



Sunrise

Friday, 21 June 2019

### Rates: Room for some short term profit taking?

The US 10-yr yield is intensively testing 2.01% support. Failure to break below this level today could pave the way for some short term profit taking on US Treasuries. The German 10-yr yield is near all-time lows. EMU PMI's are expected to remain soft. Failure to gain on the data would suggest that sufficient bad news is discounted and could also trigger a counter move.

### Currencies: Euro prone for a PMI-driven hit

USD follow-through selling drove EUR/USD near the 1.13-handle yesterday. Today's EMU PMI's might turn the tide for the euro however. A disappointment will strengthen Draghi's case for more policy easing. EUR/USD 1.1250 is a first intermediate support and could test our buy on dips hypothesis.

### Calendar

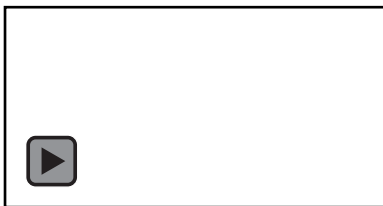
## Headlines

- US equities closed up to 1% higher in the wake of the FOMC meeting **with new all-time highs for the S&P 500 and Dow Jones**. Asian markets trade slightly under water (dollar weakness?) with China outperforming.
- **Boris Johnson and Jeremy Hunt go head-to-head** in the Tory leadership election after Michael Gove was narrowly eliminated in the final voting round. The conservative party's 160k grassroots members can now cast their votes.
- **US President Trump toned down his comments against Iran** only one day after blaming the country for making a big mistake. He now finds it hard to believe that Tehran intentionally shot down a US Navy surveillance drone.
- The Xinhua News Agency said that **Chinese President Xi Jinping** on a visit to Pyongyang said that he wanted to **play a positive and constructive role towards achieving denuclearization** of the Korean Peninsula.
- **EU leaders concluded that none of big three alliances' lead candidates** (Weber, Timmermans, Vestager) **would receive sufficient backing** to follow EC leader Juncker. Talks continue next week in the sidelines of the G-20 meeting.
- **EMU consumer confidence fell from -6.5 to -7.2 in June** undershooting forecasts of a stabilization. **The Japanese manufacturing PMI this morning remained in contraction territory**, falling from 49.8 to 49.5.
- **Today's eco contains first readings of EMU manufacturing and services PMI numbers**. Fed Brainard, Mester and Daly are first to speak after this week's FOMC meeting.



# Rates

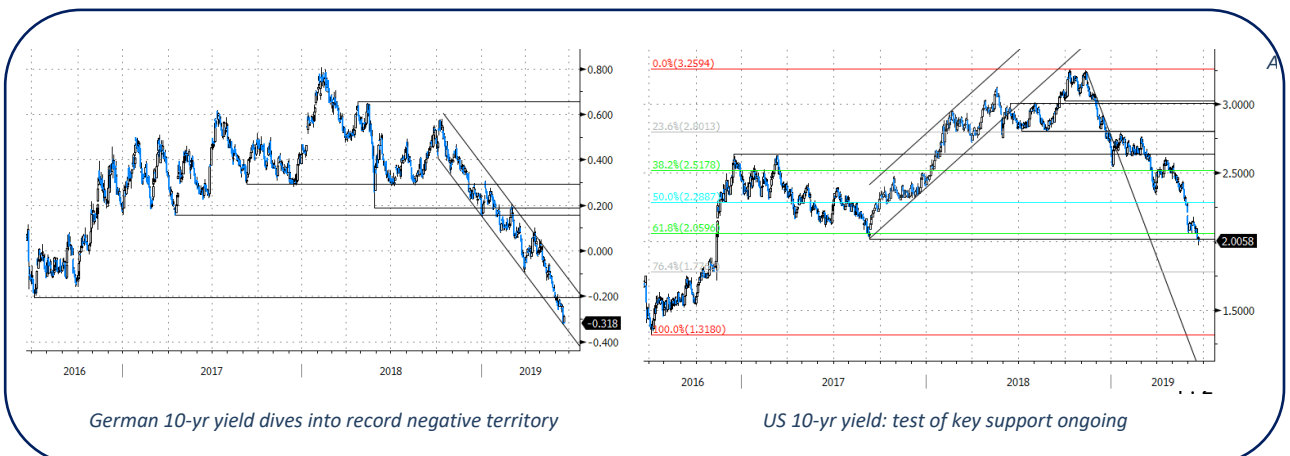
## Time for some short term profit taking on core bonds?



