



Friday, 24 January 2020

Rates: Finally signs of improvement coming from EMU PMI's?

Chinese markets are closed for week-long holiday because of Lunar NY. This week's risk aversion related to the coronavirus eases. Core bonds yields hit first intermediate support levels. Today's EMU PMI's are expected to finally show an upside surprise/signs of improvement and prevent a break lower in yield terms.

Currencies: Warning lights flashing for EUR/USD. PMI to decide on further GBP gains

EUR/USD dropped below 1.1066 support yesterday. A really strong EMU PMI is probably needed today to change fortunes for the single currency. The UK PMI might be decisive input for next week's BoE policy decision. An material improvement might support the recent sterling rebound.

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** ended near flat (up to 0.20%) as the Chinese coronavirus and mixed Q4/2019 earnings reports kept a lid on markets. **Asian markets** are trading mixed with China closed for Chinese NY. India outperforms (+0.68%).
- **China** boosted its efforts to contain the new coronavirus by **expanding the travel ban** beyond the epicentre of the coronavirus outbreak. **For now, the World Health Organisation (WHO) declares the virus a local emergency.**
- **Japanese inflation picked up in December to 0.8% (Y/Y)** up from 0.5% in November. The higher October sales tax and a steadying of gasoline prices pushed prices higher. Core inflation also rose to 0.7% from 0.5% last month.
- **Japanese factory activity contracted for a ninth straight month in January albeit at a slower pace.** The manufacturing PMI printed at 49.3, up from 48.4, reflecting increased output and new orders amid easing trade tensions.
- **US president Trump will sign the USMCA deal on Wednesday** during a ceremony at the WH, Reuters reported citing an administration official. The trade agreement will take effect once it has been ratified by all member nations.
- **New Zealand's inflation was stronger than expected in Q4/2019.** CPI inflation rose to 1.9% (Y/Y) in Q4 from 1.5% in Q3, providing the RBNZ breathing room following improved business confidence and additional fiscal support.
- **Today's economic calendar** is quite packed. Flash PMIs for January are due in the EMU and the US. Markets expect timid pickups this month. UK readings will be closely watched ahead of the BoE's meeting next week.

Rates

Finally some improvement in EMU PMI's?!

	US yield	-1d
2	1.51	-0.01
5	1.55	-0.03
10	1.73	-0.04
30	2.19	-0.04

	DE yield	-1d
2	-0.60	-0.02
5	-0.57	-0.03
10	-0.31	-0.05
30	0.21	-0.04

The spreading Chinese coronavirus remained top of mind for investors yesterday. Risk aversion led to gains for core bonds and the Japanese yen, while Asian and European stock markets lost ground. **Core bonds came off the highs during US dealings after the WHO said it was too early to declare the spread of the coronavirus a global emergency.** The message also triggered a late rebound in US stock markets which eventually closed mixed. **The ECB's first policy meeting of the year suggested no near term policy change and kickstarted this year's, possibly, radical review.** The US yield curve bull flattened in a daily perspective with yields falling by 1.4 bps (2-yr) to 4.4 bps (30-yr). Germany yields lost 1.4 bps (2-yr) to 4.8 bps (10-yr). 10-yr yield spread changes vs Germany ended close to unchanged with Italy (-5 bps) outperforming.

Asian stock markets stabilize this morning, mostly eking out small gains. **Traded volumes are low with Chinese markets closed for Lunar NY holidays (reopen Friday January 31).** With China closed, it could take some sting out of the coronavirus panicky market reaction. We pointed out before that we think the coronavirus episode will have the same, temporary safe haven characteristics as this year's US-Iran geopolitical conflict. It's too early to call the turnaround though, with a lot of uncertainty remaining ahead of the weekend.

Today's eco calendar contains **EMU January PMI's**. Consensus expects a stabilization in the services sector (52.8) and marginal improvement in the manufacturing industry (46.8 from 46.3). With no deal brexit and US-Sino trade risks solved by the end of last year, **we finally hope to see some improvement in the PMI's.** The leading German ZEW expectations component at least suggests some upward risks for today. **For core bonds this means that we could get some profit taking on this week's gains in case of really good figures, especially as the German and US 10-yr yields arrived at intermediate support levels.**

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). We now arrived at intermediate support around -0.3%.** The US 10-yr yield on multiple occasions failed to take out the 1.94% upper bound of the reigning trading channel. The 1.7% area serves as short term support.



German 10-yr yield arrived at first support after failing to take out key resistance. EMU PMI's to the rescue?.



US 10-yr yield: 1.94% proved to be tough resistance. Return action towards 1.7% support area due to risk aversion

Currencies

Warning lights are flashing for EUR/USD

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.1055	-0.0038
S1	1.1000	
S2	1.0879	

R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8422	-0.0019
S1	0.8275	
S2	0.8117	

Yesterday, **uncertainty on the coronavirus** dominated global FX trading, even as the risk-off eased later in US dealings. The **yen outperformed**. USD/JPY touched an intraday low near 109.27 (close 109.49). EUR/USD held a tight range just below 1.11 before the ECB press conference. The pair jumped briefly higher as ECB's Lagarde mentioned a modest rise in underlying inflation. **The gain was (more than) reversed** later as Lagarde said that the ECB should decide on which part of the curve it should operate if growth doesn't pick up. Does this suggest some kind of ECB curve control? Whatever, German yields and the euro dropped, with **EUR/USD breaking the 1.1066 support** (close at 1.1059).

