



Tuesday, 08 January 2019

Rates: Payrolls, Powell and services ISM floor US yields

A strong US non-manufacturing ISM caused new weakness in US Treasuries, bear flattening the curve. Together with payrolls and Powell's comments, the ISM probably puts a floor below US yields. Supply heats up today and might weigh additionally on bonds. Belgium probably launches a new 10-yr benchmark. Risk sentiment remains a wildcard.

Currencies: EUR/USD rebound still blocked at 1.15 resistance

FX investors still reduced USD long exposure yesterday in the wake last week's comments from Powell on Fed policy flexibility. This morning, the USD decline is slowing, blocked by recent rise in US yields. For now, the EUR/USD resistance continues to play its role. A retest is possible in case sentiment on risk remains positive.

Calendar

Headlines

- **US equity markets** climbed higher yesterday with tech shares outperforming (Nasdaq +1.26%). **Asian equities** trade mixed with Japanese indices leading the gains. China underperforms despite positive signals of US-Sino talks.
- **US Commerce Secretary Wilbur Ross, who's leading the US-Sino trade talks, said progress was made and prospects for a deal were good.** Beijing already announced that it is buying large volumes of US soy beans again.
- **UK PM May is said to be seeking last-minute assurances from the EU to avoid the Irish backstop scenario.** Parliament takes a vote next week on May's deal reached with the EU, but it is unlikely that she will secure the necessary votes.
- **Nellie Liang, a former US Federal Reserve economist, withdrew from consideration to join the central bank's board of governors.** She is said to have withdrawn on her own initiative and wasn't forced out by the White House.
- **Atlanta Fed governor Bostic, a non-voting member this year, lowered his rate outlook for 2019 to only one rate hike instead of two.** He did add however, that the bank should continue with its plan to gradually shrink the balance sheet.
- **US President Trump will address the nation tonight "on the humanitarian and national security issue"** that has partially shut down the federal government. He will also travel to the US-Mexico border later this week.
- **Today's economic calendar** eyes rather meagre with US NFIB Small Business Optimism and EC confidence indicators. Supply heats up with the US, the Netherlands, Austria, Germany and probably Belgium tapping the market.

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

	US yield	-1d
2	2,54	0,05
5	2,52	0,04
10	2,70	0,03
30	2,98	0,01

	DE yield	-1d
2	-0,58	0,01
5	-0,32	0,02
10	0,22	0,01
30	0,87	0,01

US non-manufacturing ISM weighs on US Treasuries

Global core bonds recovered somewhat from Friday's beating during European trading hours, ignoring good EMU retail sales. Listless stock and volatile oil markets had no impact neither. **Trading dynamics changed after the US non-manufacturing ISM.** The ISM fell more than expected in December, from 60.7 to 57.6, but underlying details were strong unlike with last week's manufacturing survey. The forward looking new orders rose to a 6-month high. The lower headline index mainly reflects an easing in supply constraints. US Treasuries started selling off after the ISM, while US stock markets (+ 0.5% to +1.25%) outperformed Asia and Europe. Dovish Atlanta Fed governor Bostic, who doesn't vote on policy, trimmed his outlook for this year from 2 rate hikes to 1, but favours to continue running down the balance sheet. He couldn't stop the bear flattening of the US yield curve with yields rising between 4.8 bps (2-yr) and 0.7 bps (30-yr). Worst fears that the Fed might turn to rate cuts later this year to stem an economic downturn, faded following strong ADP, payrolls and non-manufacturing ISM. Changes on the German yield curve ranged between +1 bp (30-yr) and +1.7 bps (5-yr).

10-yr yield spreads vs Germany ended nearly unchanged with Greece outperforming (-4 bps) and Belgium (+2 bps) underperforming. **The Belgian debt agency announced the near term launch (probably today) of a new 10-yr syndicated benchmark deal (Jun2029). They'll probably aim to raise €5bn, which is immediately a decent chunk of this year's €28bn OLO funding need.** The debt agency plans to do a second syndicated deal later this year with a maturity of at least 15 years. As the debt agency issued a 15-yr (green) OLO last year, we expect them to prefer a 20-yr deal or longer next year. On top, the debt agency already has €7.78bn outstanding in 2034, compared to no bonds maturing in 2039 (20y), 2044 (25y) or 2049 (30y).

Asian stock markets trade mixed this morning with Japan slightly outperforming. Core bonds tread water. Today's eco calendar contains EMU EC confidence data and US NFIB small business optimism. Both are forecast to show a modest decline in December, but we don't expect them to influence trading. Heavy supply might weigh on bonds with the US, Germany, Austria and the Netherlands joining the Belgian deal. Risk sentiment remains a wildcard for trading. Technically, the German 10-yr yield bounced off 0.15% support last week. That's the final hurdle before returning to (sub)-zero levels. The US 10-yr yield lost the 2.75%-2.8% area by the end of last year, opening the path for a technical decline towards 2.5%. **We approached this level last week. In both Germany and the US, we think that sufficient bad news is discounted at current levels. Policy normalization expectations in the US and EMU have become extremely/too dovish.**



German 10-yr yield bounced off 2017 low. Final technical hurdle before returning to (sub) zero levels.



