



**Tuesday, 03 December 2019**

## Rates: Core bonds continue their slide despite risk-off

Core bonds suffered from positive Asian data and increased chances for German stimulus. The decline continues this morning even as risk sentiment is fragile. We expect the downward move to hold throughout the trading day given the lack of data. Germany's 10y yield capped first resistance, US yields are nearing the upper bound of the sideways range.

## Currencies: EUR/USD rebounds off 1.10 both on euro strength and USD softness

Yesterday, the stalemate in the major FX cross rates was finally broken. The euro profited from higher yields after the SPD leadership change raised the hope of more fiscal stimulus. At the same time the dollar was hurt by a poor US ISM and president Trump reviving the debate on import tariffs. Break above 1.11 would improve the technical picture for EUR/USD.

## Calendar

# Headlines

- **US equities** plunged (up to -1.12%) as weak US eco data and a trade flare-up weighed on sentiment. **Asian markets** are tracking the slip on Wall Street with Australia underperforming (-2.19%).
- **US-China trade tensions seem to flare up** as China will soon publish a list of “unreliable entities” that could prompt sanctions against the US. Besides, China is contemplating visa restrictions against US officials, Global Times reported.
- **US president Trump continued his trade whirlwind** and set forth 100% tariffs on roughly \$2.4bln in **French goods** in response to the country’s digital tax which “discriminates against US companies” according to the US trade representative.
- **HK leader Carrie Lam asserted the HK Human Rights and Democracy Act signed into US law last week could do more harm than good.** The act undermines business confidence amid uncertain US actions when reviewing the legislation.
- **The RBA decided to keep its policy rate unchanged at 0.75%** amid softened global risks but leaves the door open to further easing. The central bank is now waiting for the 3 prior cuts to gain traction in the country’s sluggish economy.
- Testifying at the European Parliament, **ECB chief Lagarde vowed the ECB will be “resolute” in reinstating price stability.** Lagarde also underscored that an upcoming strategy review will be wide-ranging, including **climate change**.
- **Today’s economic calendar** is little inspiring with very few data releases. The UK will publish November’s construction PMI and EMU’s October PPI is due. ECB board nominees Panetta and Schnabel will be speaking in Parliament today.

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

## Core bonds continue their slide despite risk-off

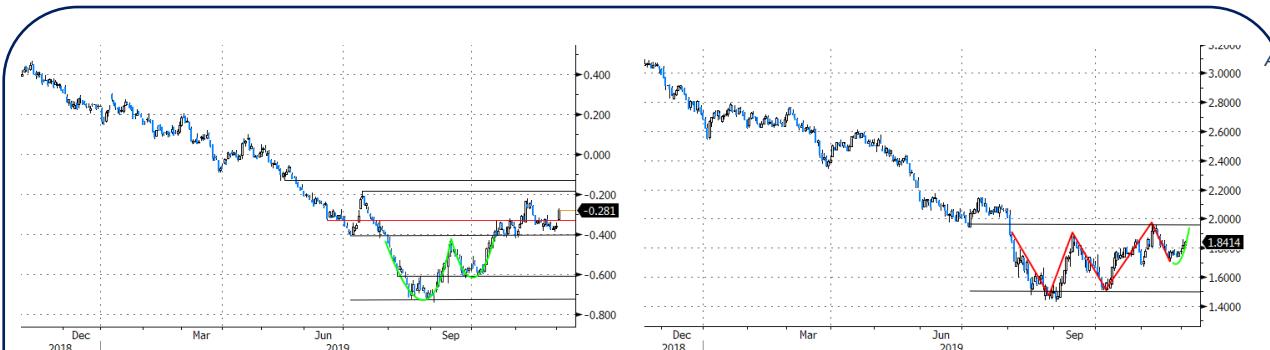
### Core bonds were dealt a striking blow at the start of the week yesterday.

Better than expected Chinese November PMI's kickstarted an upbeat Asian trading session. A further rise in final European PMI's added to the positive sentiment. But last and foremost, the (to be confirmed) new SPD leadership chosen over the weekend (Walter-Borjans and Esken) revived market expectations of German fiscal stimulus along the road. US president Trump reinstalling tariffs on steel from Brazil and Argentina and Wilbur Ross saying China faces a similar fate (of increased tariffs) in case of no deal impacted stock markets rather than bonds. The German Bund underperformed US Treasuries where an unexpected fall in the manufacturing ISM (from 48.3 to 48.1 vs. 49.2 consensus) hampered the decline. The German yield curve bear steepened with yields rising 1.4 bps (2-yr) to 9.2 bps (30-yr). The yield spread vs. Germany widened in Italy (+4 bps) and were close to unchanged in other countries. US yields declined 1.1 bp at the short end (2-yr) while advancing up to 6 bps at longer tenors (30-yr).