**Core bonds spent most of the day near the post-FOMC highs.** Disappointing US (Philly Fed Business Outlook) and EMU (consumer confidence) data didn't deliver an additional boost and rising stock markets (new all-time highs for S&P 500 and Dow) and oil prices failed to pull the down. The US 10-yr yield intensively tested the key 2.01% support area. **Investors only threw the towel in the dying minutes of the trading session, triggering profit taking in US Treasuries and pulling the 10-yr yield above the psychological 2% border.** The US yield curve bear flattened in a corrective move with yields 4.2 bps (2-yr) to 0.5 bps (30-yr) higher. The German yield curve bull flattened with yields losing 2 bps (2-yr) to 4.1 bps (30-yr). Peripheral yield spread changes vs Germany ranged between -2 bps and +2 bps **with Italy (+7 bps) and Greece (+11 bps) underperforming.** Italian PM Conte reiterated that Italy aims a 2.1% of GDP deficit by the end of the year. **Deputy PM Salvini warned to leave the government if they didn't cut taxes.**

Asian markets cede ground this morning despite the US's record race. **Dollar weakness could be at play.** Japan underperforms (-1%) while China outperforms. The German Bund flatlines while the US Note future recovers part of yesterday's late session faint. **Today's eco calendar contains June EMU PMI data.** Consensus forecasts a stabilization in both the manufacturing (48 from 47.7) and services (53 from 52.9) gauges. **We continue to see downside risks with ECB Draghi's strong verbal interaction in Sintra in mind. The Bund's reaction in case of weak data will be interesting. Do we gradually reach the point where sufficient bad news is discounted?** Failure to gain on weak EMU eco data could than be a signal for some short term profit taking. **The US session will be equally important with the US 10-yr yield probably making a new attempt to take out 2.01% support. Again, failure to do so would mean that the worst is currently discounted and can trigger some profit taking ahead of the weekend.** The end of yesterday's trading session hints in that direction. To be clear: any such move would be temporary and corrective in nature and **not the start of an upleg in yields.**

**Long term :** The onus of the ECB is back on potential easing measuring including revamping asset purchases or cutting rates. The German 10-yr yield sets a new all-time low. There's no trigger available at this stage to escape the lows, let alone negative territory. The Fed opened the door for cutting rates with a July rate cut discounted. The US 10-yr yield is currently still testing 2.01%. There's probably little room for a strong rebound unless eco data start significantly improving.



