



**Wednesday, 16 October 2019**

## Rates: German 10-yr yield tests first resistance at -0.41%

Hopes on a Brexit deal lifted risk sentiment. Core bonds sold off, following UK Gilts south. The German 10-yr yield tested the neckline of a double bottom formation at -0.41%. Risk sentiment soured again this morning as US-Sino relations turn in the opposite, less positive, direction. US retail sales, Q3 earnings and central bank speakers are wildcards.

## Currencies: Brexit deal to propel both sterling and the euro?

Yesterday, initial USD strength was reversed as sentiment turned risk on and as headlines indicated that the UK and the EU were nearing a Brexit deal. The euro and sterling outperformed. Today, the US retail sales have potential to move the dollar but the focus remains on Brexit. A deal should remove a (heavy) weight for the euro and sterling, at least short term.

## 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	↓

- **WS** ended in the green (+1%) as positive earnings releases and optimism over Brexit boosted risk appetite. **Asian markets** are trading mixed as US-China (non-trade) tensions. Japan outperforms (+1.33%).
- Sentiment sours as **China threatens to retaliate if US enacts a bill supporting pro-democracy Hong Kong protestors**. The threat dented risk appetite as markets are worried US-China trade tensions will heat up.
- **The EU and the UK edged closer to a draft Brexit deal** with optimism that there will be a breakthrough before the end of Wednesday. **Northern Ireland's DUP threw a dash of cold water on hopes however by expressing some concerns**.
- **The IMF made a fifth-straight cut to its 2019 growth outlook** to its slowest pace (3.00%) since the financial crisis, citing a broad deceleration across the world's largest economies and trade tensions that continue to drag on global growth.
- Germany's finance minister communicated that **Germany aims to stick to its "Schwarze Null" policy for now** and boost spending without incurring new debt, adding that the government would use all fiscal options in an economic crisis.
- **South Korea's central bank cut its policy interest rate for the second time in three months** on Wednesday to prop up its sputtering economy hit by cooling demand and trade tensions, and address mounting deflationary pressures.
- In **today's economic calendar** the focus will shift to the US consumer with the publication of September's retail sales and the release of the Fed's Beige Book. Several central bank (Fed, BoE, ECB) speeches are due.

# Rates

## German 10-yr yield tests -0.41% resistance

	US yield	-1d
2	1.62	0.03
5	1.57	0.04
10	1.77	0.04
30	2.22	0.04

	DE yield	-1d
2	-0.69	0.02
5	-0.66	0.03
10	-0.42	0.04
30	0.12	0.04

**Global core bonds weren't really going anywhere yesterday until UK Gilts showed the way lower.** An EU official with access to information about Brexit negotiations said the Irish border issue was close to being resolved. EU chief negotiator Barnier later added that agreement before the EU Summit (Thursday/Friday) was **"very difficult, but still possible"**. Investors welcomed the headline, pushing European and US stock markets to >1% gains. Sterling obviously rallied on FX markets while core bonds thus declined. **Fresh downgrades to the global growth outlook by the IMF didn't alter the picture.** The German yield curve bear steepened with yields rising by 1.5 bps (2-yr) to 4.2 bps (30-yr). **The German 5-yr yield pierced through -0.69% resistance**, painting a double bottom on the charts. Targets are -0.57% and -0.42%. **The German 10-yr yield tested a similar resistance level (-0.41%)** for the first time with the 30-yr yield nearing the key 0.14%/0.18% area. US yields added 2.5 bps (2-yr) to 4.3 bps (5-yr) on a daily basis. 10-yr yield spread changes vs Germany narrowed by 2 bps with Ireland (-5 bps) and Greece (-7 bps) outperforming.

Asian stock markets had some catching up to do this morning, **but risk sentiment turned slightly less optimistic.** China underperforms, even dipping in the red. **The US House passed several legislation taking a hard line against China (related to Hong Kong & Huawei's CFO). China condemned the bills, officially (through the Ministry of Foreign Affairs) threatening with retaliation if they pass US Congress. Core bonds undo part of yesterday's losses.**

**US September retail sales feature on today's agenda. The indicator has market moving potential** as it offers insight on developments in the stronghold of US economic growth: consumption. Hints of weakness might be taken as a sign that weakness in the globally oriented production sector infected the domestic services sector. Risks for the headline outcome (0.3% M/M) are tilted to the downside, but the core measure should be able to keep up with consensus. (0.3% M/M). **General risk sentiment will set the tone for trading though with positive and negative headlines on trade and Brexit alternating at the speed of light. Q3 earnings season and central bank speeches remain wildcards.**

**Technically,** the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Risk sentiment and eco data drove action within sideways ranges since. The German 10-yr yield is testing -0.41% as Brexit deal hopes surge. The outcome remains a coin toss.



