Bonus 3M/YoY (Dec)	3.30%	3.40%
10:30	ILO Unemployment Rate 3Mths (Dec)	3.80%	3.80%
10:30	Employment Change 3M/3M (Dec)	148k	208k
EMU			
08:00	EU27 New Car Registrations (Jan)	--	21.70%
11:00	ZEW Survey Expectations (Feb)	--	25.6
Germany			
11:00	ZEW Survey Expectations (Feb)	21.5	26.7
11:00	ZEW Survey Current Situation (Feb)	-10.0	-9.5
Sweden			
09:30	Unemployment Rate SA (Jan)	6.90%	6.60%
Events			
18FEB	Belgium likely to Sell 2040 Bonds		
12:30	Germany to Sell 5 Billion Euros of 202 Bonds		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.58	0.00	US	1.43	0.00	DOW	29398.08	0.00	
DE	-0.40	0.00	DE	-0.65	0.00	NASDAQ	9731.176	0.00	
BE	-0.17	0.00	BE	-0.58	0.01	NIKKEI	23193.8	-329.44	
UK	0.64	0.01	UK	0.55	0.01	DAX	13783.89	39.68	
JP	-0.06	-0.02	JP	-0.15	-0.02	DJ euro-50	3853.27	12.30	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.36	1.42	0.73	Eonia	-0.4530	0.0000	Libor-1	1.6583	0.0000
5y	-0.30	1.41	0.74	Euribor-1	-0.4800	0.0000	Libor-3	1.6918	0.0000
10y	-0.05	1.53	0.82	Euribor-3	-0.4130	0.0000	Libor-6	1.7100	0.0000
				Euribor-6	-0.3530	0.0060			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0836	0.0005	EUR/JPY	119.07	0.12	CRB	172.95	0.00	
USD/JPY	109.88	0.10	EUR/GBP	0.8333	0.0031	Gold	1586.40	0.00	
GBP/USD	1.3008	-0.0039	EUR/CHF	1.0629	-0.0015	Brent	57.67	0.35	
AUD/USD	0.6714	0.0000	EUR/SEK	10.4996	-0.0318				
USD/CAD	1.3235	-0.0017	EUR/NOK	10.0306	0.0118				

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