# Currencies

## Euro prone for a PMI-driven hit



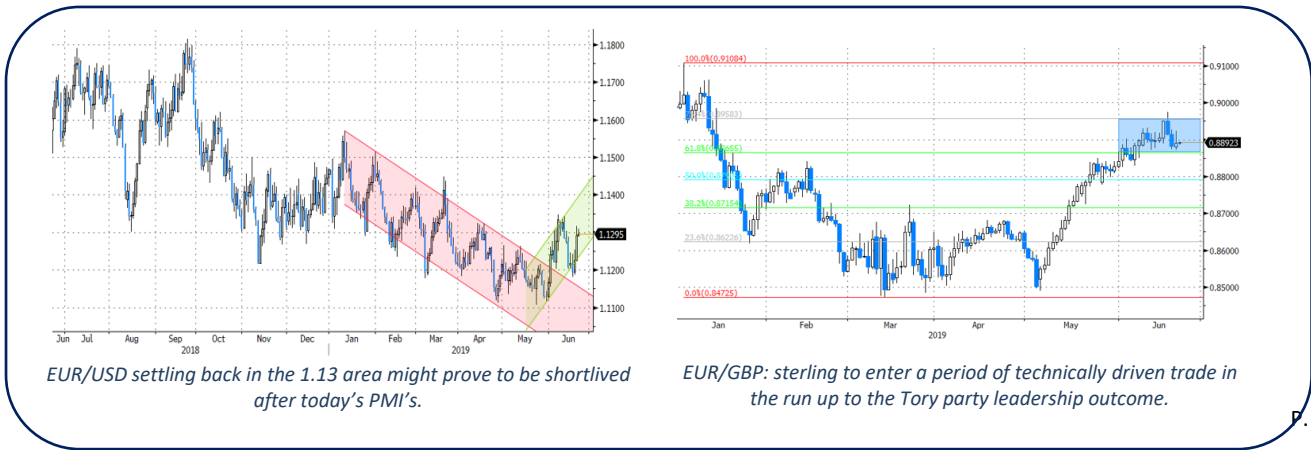
**The dollar was subject to follow-through selling yesterday.** Markets chewed over the Fed's dovish policy meeting yesterday and what it means for interest rates going forward. A hideous Philly Fed business outlook and an almost 4% increase in oil prices also weighed the dollar down. EUR/USD pierced through 1.13 but closed the session eventually slightly below (1.1293) as the dollar marginally profited from rising geopolitical tensions. USD/JPY slid from 108.10 to 107.30.

**While Wall Street printed new record highs (S&P500, Dow) yesterday, Asia is trading more mixed.** China outperforms as markets have set their hopes on a meeting between Trump and Xi at the G20 summit end of June. Japan underperforms and a glance at USD/JPY reveals why. The yen is trading at the strongest level since April 2018 (excluding January's flash crash). The NY Times reported president Trump approved strikes against Iran. He later cancelled the operation however. The couple is eyeing first support at around 106.92 (107.10 currently).

ECB's Draghi hinted at further monetary easing earlier this week if the economic skies do not clear up soon. **Today's EMU PMI confidence indicators therefore will be scrutinized.** Markets expect a stabilization near/a marginal increase of current levels. Given the ongoing trade uncertainty and geopolitical tensions we see little reasons to expect a surprise on the upside, rather the opposite. If so EUR/USD is prone for a setback after yesterday's rise. First support situates around 1.1250.

Draghi signalled further ECB easing earlier this week if the eco outlook deteriorates further. The **Fed's freshly installed easing bias at least restored the balance of softness.** We now see an asymmetrical reaction function for both the dollar and the euro, with them being particularly sensitive to negative news. **The pair probably entered a buy-on-dips pattern. Support at EUR/USD 1.1180/1.1107 still looks solid.**

The Bank of England held rates stable and kept its tightening bias alive yesterday. It still assumes an orderly Brexit but the likelihood of a no deal increased. Sterling lost in the wake of the meeting before recovering (to about EUR/GBP 0.89) after some political fog cleared. **Johnson and Hunt came out as yesterday's finalists of the Tory leadership race.** A outcome is expected end of July. Up until then we expect trading in EUR/GBP mainly to be technical driven around its new-found equilibrium in the 0.89's.



