

Wednesday, 09 January 2019

Rates: 2019 Fed rate cut no longer discounted

Core bonds lost more ground with US Treasuries underperforming German Bunds. Markets no longer discount a Fed rate cut this year. Positive risk sentiment, fresh supply and higher oil prices add to the recent change in settings, originally inspired by Fed chair Powell comments and strong US eco data. Today's eco calendar is thin. US central bank speeches are wildcards.

Currencies: EUR/USD holding within reach of 1.15 resistance

EUR/USD lost only marginal ground yesterday despite poor EMU eco data. The dollar continues trading with a soft bias. A positive risk sentiment and expectations for a softer, more flexible Fed going forward are blocking more sustained USD gains. Recent technical rebound of sterling proved short-lived as the Brexit process enters a next key phase.

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 equity markets** climbed higher again yesterday with all major indices gaining around 1% as US-Sino trade talks move in the right direction. **Asian equities** opened in green as well with Chinese equities outperforming.
- **Mid-level trade talks between the US and China were extended for a third day, adding optimism to ongoing progress.** US President Trump is said to seek an agreement in the near future in hopes of boosting financial markets.
- **US President Trump addressed the US people on the US-Mexico border issue.** He urged Congress to provide billions more to combat illegal migration but did not declare a national emergency to bypass Congress, as some initially feared.
- **UK PM May lost her first Parliamentary vote of 2019 as the House of Commons defeated her on an amendment to the finance bill.** That amendment would allow the UK government to raise taxes in the event of a no-deal Brexit.
- **The World Bank has cut its growth outlook for the global economy.** It sees the downside risks to the world economy as more acute. The bank expects a global growth of 2.9% in 2019, down from the 3.0% projection in June.
- **The Chinese government is preparing measures to boost the consumption of cars and household appliances.** The move is aimed to revive automobile demand, as it slowed down for the first time this year in over twenty years.
- **Today's economic calendar** contains Minutes of the previous Fed meeting. The Polish and Canadian central banks meet. Fed Bostic, Evans and Rosengren and BoE Carney speak. The US, Germany, Ireland and Portugal tap the bond market.

Rates

2019 Fed rate cut no longer discounted

	US yield	-1d
2	2,59	0,04
5	2,57	0,04
10	2,73	0,03
30	3,01	0,02

	DE yield	-1d
2	-0,58	0,01
5	-0,31	0,01
10	0,23	0,01
30	0,88	0,00

Global core bonds corrected further lower yesterday with US Treasuries underperforming German Bunds. Heavy supply, including a disappointing 3-yr Note auction in the US, positive risk sentiment (US-Sino trade talks) and higher oil prices did their job. The move is in the first place still an extension of the profit taking that started on the wheels of strong US eco data (payrolls, non-manufacturing ISM) and soothing comments by Fed chair Powell though. The US yield curve bear flattened again with yields adding 4.5 bps (2-yr) to 1.9 bps (30-yr) as markets price out their dovish bet of Fed rate cut by the end of this year. German yields added 0.5 bps (2-yr) to 1.3 bps (10-yr) with the belly of the curve underperforming the wings.

10-yr yield spread changes vs Germany ended closed to unchanged with Belgium marginally outperforming (-1 bp) and Italy underperforming (+5 bps). **The Kingdom of Belgium raised €6bn via a new syndicated 10-yr benchmark deal (0.9% Jun2029).** The bond was priced to yield MS + 8 bps, drawing a record order book of more than €28bn. The Belgian debt agency plans one more new benchmark later this year (>= 15y maturity). This year's OLO funding need amounts to €28bn. **Ireland and Portugal plan new syndicated 10-yr deals today with Italy rumoured to be ready to launch a 15-yr benchmark any time soon.**

Asian stock markets gain 1% overnight with China outperforming. Constructive US-Sino trade talks enter a 3rd, unplanned, day and Beijing is planning fresh incentives to boost domestic consumption. US President Trump addressed the nation on the political deadlock/shutdown, but didn't declare a national emergency. The latter would enable him to take the matter in his own hands and bypass US Congress. Core bonds trade with a minor upward bias.

Today's eco calendar only contains second tier data. **Supply remains large with Germany and the US tapping the market as well and is negative for core bonds. US central bank speeches are interesting with voting governors Evans and Rosengren taking the stage. We especially look out whether Rosengren changes his usual hawkish tone. FOMC Minutes are interesting as well and might add some colour to the debate.** Technically, the German 10-yr yield bounced off 0.15% support last week, but the picture didn't change yet. 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 (0.15%), but no sustained improvement of technical picture yet



US 2-yr yield bounces back on strong US eco data, Powell comments, risk rebound and higher oil prices. 2.6% is first resistance

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1441	-0,0033
S1	1,1187	
S2	1,1119	

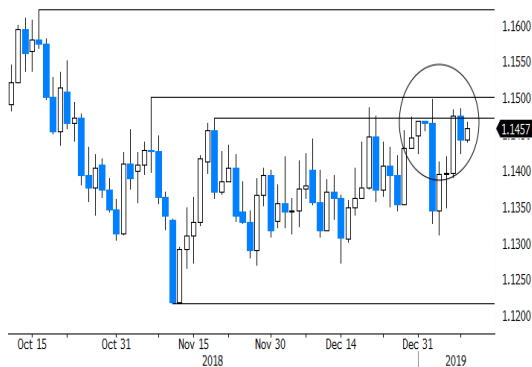
R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8997	0,0018
S1	0,8700	
S2	0,862	

EUR/USD 1.15 level stays within reach

Global sentiment improved **yesterday** as US policy makers said that progress is being made in the US-China trade talks. Stocks rebounded further and core (US & EMU) yields rose. The impact on the dollar was again modest given the price moves in interest rates and equities. A risk-on sentiment often favours the euro (and other 'risk currencies') more than the dollar. However, the impact of the global risk rally on EUR/USD was mitigated by poor EMU/German data. The widening of US/German interest rate differentials also prevented further EUR/USD gains. At the same time, USD/JPY gained only modestly despite higher US yields and a risk-on sentiment. For now, FX markets (especially the USD) stay in some kind of wait-and-see modus. EUR/USD finished at 1.1441 (from 1.1474). USD/JPY closed the day at 108.75 (from 108.72).

