

Wednesday, 22 January 2020

Rates: Core bonds gain some momentum; waiting on ECB and PMI's

The Chinese virus outbreak caused some risk aversion yesterday which could last until the start of Chinese NY holidays. Today's empty eco calendar suggests sentiment-driven trading within technical ranges ahead of tomorrow's ECB meeting and Friday's global PMI's. Italian bonds underperform with 5SM leader Di Maio rumoured to resign.

Currencies: EUR/USD still captured in sell-on-upticks pattern

EUR/USD spiked temporarily higher on a strong ZEW confidence yesterday, but gains could not be sustained. A rebound in US yields as uncertainty on the corona virus eases, is supporting the dollar both against the yen and the euro. The EUR/USD 1.1066 support remains under threat. Sterling remains well bid after a solid UK labour market report.

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	➔

- **US stock markets** lost ground and ended up to 0.52% (S&P 500) lower as the Chinese coronavirus found its way to US grounds. **Asian markets** are mostly in the green following China's response to the virus. South Korea outperforms.
- **The Chinese government will start nationwide screening to tackle the growing outbreak of the coronavirus** as the death toll rises and the virus appears to be spreading around to other parts of China and abroad.
- **Russian president Putin approved a new government describing it as a break with the past.** The approval comes a week after Putin revealed a thorough shift of the country's political system which led to the resignation of the government.
- **Italy's anti-establishment Five Star Movement is on the brink of collapse** ahead of this weekend's regional election as party leader **Luigi Di Maio is about to quit** his role as party chief, according to reports from several Italian media outlets.
- **Canadian PM Trudeau urged legislators to speed up the process of ratifying the new USMCA deal.** The main opposition party is throwing a spanner in the works and dragging out the process, indicating it wants to scrutinize the deal.
- **South Korea's economy expanded by 1.2% (Q/Q) in Q4/2019**, up from 0.4% in Q3 and beating the 0.7% forecast. The government's fiscal boost and the central bank's stimulus continue to support the country's economic growth recovery.
- **Today's economic calendar** contains Canadian CPI figures, shortly followed by the BoC's rate decision which is expected to stand pat. US home sales and house price data are due.

Rates

Waiting for ECB & global PMI's

	US yield	-1d
2	1.53	-0.03
5	1.59	-0.04
10	1.77	-0.05
30	2.24	-0.04

	DE yield	-1d
2	-0.58	0.01
5	-0.53	-0.01
10	-0.25	-0.03
30	0.26	-0.04

Core bonds recorded gains yesterday. US Treasuries outperformed after returning from the long weekend (Martin Luther King Day). They profited already early in Asian dealings after the Chinese virus was given a higher risk profile. Tensions eased early in European trading with the Bund even setting an intraday low following **a stronger-than-expected German ZEW investor sentiment.** The forward looking expectations component surged to its highest level since 2015. The final move of core bonds was north though, cashing in on their safe haven status after a disappointing WS opening. **US stock markets eventually lost up to 0.5% The CDC reporting a first US virus case erased all efforts to overturn opening weakness.** US yields fell by 2.8 bps (2-yr) to 4.7 bps (10-yr) on a daily basis. The German yield curve flattened with yield differences ranging between +0.5 bps (2-yr) and -3.9 bps (30-yr). 10-yr yield spread changes vs Germany ended close to unchanged with Italy (+5 bps) underperforming. **The PD-5SM coalition is on the brink of collapse with 5SM party leader Di Maio rumoured to quit his role** ahead of this weekend's likely regional election defeat in Emilia-Romagna and Calabria.

Asian stock markets gain up to 1.5% this morning. South Korea outperforms following a strong Q4 GDP print (1.2% Q/Q). Chinese efforts to preserve medical contagion are welcomed positively. We stick to our view that the virus story probably has similar characteristics as the geopolitical stress in the Middle East early this year: **any panic will probably prove short-lived as a market theme, but it's hard to call the turning point. Therefore, some cautiousness initially remains warranted** especially in the run-up to Chinese Lunar NY holiday's which start on Friday.