# Calendar

Thursday, 11 April		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM/YoY (Mar)	0.3%/1.9%	0.1%/1.9%
14:30	PPI Ex Food and Energy MoM/YoY (Mar)	0.2%/2.4%	0.1%/2.5%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Mar)	0.2%/--	0.1%/2.3%
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>210k</b>	<b>202k</b>
14:30	Continuing Claims	1735k	1717k
<b>Japan</b>			
01:50	Money Stock M3 YoY (Mar)	2.1%A	2.1%
04:00	Tokyo Avg Office Vacancies (Mar)	1.78A	1.78
<b>UK</b>			
01:01	RICS House Price Balance (Mar)	-24%A	-27%R
<b>Germany</b>			
08:00	CPI EU Harmonized MoM/YoY (Mar F)	0.5%/1.4%	0.5%/1.4%
<b>France</b>			
08:45	CPI EU Harmonized MoM/YoY (Mar F)	0.9%/1.3%	0.9%/1.3%
<b>China</b>			
03:30	CPI YoY (Mar)	2.3%A	1.5%
03:30	PPI YoY (Mar)	0.4%A	0.1%
<b>Sweden</b>			
09:30	CPI MoM/YoY (Mar)	0.2%/1.8%	0.7%/1.9%
09:30	CPIF MoM/YoY (Mar)	0.1%/1.8%	0.7%/1.9%
<b>09:30</b>	<b>CPIF Excl. Energy MoM/YoY (Mar)</b>	<b>0.2%/1.4%</b>	<b>0.8%/1.4%</b>
<b>Events</b>			
<b>10:00</b>	<b>ECB Survey of Professional Forecasters</b>		
11:00	Italy to Sell Bonds		
<b>15:30</b>	<b>Fed's Clarida Speaks at Annual IIF Meeting in Washington (vice-president)</b>		
<b>15:35</b>	<b>New York Fed's Williams Speaks in New York (voter)</b>		
<b>15:40</b>	<b>Fed's Bullard Speaks on Economy and Monetary Policy (voter)</b>		
<b>17:50</b>	<b>Fed's Quarles Takes Part in FSB Roundtable (voter)</b>		
19:00	US to Sell USD16 Bln 30-Year Bonds		
20:00	Fed's Kashkari to Hold Q&A Via Twitter (non-voter)		
22:00	Fed's Bowman Speaks on Community Banking (voter)		

	<u>Close</u>	<u>-1d</u>		<u>Close</u>	<u>-1d</u>	<b>Stocks</b>	<u>Close</u>	<u>-1d</u>	
<b>US</b>	2.03	-0.02	<b>2-year</b>	1.78	0.04	<b>DOW</b>	26753.17	249.17	
<b>DE</b>	-0.32	0.00		-0.76	-0.02	<b>NASDAQ</b>	8051.34	64.02	
<b>BE</b>	0.08	0.00		-0.66	-0.03	<b>NIKKEI</b>	21258.64	-204.22	
<b>UK</b>	0.81	0.00		0.57	-0.05	<b>DAX</b>	12355.39	46.86	
<b>JP</b>	-0.17	0.00		-0.24	-0.01	<b>DJ euro-50</b>	3468.08	13.38	
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>	<b>USD</b>	<u>-1d</u>	<u>-2d</u>
<b>3y</b>	-0.35	1.75	0.83	<b>Eonia</b>	-0.3740	0.0050			
<b>5y</b>	-0.21	1.77	0.86	<b>Euribor-1</b>	-0.3960	-0.0050	<b>Libor-1</b>	2.3834	0.0000
<b>10y</b>	0.20	1.97	1.00	<b>Euribor-3</b>	-0.3380	-0.0020	<b>Libor-3</b>	2.3861	0.0000
				<b>Euribor-6</b>	-0.3030	-0.0040	<b>Libor-6</b>	2.3000	0.0000
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
<b>EUR/USD</b>	1.1293	0.0067		<b>EUR/JPY</b>	121.17	-0.19	<b>CRB</b>	178.63	3.19
<b>USD/JPY</b>	107.3	-0.80		<b>EUR/GBP</b>	0.8890	0.0008	<b>Gold</b>	1396.90	48.10
<b>GBP/USD</b>	1.2702	0.0063		<b>EUR/CHF</b>	1.1085	-0.0077	<b>Brent</b>	64.45	2.63
<b>AUD/USD</b>	0.6923	0.0042		<b>EUR/SEK</b>	10.6348	-0.0203			
<b>USD/CAD</b>	1.3192	-0.0088		<b>EUR/NOK</b>	9.6613	-0.1115			

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## Contacts

<b>Brussels Research (KBC)</b>		<b>Global Sales Force</b>	
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
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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