



Tuesday, 29 October 2019

Rates: Textbook risk-on correlations

Core bonds lost ground yesterday as risk sentiment flourished thanks to progress in US-Sino phase one trade talks. The US S&P 500 set a fresh all-time high. The German 10-yr yield recorded its highest close since July with the US 10-yr yield heading for a test of 1.94% resistance, possibly already after tomorrow's FOMC meeting (hawkish cut?!)

Currencies: EUR/USD losing momentum ahead of tomorrow's Fed meeting

Yesterday, USD/JPY and EUR/USD profited only modestly from a positive risk sentiment. Investors ponder the impact on the dollar of tomorrow's Fed meeting and key US eco data later this week. A 'hawkish Fed rate cut' short term might be a bit more USD supportive. Sterling is holding strong even as the focus of UK politics is turning to (the outcome of) new elections.

Calendar

Headlines

- **WS** rallied (up to 1.01%) on the back of increased hopes for a truce to the long-simmering US-China trade dispute and the prospect of a Fed rate-cut. **Asian markets** are trading mixed, with Japan outperforming (+0.81%).
- **Boris Johnson was thwarted for the third time in his attempt to secure an early Brexit election** under the Fixed-Term Parliaments act, losing the vote by 299/70. Under the act, Johnson needed 2/3rd of the MPs to back the poll.
- **The Fed proposes easier rules for when banks must set aside cash to safeguard derivatives trades between affiliates.** This could potentially free millions of dollars at large banks but perhaps at the expense of financial stability.
- **China set up a \$29 billion state-backed fund to invest in its chip industry, moving onward with efforts to scale down dependency on the US** by establishing its own supply chain from chip design to manufacturing.
- **Core consumer price growth in Tokyo, a leading indicator of nationwide inflation, remained stagnant in October (0.5%)** despite the sales tax hike, underscoring the challenge the BoJ faces in stocking inflation.
- **The House of Representatives is set to take its first vote on Thursday to support the ongoing impeachment inquiry of US president Trump.** The vote aims to nullify Republicans' main complaint that the process is illegitimate.
- In **today's economic calendar** the US consumer confidence indicator (October) takes centre stage alongside Q3 earnings reports. Market reaction is expected to be moderate ahead of tomorrow's Fed meeting.

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	➡

Rates

Classic risk-on correlations

	US yield	-1d
2	1.64	0.03
5	1.67	0.04
10	1.84	0.05
30	2.34	0.05

	DE yield	-1d
2	-0.65	0.01
5	-0.58	0.02
10	-0.33	0.03
30	0.20	0.04

Global core bonds turned south in this week's opening trading session.

Investors fled the classic safe haven assets in yesterday's risk-on mood. **The US S&P 500 set a fresh all-time high.** US Treasuries underperformed German Bunds. **Chinese and US officials both confirmed progress made in phase one of their trade deal which could be signed off in the sidelines of the November 16-17 APEC-Summit in Chile.** The US and German yield curves both bear steepened in a daily perspective. US yields added 2.4 bps (2-yr) to 4.7 bps (30-yr) with German yields adding 1.1 bp (2-yr) to 3.5 bps (30-yr). 10-yr yield spread changes vs Germany ended broadly unchanged with a minor Italian underperformance (+2 bps).

Asian stock markets gain up to 1% this morning with China underperforming

(-0.50%) even if the US Trade Representative said that the US will consider extending some tariff exclusions on Chinese imports and despite Alphabet's earnings miss. House of Democrats will hold a first vote to support the ongoing impeachment inquiry of the US President later this week. Japanese inflation numbers missed consensus by a wide margin. Core bonds hover sideways near yesterday's intraday lows.

Trading continues to center around risk sentiment today amid an empty EMU eco calendar. Reduced geopolitical uncertainty triggered a sell-off in core bonds since mid-October. **South remains the path of least resistance for now.** US housing data and especially consumer confidence are interesting, but unlikely to take the upper hand ahead of this week's FOMC meeting, Q3 GDP print, payrolls and manufacturing ISM.

We expect a third consecutive rate cut by 25 bps from the Fed tomorrow which would mark the end of the mid-cycle adjustment. We think the FOMC statement will specifically mention so. Short term rate markets currently discount additional cuts in December and next year, **suggesting potential for more bear flattening of the US yield curve in a repositioning move.**

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. The German 10-yr yield broke above -0.41% resistance as Brexit deal hopes surged, improving the technical picture. **Target of this double bottom formation are -0.25% and -0.13%.** The 38% retracement level of the decline between October and August stands at -0.24%. **The US 10-yr yield is heading for a test of 1.94% resistance (neckline double bottom).**



German 10-yr yield: painting double bottom on charts. Targets are -0.25% and -0.13%.



US 10-yr yield: sideways range between 1.43% and 1.94%. Heading for test of upper bound

Currencies

EUR/USD rally losing momentum ahead of Fed

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1100	0.0020
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8630	-0.0007
S1	0.8500	
S2	0.8314	

Trading in major FX cross rates was mainly driven **by global sentiment**

yesterday. Risky assets continued to perform well as investors took comfort from ongoing constructive headlines on the US-China trade talks. The S&P 500 touched a new all-time record. EUR/USD and USD/JPY held a cautiously positive bias but struggled to take out nearby big figures. EUR/USD finished at 1.1100. USD/JPY closed at 108.94.