This morning, Asian (equities) are entering calmer waters going into the China Lunar New Year (Mainland China and Korea closed). US yields show tentative signs of bottoming and so does USD/JPY (110.50 area). At the same time, the 'cooling' of the global risk off for now doesn't help the euro. EUR/USD hovers near 1.1050.

Today, the focus for trading might shift from the coronavirus to the eco data with the preliminary EMU and US PMIs scheduled for release. The **EMU composite PMI** is expected to rise from 49.3 to 50.3. Consensus sees manufacturing improving and services unchanged. The euro probably needs a substantial positive surprise to abort the recent slide. US PMIs are expected more or less stable. Lingering political tensions in Italy ahead of this weekend's regional elections might be a source of euro caution too. **From a technical point of view warning lights are flashing**. A sustained break of the 1.1066/40 area would paint a H&S pattern on the charts with targets near/below 1.09. A rebound above 1.1180 would call off the ST downside alert, but that looks difficult ST.

Today, might also be **key for GBP-trading**. Yesterday, sterling showed a mixed picture, losing a few ticks against the dollar but gaining against a broadly weaker euro (close EUR/GBP 0.8422). Today's UK PMIs will provide **decisive input as the BoE debates a rate cut next week**. The market expects a rise of the composite PMI from 49.3 to 50.7. The jump in CBI confidence suggests that **an upward surprise is possible**. If so, market expectations of a rate cut might be scaled back further, reinforcing the rebound of sterling. **A confirmed break of the 0.8450 range bottom would open the way to the 0.8277 correction low**.



EUR/USD: technical alert as pair is at risk of falling below key support.



EUR/GBP: UK PMI to decide on BoE rate cut and on further sterling gain.

Calendar

Friday, 24 January		Consensus	Previous
US			
15:45	Markit US Services PMI (Jan P)	53.0	52.8
15:45	Markit US Composite PMI (Jan P)	--	52.7
15:45	Markit US Manufacturing PMI (Jan P)	52.4	52.4
Japan			
00:30	Natl CPI YoY (Dec)	A: 0.80%	0.50%
00:30	Natl CPI Ex Fresh Food YoY (Dec)	A: 0.70%	0.50%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Dec)	A: 0.90%	0.80%
01:30	Jibun Bank Japan PMI Composite (Jan P)	A: 51.1	48.6
01:30	Jibun Bank Japan PMI Mfg (Jan P)	A: 49.3	48.4
01:30	Jibun Bank Japan PMI Services (Jan P)	A: 52.1	49.4
UK			
10:30	Markit UK PMI Manufacturing SA (Jan P)	48.8	47.5
10:30	Markit/CIPS UK Services PMI (Jan P)	51.1	50
10:30	Markit/CIPS UK Composite PMI (Jan P)	50.7	49.3
EMU			
10:00	Markit Eurozone Manufacturing PMI (Jan P)	46.8	46.3
10:00	Markit Eurozone Services PMI (Jan P)	52.8	52.8
10:00	Markit Eurozone Composite PMI (Jan P)	51.2	50.9
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Jan P)	44.5	43.7
09:30	Markit Germany Services PMI (Jan P)	53	52.9
09:30	Markit/BME Germany Composite PMI (Jan P)	50.5	50.2
24JAN-30JAN	Import Price Index MoM / YoY (Dec)	0.20%/- 0.70%	0.50%/- 2.10%
France			
09:15	Markit France Manufacturing PMI (Jan P)	50.6	50.4
09:15	Markit France Services PMI (Jan P)	52.2	52.4
09:15	Markit France Composite PMI (Jan P)	52	52
Belgium			
15:00	Business Confidence (Jan)	-3.1	-3.4
Events			
Q4 Earnings	American Express (Bef-mkt),...		
09:30	ECB Governing Council member Villeroy Speaks on Panel in Davos		
10:00	ECB Survey of Professional Forecasters		
10:30	ECB Villeroy, Knot, BOE Haskel Speak on Panel in Davos		
11:30	WEF: Lagarde, Zhu, Mnuchin, Scholz, Georgieva, Kuroda, Javid		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.73	-0.04		US	1.51	-0.01		DOW	29160.09	-26.18
DE	-0.31	-0.05		DE	-0.60	-0.02		NASDAQ	9402.478	18.71
BE	-0.07	-0.05		BE	-0.57	-0.02		NIKKEI	23827.18	31.74
UK	0.59	-0.04		UK	0.42	-0.02		DAX	13388.42	-127.33
JP	-0.02	-0.01		JP	-0.13	0.00		DJ euro-50	3736.85	-32.94
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.29	1.54	0.64	Eonia	-0.4510	0.0000		Libor-1	1.6594	0.0000
5y	-0.21	1.55	0.68	Euribor-1	-0.4670	-0.0010		Libor-3	1.8009	0.0000
10y	0.06	1.68	0.78	Euribor-3	-0.3860	0.0040		Libor-6	1.8246	0.0000
				Euribor-6	-0.3200	0.0090				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1055	-0.0038		EUR/JPY	121.06	-0.77		CRB	178.53	-1.50
USD/JPY	109.49	-0.35		EUR/GBP	0.8422	-0.0019		Gold	1571.60	8.70
GBP/USD	1.3123	-0.0019		EUR/CHF	1.0713	-0.0024		Brent	62.04	-1.17
AUD/USD	0.6847	0.0003		EUR/SEK	10.5376	-0.0088				
USD/CAD	1.3127	-0.0008		EUR/NOK	9.9466	-0.0217				

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	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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.

