



**Wednesday, 26 February 2020**

### Rates: US 10-yr yield tests all-time low

Risk sentiment soured during US trading hours with main US benchmarks shedding another 3%. The US 10-yr yield bounced off the all-time low. The front end of the curve outperformed with investors betting on the Fed. Core bonds took quite some advance on the corona theme, but it's hard to see them lose significant ground in the context of weak stock markets.

### Currencies: Corona headlines risk weighing on the USD

After a pause, US yields declined further triggering some, albeit modest, further losses of the dollar. With US yields already at very low levels, the dollar probably won't lose a lot of interest rate support anymore. At the same time, the US currency might still face some headwinds from negative headlines on corona as it is still richly valued.

### 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** went down for the ride, deepening yesterday's sell-off following an alert from the US CDC. The Dow Jones underperformed (-3.15%). Losses on **Asian markets** remain limited to 1% this morning.
- The US Centers for Disease Control and Prevention (**CDC**) **warned Americans to begin preparing for an outbreak of the coronavirus that could cause significant disruptions** of daily life, though the alert was latter downplayed by the WH.
- **The Fed's Clarida disclosed the central bank is "closely monitoring" the escalating coronavirus epidemic** but it is still too soon to gauge the impact on the US economy and whether it requires the Fed to unleash more stimulus.
- **Hong Kong** unveiled a record budget deficit of 4.8% for 2020/21 as the country **boosts cash handouts to permanent residents tax concessions for companies** to cushion the blow to the economy from many protests and the coronavirus.
- **Ireland's two dominant center-right parties** Fine Gael and Fianna Fail held preliminary talks that **could lead to a coalition and freeze out left-wing nationalists Sinn Fein** despite surging voters' support.
- **EU trade chief Phil Hogan shared he's optimistic of trade talks with the US** and believes a **"mini deal" is within reach**. The bloc hopes the thaw out transatlantic tensions following a tit-for-tat spat over aircraft subsidies.
- **Today's economic calendar** is little inspiring with second tier data due, leaving trading up to global sentiment. ECB's Holzmann, Makhlouf and Lagarde are scheduled to speak. Germany and the US tap the bond market.

# Rates

	US yield	-1d
2	1.22	-0.02
5	1.17	-0.03
10	1.35	-0.02
30	1.83	-0.01

	DE yield	-1d
2	-0.69	-0.01
5	-0.69	-0.03
10	-0.51	-0.03
30	-0.03	-0.04

## US 10-yr yield tests 1.32% all-time low

**Coronapanic continued to spread yesterday, mainly during US trading hours and with stocks ending up being the biggest victims. US indices lost another 3%.** The US CDC (Centers for Disease Control and Prevention) warned that they expect a wider spread of the virus in the US and that it is preparing for a potential pandemic. The Trump administration tried to downplay the impact, but **couldn't prevent the S&P 500 from falling through first support in the 3200-area.** Next support kicks in around 3028 (July/Sep 2019 highs) and 2994 (38% retracement from "Powell put rally" since end 2018). For once, **moves on stock markets because of the risk-off theme were disproportionately large compared to other markets.** Gold prices stabilized while core bonds ended way off their best intraday levels. The German yield curve bull flattened with yields 1.6 bps (2-yr) to 3.7 bps (30-yr) lower. Peripheral yield spreads widened by up to 5 bps with Greece (+9 bps) underperforming. The US yield curve bull steepened with yields declining by 2.5 bps (2-yr) to 0.9 bps (30-yr). **The US 10-yr yield bounced off the 2016 all-time low (1.32%).** The curve move strengthens market thinking that the Fed will be called to action by June; a view which isn't currently shared by Fed governors. **Vice chair Clarida** joined the chorus of Fed members who admit that the coronavirus is a negative risk to the economy, but at this stage doesn't alter his expected Fed funds rate path. The US 2-yr Note auction went weak. A sign that sufficient bad news/Fed action is discounted by now or a coincidence with some investors side-lined because of sharp market moves?

**Losses on Asian stock markets remain limited to 1% this morning.** Other markets show signs of relative calm as well. **European indices are nevertheless set to open softer and risk facing additional selling pressure** with the number and geographical spreading of corona cases expanding. The EuroStoxx 50 could lose the 3570/3600 support area, paving the way for additional losses from a technical point of view towards the high 3200-area. **While core bonds obviously already took quite a large advantage on the corona trading theme, it's also hard to see them lose significant ground in case of prolonged stock market weakness.** From a technical point of view, Bunds have room to outperform US Treasuries. Today's eco calendar is extremely thin apart from some second tier data and ECB speeches. **Corona/risk sentiment will continue running the show.**

**Technically:** the Chinese coronavirus took markets since the end of January hostage via risk aversion, pulling core bond yields lower. The Chinese return to trading after Lunar NY holidays temporarily ended the decline, but the rapid spreading outside of China caused fresh stress across markets. The US 10-yr yield tested the all-time low of 1.32% while the German 10-yr yield lost intermediate support around -0.41%/-0.44%.



German 10-yr yield below intermediate support at: -0.41%/-0.44%.



US 10-yr yield tests all-time low (1.32%).