The **trade-driven equity rally is losing momentum in Asia** this morning. Japan and Indian markets outperform. China underperforms. The yuan is making incremental gains near USD/CNY 7.06. USD/JPY is still testing the 109 big figure even as the Japanese 10-y yield hits the highest level in more than four months. EUR/USD (1.1095 area) still fails to regain the 1.11 barrier in a sustainable way.

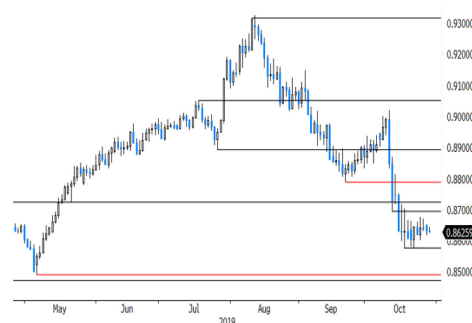
Today, the US consumer confidence (conference board) is interesting but markets probably will continue to look forward to more important data and events. Confidence is expected to rebound (128 from 125.1) after an unexpectedly sharp decline last month. A rebound to lofty levels might raise the question how much additional stimulus the US economy still needs after tomorrow's (discounted) Fed rate cut. The risk rally running out of steam might also prevent further EUR/USD and USD/JPY gains as markets await tomorrow's Fed decision.

The **technical picture of EUR/USD remains moderately constructive**, but the upside momentum is waning. The tone of Fed's Powell at tomorrow's press conference and the ISM/payrolls will decide whether there is room for a further USD rebound. ST resistance stands at 1.1179/1.1250. A return below 1.10 would reject the improved picture.

Yesterday, **sterling** maintained a cautiously positive bias even as the next steps in the UK political process remain uncertain. The EU approved to delay Brexit beyond 31 October (flexextension). At the same time, Boris Johnson is trying to secure parliamentary elections on December 12. A first attempt failed yesterday, but a new alternative vote will be brought to parliament today. If approved, sterling trading will be at the mercy of the opinion polls on the outcome of this election. In this context, **sterling trading could again become more erratic**. We maintain the working hypothesis that already quite some good news is discounted for sterling at current levels.



EUR/USD rebound losing momentum. Fed and US data to decide whether there is room for a (modest) further USD comeback



EUR/GBP: sterling holding rather strong even as focus turns to new UK Parliamentary elections.

Calendar

Tuesday, 29 October		Consensus	Previous
US			
14:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Aug)	-0.10%/2.10%	0.02%/2.00%
14:00	S&P CoreLogic CS US HPI YoY NSA (Aug)	--	3.18%
15:00	Pending Home Sales MoM/ NSA YoY (Sep)	1.00%/--	1.60%/1.10%
15:00	Conf. Board Present Situation (Oct)	--	169
15:00	Conf. Board Expectations (Oct)	--	95.8
15:00	Conf. Board Consumer Confidence (Oct)	128.0	125.1
Japan			
00:30	Tokyo CPI YoY (Oct)	0.40%A	0.40%
00:30	Tokyo CPI Ex-Fresh Food YoY (Oct)	0.50%A	0.50%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Oct)	0.70%A	0.60%
UK			
08:00	Nationwide House Px MoM/NSA YoY (Oct)	0.00%/0.30%	-0.20%/0.20%
10:30	Consumer Credit YoY (Sep)	0.9b	5.40%
10:30	Money Supply M4 MoM/YoY (Sep)	--/--	0.40%/3.20%
10:30	M4 Ex IOFCs 3M Annualised (Sep)	--	5.90%
France			
08:45	Consumer Confidence (Oct)	104	104
Events			
Q3 earnings	Merck (bef-mkt), Pfizer (bef-mkt), Mastercard (bef-mkt), General Motors (bef-mkt), EA (aft-mkt) ...		
29OCT	BoE Governor Mark Carney speaks at a conference in London		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.84	0.05		US	1.64	0.03		DOW	27090.72	132.66
DE	-0.33	0.03		DE	-0.65	0.01		NASDAQ	8325.985	82.87
BE	-0.04	0.04		BE	-0.61	0.01		NIKKEI	22974.13	106.86
UK	0.72	0.04		UK	0.54	0.02		DAX	12941.71	47.20
JP	-0.11	0.02		JP	-0.20	0.01		DJ euro-50	3625.69	1.01
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.32	1.64	0.81	Eonia	-0.4630	0.0000				
5y	-0.23	1.63	0.84	Euribor-1	-0.4410	0.0150		Libor-1	1.8049	0.0000
10y	0.08	1.76	0.94	Euribor-3	-0.4090	0.0040		Libor-3	1.9281	0.0000
				Euribor-6	-0.3460	0.0040		Libor-6	1.9333	0.0000
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1100	0.0020		EUR/JPY	120.93	0.52		CRB	178.28	-0.09
USD/JPY	108.95	0.28		EUR/GBP	0.8630	-0.0007		Gold	1495.80	-9.50
GBP/USD	1.2863	0.0036		EUR/CHF	1.1040	0.0021		Brent	61.57	-0.45
AUD/USD	0.6838	0.0015		EUR/SEK	10.771	0.0413				
USD/CAD	1.3055	-0.0003		EUR/NOK	10.2357	0.0459				

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