US 10-yr yield rebounds with Fed chair Powell and strong US eco data, putting a floor

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Currencies

EUR/USD running into resistance ahead of 1.15

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1474	0,0079
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8979	0,0025
S1	0,8700	
S2	0,862	

The dollar remained in the defensive yesterday. The move was mainly visible in EUR/USD. Investors scaled back USD long positions in the wake of Fed Powell's comments on Fed policy flexibility on Friday. Initially, the US-German interest rate differential narrowed in the disadvantage of the dollar. This pattern changed after a good US non-manufacturing PMI. Sentiment on risk improved during the US session but EUR/USD stayed well bid despite an upturn in US yields. EUR/USD finished at 1.1474, but the 1.15 resistance remained intact. The picture in USD/JPY was slightly different. The pair initially hovered in the low 108 area, but rebounded after the ISM to finish at 108.72 (from 108.51). **Overnight**, Asian markets show a mixed picture, with Japanese equities outperforming (weaker yen). China underperforms. Global investors are looking out for the results of the China-US meeting on trade. The dollar is rebounding after yesterday's decline, supported by higher US yields (2-yr yield is >15 bp higher compared to last week's low). EUR/USD trades in the 1.1450 area. USD/JPY gains remain modest (108.75 area).

Today, the calendar is moderately interesting with the EMU confidence data and the US NFIB small business confidence. The first US Treasury auction (3-y) is worth following too. The China-US trade talks and president Trump giving an address on the US government shut-down are wildcards for global (FX) trading. Of late, the risk rebound and Fed's Powell indicating policy flexibility weighed on the dollar, even as US yields rebounded at the same time. For now, the rise in US yields apparently blocks further USD losses beyond first EUR/USD resistance. That said, recent USD performance suggests that underlying sentiment on the USD currency has weakened. Any progress in the US-China trade talks might be euro supportive too. **Conflicting drivers are in play, but we have the impression that the downside in EUR/USD is rather will protected.** So a retest of the 1.15 resistance might be on the cards. In case of a break, the 1.1621 mid-October top is the next reference.

Sterling trading was mostly driven by technical considerations after Friday's rebound. EUR/GBP mostly hovered in the upper half of the 0.89 big figure. Today, the political debate on Brexit will restart. PM May is said to prepare contingency plans to prepare for a no-deal Brexit. We assume more technical trading in EUR/GBP as long as there is low visibility on what will happen after next week's UK Brexit vote.



EUR/USD: post-Powell USD correction slows. 1.15 resistance continues to play its role



EUR/GBP: more technical GBP trading going into next week's Brexit vote in Parliament?

Calendar

Tuesday, 8 January		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Dec)	103.0	104.8
14:30	Trade Balance postponed by government shutdown		
16:00	JOLTS Job Openings (Nov)	7050	7079
Japan			
06:00	Consumer Confidence Index (Dec)	42.8	42.9
UK			
09:30	Halifax House Prices MoM-3Mths/year (Dec)	0.5%/0.4%	-1.4%/0.3%
EMU			
11:00	Consumer Confidence (Dec F)	-6.2	-6.2
11:00	Economic Confidence (Dec)	108.2	109.5
11:00	Business Climate Indicator (Dec)	1.00	1.09
11:00	Industrial Confidence (Dec)	3.0	3.4
11:00	Services Confidence (Dec)	12.3	13.3
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Nov)	0.3%/-0.8%	-0.5%/1.6%
Events			
08JAN	World Bank updates Global Economic Prospects report		
08JAN	Belgium is to issue new 2029 OLO in the near future (likely today)		
11:00	Austria to Sell 2028/2047 Bonds		
11:30	Netherlands to Sell 2023 Bonds		
11:30	Germany to sell 2030 Linkers		
19:00	US to Sell USD38 Bln 3-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,70	0,03	US	2,54	0,05	DOW	23531,35	98,19	
DE	0,22	0,01	DE	-0,58	0,01	NASDAQ	6823,471	84,61	
BE	0,78	0,03	BE	-0,50	0,02	NIKKEI	20204,04	165,07	
UK	1,25	-0,02	UK	0,76	0,00	DAX	10747,81	-19,88	
JP	0,01	0,02	JP	-0,14	0,02	DJ euro-50	3033,64	-8,21	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,05	2,63	1,18	Eonia	-0,3650	0,0000	Libor-1	2,5206	0,0000
5y	0,20	2,61	1,26	Euribor-1	-0,3630	0,0000	Libor-3	2,8039	0,0000
10y	0,80	2,72	1,42	Euribor-3	-0,3100	-0,0010	Libor-6	2,8558	0,0000
				Euribor-6	-0,2360	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1474	0,0079	EUR/JPY	124,74	1,10	CRB	174,64	1,28	
USD/JPY	108,72	0,21	EUR/GBP	0,8979	0,0025	Gold	1289,90	4,10	
GBP/USD	1,2777	0,0054	EUR/CHF	1,1242	-0,0002	Brent	57,33	0,27	
AUD/USD	0,7148	0,0035	EUR/SEK	10,2081	-0,0117				
USD/CAD	1,3299	-0,0075	EUR/NOK	9,7896	-0,0260				

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

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