**Overnight sentiment is gloomy.** The US proposed tariffs on about \$2.4 bn in French products as retaliation for a tax on revenues of digital giants. USTR Lighthizer also said it's exploring similar probes on Turkey, Austria and Italy. Chinese state media announced the government will release a list of "unreliable entities" soon which could lead to sanctions against US companies and complicate trade talks. The publication has been sped up in response to a US bill suggesting sanctions against Chinese officials over alleged abuse of Uighur Muslims in the Xinjiang region. Most Asian stocks are colored in red although most indices have rebounded from intraday lows. **Despite risk-off, both the German Bund and US Treasuries surprisingly continue yesterday's decline.** Australian yields jump after its central bank said some global risks are receding. Japanese yields also grind higher (up to 3 bps) on the worst 10-year auction since 2016.

**Today's eco calendar** is basically empty, leaving global risk sentiment in the driver's seat. We cannot but to take notice from the ongoing slide in core bonds in the current risk-off climate. It suggests the recent retracement in yields for now has gone far enough. We expect core bond yields to hold an upward bias as markets await key data later this week.

**Technically**, the German 10-yr yield broke above -0.41% resistance as geopolitical uncertainty diminished and capped intermediate resistance at -0.328%, improving the technical picture. **Targets of this double bottom formation are -0.25% and -0.13%.** The 38% retracement level of the Oct-Aug decline stands at -0.24%. **The US 10-yr yield trades in the upper half of the 1.43%-1.94% sideways trading channel. First tests to take out 1.94% failed, causing temporary corrective return action lower.**



German 10-yr yield: fresh German fiscal stimulus bets crush intermediate resistance (red line).

US 10-yr yield: Can US eco data cause return to upper bound of sideways trading channel?

# Currencies

R2	1.1533	-1d
R1	1.1448	
<b>EUR/USD</b>	<b>1.1079</b>	<b>0.0061</b>
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
<b>EUR/GBP</b>	<b>0.8562</b>	<b>0.0043</b>
S1	0.8500	
S2	0.8314	

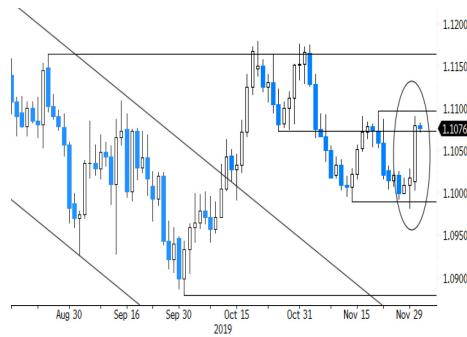
## EUR/USD rebounds off 1.10 support

Global sentiment changed quite profoundly yesterday and **this time dollar proved to be the weakest link in the chain**. Initially, the USD held up well. Both US and European yields jumped higher supported by a positive risk sentiment on better Asian data. The prospect for more fiscal stimulus in Germany after the **leadership change at the SPD** also supported the **rise in core yields, but at first had little impact on the euro**. However, the trading dynamics in FX changed later. US president Trump announcing new tariffs on steel and aluminium from Brazil and Argentina and a disappointing US manufacturing ISM weighed on risky assets and pushed the dollar off a cliff. EUR/USD was squeezed higher (close 1.1079). USD/JPY closed at 108.98 (from 109.49).

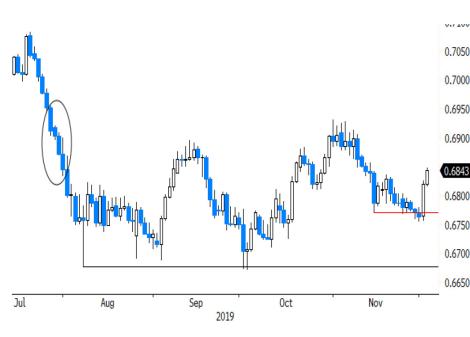
**This morning**, Asian equities join yesterday's correction on WS, but losses are more modest. Australia underperforms. **The RBA left its policy rate unchanged at 0.75%**. Previous rate cuts are supporting the property market and the RBA expects this filter through into consumer spending too. The Aussie dollar extended gains and trades near 0.6840. USD/JPY tries to regain the 109 level after yesterday's sell-off. EUR/USD hovers in the 1.1075 area. The **US considering new tariffs on European goods** as a retaliation for a French tax on digital revenues of mainly US companies might weigh on the single currency. **Today**, the eco calendar is very thin. Global factors will dominate FX trading. Investors will also look forward to other key data including the US non-manufacturing ISM and the payrolls later this week.

