



**Monday, 09 April 2018**

## Rates: Consolidation ahead?

Risk sentiment improved overnight as US officials softened trade rhetoric again after last week's hawkish opening bets. More signs of North Korean willingness to de-nuclearize are supportive as well. We expect consolidation on core bonds markets this week given the relatively thin eco calendar. Tomorrow's speech by Xi Jinping is a wildcard.

## Currencies: Soft US payrolls block tentative USD rebound

Of late, the dollar held a cautious positive momentum even as the trade dispute between the US and China persisted. However, a soft US payrolls report blocked any further USD gains. This week the focus turns to the US price data. However, sustained further USD gains probably remain difficult as long as uncertainty on trade is clouding the Fed rate hike outlook.

## 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 stock markets ended the week on a bad note, losing more than 2%**, after Chinese officials contradicted US rhetoric that trade negotiations were ongoing. Risk sentiment improved this morning, with **Asian indices gaining around 0.5%**.
- After threatening to slap China with new tariffs, **Trump administration officials softened the rhetoric**, noting that the penalties aren't imminent and there is ample time to work out a deal and step back from a possible trade war. (WSJ)
- **North Korea has said it is willing to discuss de-nuclearisation with the US**, a Trump administration official said, increasing chances of an unprecedented summit between North Korean leader Kim Jung Un and the US president (FT).
- **Fed Chair Powell** said that the outlook for inflation and employment support **further gradual interest-rate increases**, while the lack of a spike in wage gains shows **the labor market is "not excessively tight."** He added that it's **too soon to know if the trade issue would take its toll on the US economy**.
- **Hungarian PM Orban scored a crushing election victory** to clinch a fourth term in a boost to Europe's populist forces that are challenging the EU's multi-cultural, democratic values. **He's on track to score another 2/3rd majority**.
- **China's foreign-currency holdings resumed gains last month** as the government kept capital curbs in place and the yuan capped its best quarter in a decade. Reserves rose \$8.34 bn to \$3.143 tn in March from the previous month.
- **Today's eco calendar** only contains **second tier eco data**. **ECB Constancio and Praet** are scheduled to speak.

# Rates

## Consolidation ahead?

Core bonds gained ground last Friday with US Treasuries outperforming German Bunds. The upleg started in US dealings after a disappointing US payrolls report (apart from wage data) and got an additional boost from a hastily planned press conference by the Chinese Ministry of Finance and Commerce. They reiterated readiness to strike back and contradicted US official talk that both parties entered a negotiation phase. **With uncertainty looming over the weekend, investors preferred the safer bet with US stock markets simultaneously losing over 2%. Fed chair Powell, SF Fed Williams and Chicago Fed Evans all kept to the Fed's script of gradual further rate hikes.** They are monitoring trade developments, but it's too soon to draw conclusions about a possible negative impact on the US economy. **At the end of the day,** US yields declined by 3.6 bps (2-yr) to 5.9 bps (10-yr). German yields dropped by 0.6 bps (2-yr) to 2.6 bps (10-yr). Peripheral yield spreads vs Germany widened up to 5 bps (Portugal).

**Risk sentiment improved overnight.** Official US rhetoric on trade softened again, stressing the need for a (long?) negotiation period after placing hawkish trade opening bets last week. News about North-Korean willingness to de-nuclearize gains traction as well. Asian indices post gains of about 0.5%, the US Note future comes off Friday's highs and USD/JPY is slightly higher. We expect a somewhat softer opening for the Bund.

**Today's eco calendar** contains only second tier eco data. **Risk sentiment on stock markets will probably be the key driver.** Overnight moves suggest some calm/improvement compared to last week's volatile environment. Some investors probably want to remain sidelined ahead of Chinese President Xi Jinping's speech at the Boao forum. **We start the week with a neutral bias for core bonds, suggesting some consolidation.**

**The German 10-yr yield reached the levels we've put forward (0.46%/0.48%) after losing 0.6% support in the wake of the ECB meeting.** We think that **the slide went far enough** against the background of the ECB slowly turning the corner and embracing policy normalization. **We turn neutral going forward.** The US 10-yr yield lost its upward momentum mid-March. The trade-related correction lower on US stock markets, pulled long term yields down as well. We argued before though that a full-blown trade war might eventually result in higher US yields if China reallocates its FX reserves away from US Treasuries. **We favour sideways action in the short run, roughly between 2.7% and 2.9%.**

	US yield	-1d
2	2,27	-0,04
5	2,61	-0,05
10	2,77	-0,06
30	3,04	-0,05

	DE yield	-1d
2	-0,59	-0,01
5	-0,09	-0,02
10	0,50	-0,03
30	1,17	-0,02



German 10-yr yield: end to correction lower? We favour sideways action going forward, staying above 0.46%/0.48%



US 10-yr yield lose upward momentum mid-March. More consolidation ahead?

# Currencies

## Soft payrolls block tentative USD rebound

R2	1,2598	-1d
R1	1,2555	
EUR/USD	1,2281	0,0041
S1	1,2165	
S2	1,2055	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8714	-0,0026
S1	0,8690	
S2	0,8657	

The US-China trade dispute and the payrolls were the main drivers for USD trading last Friday. US president Trump opened the door for a new batch of tariffs on Chinese imports. China indicated soon that it could take countermeasures. **The trade headlines were a slightly negative for the dollar, but the damage remained limited.** US payrolls disappointed (except for wage growth) and were an additional USD negative. USD/JPY drifted back south to the 107 area. EUR/USD traded near 1.2230 before the payrolls, but closed the session at 1.2281. Fed's Powell supported the scenario of gradual further rate hikes in a speech, but had no big impact on USD trading.