Today's eco calendar is empty, giving way to sentiment-driven and technically-inspired trading. Tomorrow and Friday will be more exciting. **The ECB holds its first policy meetings of the year.** The onus in Frankfurt will probably be on this year's scheduled policy review. **Eco data include Friday's global PMI's.** Event risk comes from the Chinese virus outbreak, Q4 earnings, the World Economic Forum in Davos and the start of US President Trump's impeachment hearings.

Technically: core bond yield's Q4 upleg was interrupted at the start of the year because of the US-Iran conflict. Inflation risk premia remain underpriced at current yield levels and could grab market attention during the year with eg inflation expectations bottoming out. **The German 10-yr yield tested -0.18% (July high)/-0.15% (38% retracement of Feb '18 – Sep '19 decline) resistance, but a break didn't occur (yet).** The US 10-yr yield on multiple occasions failed to take out the 1.94% upper bound of the reigning trading channel.



German 10-yr yield: -0.18%/-0.15% resistance holds for now.



US 10-yr yield: 1.94% proves to be tough resistance.

Currencies

EUR/USD still captured in sell-on-upticks pattern

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.1082	-0.0013
S1	1.1000	
S2	1.0879	

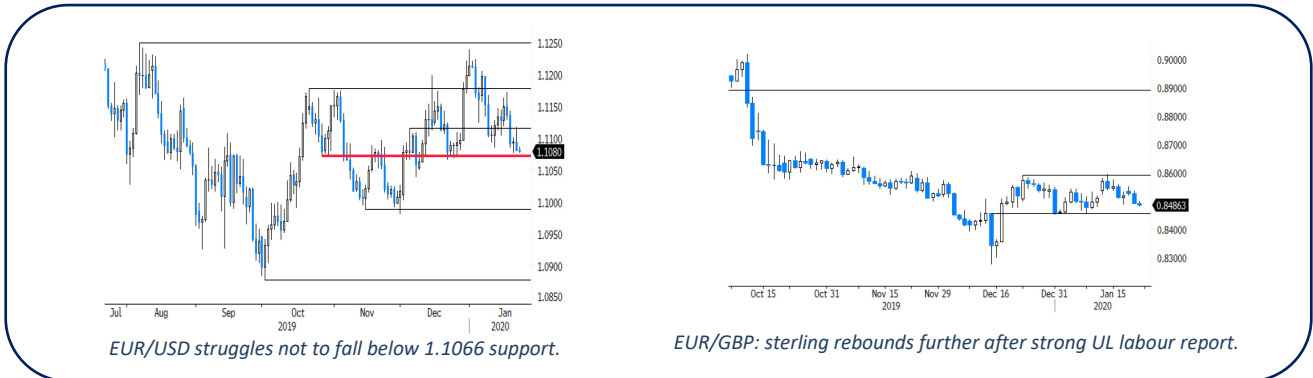
R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8494	-0.0035
S1	0.8275	
S2	0.8117	

Yesterday, the odds in FX trading **tilted in favour of the euro, at least temporarily**. EUR/USD hovered just below 1.11 as uncertainty on the corona virus triggered a risk-off repositioning in Asia. Later, EUR/USD was propelled by an unexpected sharp rise of ZEW investor confidence. In line with recent price action, the decline in core (US) yields due to the risk-off also weighed on the dollar. USD/JPY dropped below 110 (close at 109.87). EUR/USD spiked to the 1.1115 area, but the gain evaporated soon. The pair even closed the session in the red (1.1082 vs 1.1095). For now, the pair is still captured in a sell-on-upticks pattern.

This morning, Asian markets gradually recoup part of yesterday's virus-induced sell-off. Regarding the data, South Korea Q4 growth surprised on the upside (1.2% Q/Q), a pointer regional and even global growth might be bottoming. Still, the regional dynamics are mainly driven by the headlines on the corona virus. The yuan opened weak but reversed intraday losses (USD/CNY near 6.9050). The dollar profits from a guarded rebound in US yields. USD/JPY is trading just north of 110. EUR/USD struggles not to fall below the 1.1080 support area.