**Last week**, the euro stayed in the defensive and EUR/USD extensively tested the 1.0989 support. **Fortunes changed yesterday**. A (modest) narrowing in the US-German interest rate differential, a soft US ISM and the debate on fiscal stimulus in Germany finally supported the euro and weighed on the dollar. It was a nice EUR/USD rebound, but the technical picture hasn't really changed. A break above 1.11 **would call off the ST downward alert and open the way for a retest of the 1.1179 range top**.

**Sterling lost modest ground against the euro yesterday**. Some polls indicating a smaller lead of the Conservative party might have been in play. The rebound in EUR/GBP was also partially due to overall euro strength. A further rise of EUR/USD might still have a small upward impact on EUR/GBP. However, we expect EUR/GBP to hold a rather tight range in the 0.85 big figure going into next week's election.



EUR/USD rebounds off 1.0980/1.10 area both on euro strength and a correction of the dollar.



AUD/USD rises on overall USD weakness. RBA staying on hold supports the Aussie dollar, too.

# Calendar

Tuesday, 3 December			Consensus	Previous
<b>US</b>				
	Wards Total Vehicle Sales (Nov)		16.90m	16.55m
<b>Japan</b>				
00:50	Monetary Base YoY (Nov)		3.30%A	3.10%
<b>UK</b>				
01:01	BRC Sales Like-For-Like YoY (Nov)		-4.9%A	0.10%
10:30	Markit/CIPS UK Construction PMI (Nov)		44.5	44.2
<b>EMU</b>				
11:00	PPI MoM/YoY (Oct)		0.00%/-1.80%	0.10%/-1.20%
<b>France</b>				
08:45	Budget Balance YTD (Oct)		--	-109.0b
<b>Australia</b>				
<b>04:30</b>	<b>RBA Cash Rate Target</b>		<b>0.75%A</b>	<b>0.75%</b>
<b>Events</b>				
09:00	ECB Executive Board Nominee Panetta Speaks in EU Parliament			
10:15	ECB Executive Board Nominee Schnabel Speaks in EU Parliament			
18:30	ECB's Coeuré Speaks in Brussels			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
<b>US</b>	1.82	0.04	<b>US</b>	1.60	-0.01	<b>DOW</b>	27783.04	-268.37
<b>DE</b>	-0.28	0.08	<b>DE</b>	-0.61	0.01	<b>NASDAQ</b>	8567.987	-97.48
<b>BE</b>	0.01	0.07	<b>BE</b>	-0.60	0.01	<b>NIKKEI</b>	23379.81	-149.69
<b>UK</b>	0.74	0.04	<b>UK</b>	0.55	0.01	<b>DAX</b>	12964.68	-271.70
<b>JP</b>	-0.02	0.03	<b>JP</b>	-0.15	0.00	<b>DJ euro-50</b>	3626.66	-76.92
<b>IRS</b>	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>EUR</b>	<b>-1d</b>	<b>-2d</b>	<b>USD</b>	<b>-1d</b>
<b>3y</b>	-0.29	1.60	0.81	<b>Eonia</b>	-0.4470	0.0000		
<b>5y</b>	-0.18	1.61	0.86	<b>Euribor-1</b>	-0.4390	-0.0020	<b>Libor-1</b>	1.6971
<b>10y</b>	0.12	1.74	0.95	<b>Euribor-3</b>	-0.4000	0.0010	<b>Libor-3</b>	1.9055
				<b>Euribor-6</b>	-0.3450	-0.0020	<b>Libor-6</b>	1.8969
<b>Currencies</b>	<b>Close</b>	<b>-1d</b>	<b>Currencies</b>	<b>Close</b>	<b>-1d</b>	<b>Commodities</b>	<b>Close</b>	<b>-1d</b>
<b>EUR/USD</b>	1.1079	0.0061	<b>EUR/JPY</b>	120.73	0.12	<b>CRB</b>	177.12	0.47
<b>USD/JPY</b>	108.98	-0.51	<b>EUR/GBP</b>	0.8562	0.0043	<b>Gold</b>	1469.20	-3.50
<b>GBP/USD</b>	1.2939	0.0014	<b>EUR/CHF</b>	1.0983	-0.0036	<b>Brent</b>	60.92	0.43
<b>AUD/USD</b>	0.6819	0.0056	<b>EUR/SEK</b>	10.5716	0.0162			
<b>USD/CAD</b>	1.3308	0.0026	<b>EUR/NOK</b>	10.1531	-0.0091			

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