# Currencies

## Corona headline risk weighing (slightly) on USD

R2	1.1199	-1d
R1	1.0864	
<b>EUR/USD</b>	<b>1.0882</b>	<b>0.0028</b>
S1	1.0778	
S2	1.0581	

R2	0.8798	-1d
R1	0.8676	
<b>EUR/GBP</b>	<b>0.8368</b>	<b>-0.0029</b>
S1	0.8275	
S2	0.8117	

**Dollar trading continues to follow corona headlines.** The congruent decline of US yields and the dollar initially took a pause after the sharp risk-off repositioning on Monday. However, US equities, US yields and the dollar took another hit as the US Centre for Disease Control and Prevention (CDC) said a corona outbreak in the US isn't a question of 'if' it will happen but 'when'. The US risk-off trade resumed with more USD losses as markets brought forward expectation for a Fed rate cut. EUR/USD closed at 1.0882, moving further away from the 1.0778 support. USD/JPY finished at 110.20 (from 110.72). Eco data were again of little significance for trading.

Losses on Asian equity markets (mostly about 1.0%) are less than in the US yesterday evening, but sentiment remains fragile as markets monitor government action. The yuan (USD/CNY 7.0230) is losing modestly despite broad USD softness. Australia underperforms and AUD/USD is challenging the 11-y low (0.6585) set earlier this week. USD/JPY (110.35) hovers in the low half of the 110 big figure. EUR/USD is holding on to most of yesterday's gain (1.0875 area).

There are very few eco data in the US and Europe today, expect for US new home sales. The starting point for USD trading today is similar to yesterday. **US yields have declined sharply, weighing on the dollar.** The pace of the **yield decline will probably slow from current low levels.** At the same time, the risk of corona related headlines from the US isn't over and the dollar is still richly valued. Earlier this week, we advocated more **erratic (neutral) trading in the likes of EUR/USD or USD/JPY as the corona story develops.** We keep that assessment. The technical picture of EUR/USD remains fragile, but the 1.0778 level survived, and the pair is receiving some breathing space. The 1.09 area is first minor resistance. A rebound above 1.0950 would improve the ST picture.

Sterling showed remarkable **resilience** yesterday despite the global risk-off and the EU taking a rather tough stance at the start of the EU-UK Brexit negotiations next week. There are again few data today. BRC shop prices this morning were soft. **We expect more order driven trading in 0.8350/0.450 range with 0.8276 a solid support.**



EUR/USD rebounds off 1.0778 support as dollar 'suffers' loss of interest rate support due to corona.



EUR/GBP: 0.8276 proves to be tough resistance for sterling.

# Calendar

Wednesday, 26 February		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-6.40%
16:00	New Home Sales Total/MoM(Jan)	718k/3.50%	694k/-0.40%
<b>UK</b>			
01:01	BRC Shop Price Index YoY (Feb)	-0.60%A	-0.30%
<b>France</b>			
08:45	Consumer Confidence (Feb)	103	104
<b>Norway</b>			
08:00	Unemployment Rate AKU (Dec)	4.00%	4.00%
<b>Events</b>			
09:00	ECB's Holzmann Speaks at Conference in Vienna		
11:00	Germany to Sell 4 Billion Euros of 0% 2025 Bonds		
12:00	ECB Governing Council member Makhlof speaks in Berlin		
14:30	ECB President Lagarde Speaks in Wiesbaden, Germany		
19:00	US to Sell USD41 Bln 5-Year Notes		

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>	<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
<b>US</b>	1.35	-0.02		<b>US</b>	1.22	-0.02	<b>DOW</b>	27081.36	-879.44
<b>DE</b>	-0.51	-0.03		<b>DE</b>	-0.69	-0.01	<b>NASDAQ</b>	8965.612	-255.67
<b>BE</b>	-0.25	-0.01		<b>BE</b>	-0.62	-0.01	<b>NIKKEI</b>	22426.19	-179.22
<b>UK</b>	0.52	-0.02		<b>UK</b>	0.39	-0.02	<b>DAX</b>	12790.49	-244.75
<b>JP</b>	-0.09	0.01		<b>JP</b>	-0.19	0.01	<b>DJ euro-50</b>	3572.51	-75.47
<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>	-0.40	1.19	0.62	<b>Eonia</b>	-0.4550	0.0000			
<b>5y</b>	-0.35	1.18	0.62	<b>Euribor-1</b>	-0.4740	0.0030	<b>Libor-1</b>	1.6161	0.0000
<b>10y</b>	-0.15	1.29	0.68	<b>Euribor-3</b>	-0.4170	-0.0030	<b>Libor-3</b>	1.6466	0.0000
				<b>Euribor-6</b>	-0.3580	-0.0010	<b>Libor-6</b>	1.6276	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>	1.0882	0.0028		<b>EUR/JPY</b>	119.92	-0.27	<b>CRB</b>	168.49	-2.08
<b>USD/JPY</b>	110.2	-0.52		<b>EUR/GBP</b>	0.8368	-0.0029	<b>Gold</b>	1650.00	-26.60
<b>GBP/USD</b>	1.3005	0.0081		<b>EUR/CHF</b>	1.0621	-0.0003	<b>Brent</b>	54.95	-1.35
<b>AUD/USD</b>	0.6604	-0.0001		<b>EUR/SEK</b>	10.5714	0.0069			
<b>USD/CAD</b>	1.3279	-0.0014		<b>EUR/NOK</b>	10.1868	0.0308			

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