Today, the eco calendar is thin both in the US and Europe. So, global sentiment/FX trading will mainly be driven by headlines on the (wider) impact of the corona virus. Investors also keep an eye on corporate results as the earnings season is in full swing. **Yesterday**, EUR/USD profited temporarily from a strong ZEW, but there are few euro-specific drivers. If anything, uncertainty on Italian politics might be euro negative. Global factors also don't help EUR/USD. A rebound in core yields tends to support the dollar, both against the yen and the euro. The technical picture remains fragile too. EUR/USD struggles not to fall below the 1.1085/66 support. A break would deteriorate the short-term picture. A rebound above 1.1180 would call off the ST downside alert, but that looks difficult for now.

Over the previous days any upticks in EUR/GBP were met with decent GBP buying interest despite market speculation on a BoE rate cut at the of this month. Yesterday, sterling was further propelled by a solid UK labour market report. EUR/GBP returned below the 0.85 handle. **Of late, sterling didn't suffer much from the debate on a potential rate cut**. For now, ST sterling momentum remains constructive. **The UK preliminary PMIs (tomorrow) might be key for the BoE and for sterling.**



Calendar

Wednesday, 22 January		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Dec)	0.13	0.56
15:00	FHFA House Price Index MoM (Nov)	0.30%	0.20%
16:00	Existing Home Sales / MoM (Dec)	5.43m/1.50%	5.35m/-1.70%
Canada			
14:30	CPI NSA MoM / YoY (Dec)	0.00%/2.30%	-0.10%/2.20%
14:30	CPI Core- Median YoY% (Dec)	2.4%	2.40%
14:30	CPI Core- Common YoY% (Dec)	1.9%	1.90%
14:30	CPI Core- Trim YoY% (Dec)	2.2%	2.20%
16:00	Bank of Canada Rate Decision	1.75%	1.75%
UK			
10:30	Public Sector Net Borrowing (Dec)	4.6b	4.9b
12:00	CBI Trends Total Orders (Jan)	-25	-28
12:00	CBI Trends Selling Prices (Jan)	5	6
12:00	CBI Business Optimism (Jan)	-20	-44
France			
08:45	Business Confidence (Jan)	105	106
08:45	Manufacturing Confidence (Jan)	101	102
Events			
Q4 Earnings	Johnson & Johnson(12:45), Texas Instruments (Aft-mkt),...		
08:40	BoE's Carney Speaks at Bloomberg Climate Forum in Davos		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.77	-0.05	US	1.53	-0.03	DOW	29196.04	-152.06	
DE	-0.25	-0.03	DE	-0.58	0.01	NASDAQ	9370.807	-18.14	
BE	-0.01	-0.03	BE	-0.55	0.01	NIKKEI	24031.35	166.79	
UK	0.63	-0.02	UK	0.43	0.00	DAX	13555.87	6.93	
JP	0.00	-0.01	JP	-0.12	0.01	DJ euro-50	3789.12	-9.91	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.27	1.58	0.65	Eonia	-0.4530	0.0000	Libor-1	1.6534	0.0000
5y	-0.17	1.59	0.70	Euribor-1	-0.4700	-0.0070	Libor-3	1.8021	0.0000
10y	0.11	1.74	0.83	Euribor-3	-0.3920	0.0000	Libor-6	1.8295	0.0000
				Euribor-6	-0.3340	-0.0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1082	-0.0013	EUR/JPY	121.77	-0.48	CRB	181.56	-1.32	
USD/JPY	109.87	-0.31	EUR/GBP	0.8494	-0.0035	Gold	1557.90	-2.40	
GBP/USD	1.305	0.0040	EUR/CHF	1.0736	-0.0008	Brent	64.59	-0.61	
AUD/USD	0.6845	-0.0028	EUR/SEK	10.5573	-0.0030				
USD/CAD	1.307	0.0022	EUR/NOK	9.9682	0.0620				

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