The risk rally continues **overnight** as the US and China are extending trade talks. President Trump taking no new steps on the financing of the wall with Mexico in its television address yesterday also eased investors' concerns. Chinese equities outperform a broader regional rally, supporting the yuan (USD/CNY near 6.8390). Commodity currencies are profiting from a rebound in the oil price with the Canadian dollar extending its rally. The dollar is losing a few ticks. EUR/USD is trading near 1.1450. USD/JPY hovers in the high 108 area. There are few eco data in EMU and in the US **today**. Markets will keep an eye at Fed speakers and at the minutes of the December Fed meeting. Markets will look for more indications on Fed policy flexibility. Also keep an eye at the auction of 10-y US Treasuries. Yesterday's sale of 3-y bonds received only mediocre investor interest. A difficult sale of LT US bonds might raise LT US interest rates, but probably won't help the dollar. Yesterday, we advocated **a cautious stance on the dollar** and saw the downside in EUR/USD rather well protected as markets anticipate **a softer, flexible Fed**. We hold that view. For now, the established ranges remain in place, but if the risk rebound continues, a retest of the 1.15 area remains possible. The 1.1621 mid-Oct top is next reference.

Recent 'sterling strength' proved short-lived **yesterday** as the political debate on Brexit returned to the forefront. UK PM May lost a vote in Parliament limiting her (financial) room of manoeuvre in case of a no-deal Brexit. Uncertainty on the next steps in the brexit process probably will cause investors to stay cautious on sterling long exposure going into next week's brexit vote (scheduled for Jan 15).



EUR/USD: holding up well despite poor EMU eco data.



EUR/GBP: investors are avoiding directional exposure on sterling as Brexit process enters key phase

Calendar

Wednesday, 9 January		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-8.5%
20:00	FOMC Meeting Minutes		
Canada			
16:00	Bank of Canada Rate Decision	1.75%	1.75%
Japan			
01:00	Labor/Real Cash Earnings YoY (Nov)	2.0%A/1.1%A	1.5%/-0.1%
EMU			
11:00	Unemployment Rate (Nov)	8.1%	8.1%
Germany			
08:00	Trade Balance (Nov)	18.6b	18.9bR
08:00	Current Account Balance (Nov)	24.8b	15.9b
08:00	Exports/Imports SA MoM (Nov)	-0.5%/0.0%	0.9%/0.8%R
France			
08:45	Consumer Confidence (Dec)	90	92
Italy			
10:00	Unemployment Rate (Nov P)	10.5%	10.6%
Belgium			
11:00	Unemployment Rate (Nov)	--	6.2%
Norway			
08:00	GDP (MoM) (Nov)	--	0.8%
08:00	GDP Mainland (MoM) (Nov)	0.2%	1.0%
Events			
09JAN	Portugal is likely to issue new 2029 Bond		
09JAN	Ireland is likely to issue new 2029 Bond		
11:30	Germany to Sell 4Bln Euro of 2029 Bonds		
14:20	Fed's Bostic Speaks in Chattanooga on Economic Outlook (non-voter)		
15:00	Fed's Evans Speaks on Economy and Monetary Policy (voter)		
16:30	BOE Governor Carney Participates in Online Q&A		
17:30	Fed's Rosengren Speaks on the Economic Outlook (voter)		
19:00	US to Sell USD24 Bln 10-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,73	0,03		US	2,59	0,04	DOW	23787,45	256,10
DE	0,23	0,01		DE	-0,58	0,01	NASDAQ	6896,999	73,53
BE	0,78	0,00		BE	-0,50	0,01	NIKKEI	20427,06	223,02
UK	1,27	0,02		UK	0,76	0,00	DAX	10803,98	56,17
JP	0,03	0,02		JP	-0,14	-0,01	DJ euro-50	3054,94	21,30
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,67	1,20	Eonia	-0,3620	0,0030			
5y	0,22	2,65	1,29	Euribor-1	-0,3630	0,0000	Libor-1	2,5111	0,0000
10y	0,82	2,76	1,44	Euribor-3	-0,3080	0,0020	Libor-3	2,7968	0,0000
				Euribor-6	-0,2360	0,0000	Libor-6	2,8488	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1441	-0,0033		EUR/JPY	124,41	-0,33	CRB	175,96	1,33
USD/JPY	108,75	0,03		EUR/GBP	0,8997	0,0018	Gold	1285,90	-4,00
GBP/USD	1,2717	-0,0060		EUR/CHF	1,1228	-0,0014	Brent	58,72	1,39
AUD/USD	0,714	-0,0008		EUR/SEK	10,2139	0,0058			
USD/CAD	1,3274	-0,0025		EUR/NOK	9,782	-0,0076			

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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	+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		

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