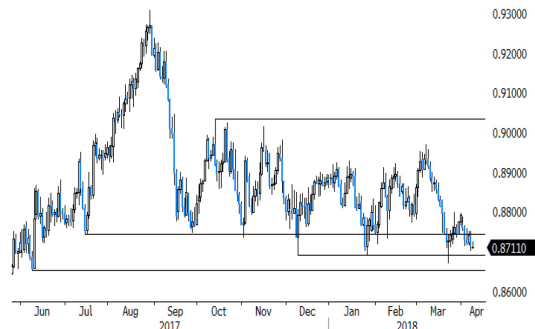
**The narrative on the trade war turned a bit softer during the weekend** as president Trump suggested that a deal with China remains possible. Asian equities mostly show decent gains despite the sell-off in the US on Friday. The impact of the swings in equities on the dollar remains modest as was often the case of late. EUR/USD hovers in the 1.2275 area. USD/JPY tries to regain the 107 mark.

There are no data in the US today and only second tier data in Europe. ECB's Constancio and Praet speak. US CPI/price data will be closely monitored later this week. Headline inflation (Wednesday) is expected to rise 0.0% M/M and 2.4% Y/Y. (Gradually) rising US inflation could be a ST USD supportive in theory. However, the swings in the trade war debate will probably continue to dominate the headlines. USD investors/traders avoided clear directional position taking on the trade issue. **This indecisive trading pattern might persist as long as there is no clear sign that the issue might be solved in a constructive way.** Last week, EUR/USD drifted gradually lower in the 1.2476/1.2155 ST consolidation pattern. A sustained break of this range bottom will probably remain difficult as long as Fed rate hike expectations are clouded by global trade uncertainty.

Sterling ignored soft (weather related) PMI's last week. The risk-on/risk-off balance gave only limited directional guidance for sterling trading. Today, only the **Halifax house prices** are scheduled for release. A better equity sentiment might be marginally sterling supportive. However, we don't see a trigger currently for EUR/GBP to break the mid 0.86 support area in a sustainable way.



EUR/USD near bottom of MT sideways range. Poor payrolls prevent real downside test



EUR/GBP: holding near the bottom of the established consolidation pattern

# Calendar

Monday, 9 April		Consensus	Previous
<b>Japan</b>			
	Eco Watchers Survey Current / Outlook SA (Mar)	48.0/51.0	48.6/51.4
01:50	BoP Current Account Adjusted (Feb)	A: ¥1024.1b	¥2022.6b
07:00	Consumer Confidence Index (Mar)	A: 44.3	44.3
<b>China</b>			
08APR-18APR	Foreign Direct Investment YoY CNY (Mar)	--	0.8%
<b>UK</b>			
09:30	Halifax House Prices MoM & 3Mths/Year (Mar)	0.1%/2.0%	0.4%/1.8%
<b>EMU</b>			
10:30	Sentix Investor Confidence (Apr)	20.8	24.0
<b>Germany</b>			
08:00	Trade Balance (Feb)	20.1b	17.3b
08:00	Exports SA MoM / Imports SA MoM (Feb)	0.4%/0.5%	-0.4%/-0.4%
<b>Norway</b>			
08:00	Industrial Production MoM / WDA YoY (Feb)	--/--	3.4%/1.8%
<b>Events</b>			
15:00	<b>ECB's Constancio Speaks in Brussels</b>		
18:45	<b>ECB's Praet Speaks in Frankfurt</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,77	-0,06	US	2,27	-0,04	DOW	23932,76	-572,46	
DE	0,50	-0,03	DE	-0,59	-0,01	NASDAQ	6915,111	-161,44	
BE	0,79	-0,02	BE	-0,53	-0,01	NIKKEI	21678,26	110,74	
UK	1,40	-0,02	UK	0,86	-0,01	DAX	12241,27	-63,92	
JP	0,04	-0,01	JP	-0,14	0,00	DJ euro-50	3408,1	-21,85	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,02	2,66	1,27	Eonia	-0,3680	-0,0010	Libor-1	1,8971	0,0019
5y	0,37	2,73	1,40	Euribor-1	-0,3720	0,0000	Libor-3	2,3375	0,0068
10y	0,95	2,80	1,55	Euribor-3	-0,3290	-0,0010	Libor-6	2,4722	0,0059
				Euribor-6	-0,2700	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2281	0,0041	EUR/JPY	131,32	-0,12	CRB	192,25	-1,56	
USD/JPY	106,93	-0,46	EUR/GBP	0,8714	-0,0026	Gold	1336,10	7,60	
GBP/USD	1,4092	0,0089	EUR/CHF	1,1779	-0,0015	Brent	67,11	-1,22	
AUD/USD	0,7684	0,0000	EUR/SEK	10,3052	0,0009				
USD/CAD	1,2782	0,0032	EUR/NOK	9,6159	0,0296				

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