German 10-yr yield: first test of upper bound of sideways trend channel between -0.73% and -0.41% as hopes on Brexit deal surge



US 10-yr yield: sideways range between 1.43% and 1.94%. Risk sentiment determines intraday gyrations

# Currencies

## Brexit deal to propel euro and sterling?

R2	1.1533	-1d
R1	1.1448	
<b>EUR/USD</b>	<b>1.1033</b>	<b>0.0006</b>
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
<b>EUR/GBP</b>	<b>0.8630</b>	<b>-0.0117</b>
S1	0.8500	
S2	0.8314	

**EUR/USD trading showed two faces yesterday.** USD strength initially prevailed. Uncertainty on the status of the US-China trade negotiations initially supported bonds and the dollar. EUR/USD drifted back lower to the 1.10 previous resistance area. From there, **a new risk-rebound kicked in.** First US corporate earnings were assessed positive and headlines said the EU and the UK came ever closer to striking a Brexit deal. EUR/USD, USD/JPY and EUR/JPY all jumped higher as did core yields. USD/JPY closed at 108.86 (from 108.40). EUR/USD reversed the intraday decline to finish the day little changed at 1.1033.

**Overnight,** Asian equities initially joined the risk rally on WS. However, sentiment, especially on Chinese markets, deteriorated as China said it would retaliate political action in the US Congress to support the Hong Kong protests. The yuan weakens (USD/CNY 7.10 area). USD/JPY is also losing momentum (108.65). EUR/USD is little changed (1.1030 area). The Korean won weakens after the BoK cut its policy rate by 25 bp.

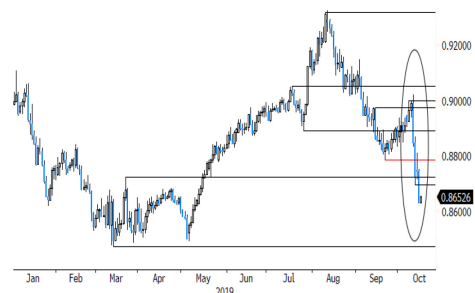
Regarding the **eco data, US retail sales** take centre stage today. The consensus expects 'control group sales' to rise for a seventh consecutive month. We see an asymmetric risk for the dollar being more sensitive to a negative than to a positive surprise. China-US (trade) relations and, even more, **Brexit** remain a wildcard. A Brexit deal would be euro supportive even as there remains uncertainty whether Boris Johnson will be able to get the deal approved in Parliament.

**Last week, EUR/USD regained 1.10, but** there were no follow-through gains. **Easing trade tensions are positive** for the export-reliant EMU economy, but the deal remains uncertain. A Brexit agreement would remove a high-profile source of E(M)U uncertainty. Such a deal at least should help EUR/USD to rebound further off the 1.10 support. The pair regaining the 1.1110 area would further improve the technical picture.

Over the previous days, sterling traders already positioned for a growing chance of a last-minute Brexit deal. Constructive headlines especially from EU sources yesterday gave sterling another shot in the arm. **EUR/GBP dropped to the 0.8630 area.** Today, the key question apparently is whether the DUP party will approve the deal. **An approval might cause sterling to look for a new equilibrium at a higher level.** The 2019 correction low of EUR/GBP comes in at 0.8472. As always in Brexit, last minute twists are never excluded.



EUR/USD: Brexit deal to support further euro gains



EUR/GBP: sterling traders see rising chance of a Brexit deal.

# Calendar

Wednesday, 16 October		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	5.2%
14:30	Retail Sales Advance MoM (Sep)	0.3%	0.4%
14:30	Retail Sales Ex Auto MoM (Sep)	0.2%	0%
<b>14:30</b>	<b>Retail Sales Ex Auto and Gas (Sep)</b>	<b>0.3%</b>	<b>0.1%</b>
<b>14:30</b>	<b>Retail Sales Control Group (Sep)</b>	<b>0.3%</b>	<b>0.3%</b>
16:00	NAHB Housing Market Index (Oct)	68	68
16:00	Business Inventories (Aug)	0.2%	0.4%
22:00	Total Net TIC Flows (Aug)	--	\$43.8b
<b>Canada</b>			
14:30	CPI NSA MoM/YoY (Sep)	-0.2%/2.1%	-0.1%/1.9%
14:30	CPI Core YoY (Sep)	1.8%	1.8%
<b>UK</b>			
10:30	CPIH YoY (Sep)	1.8%	1.7%
10:30	CPI MoM/YoY (Sep)	0.2%/1.8%	0.4%/1.7%
<b>10:30</b>	<b>CPI Core YoY (Sep)</b>	<b>1.7%</b>	<b>1.5%</b>
10:30	PPI Input NSA MoM/YoY (Sep)	0.2%/-1.7%	-0.1%/-0.8%
10:30	PPI Output NSA MoM/YoY (Sep)	0.1%/1.3%	-0.1%/1.6%
10:30	PPI Output Core NSA MoM/YoY (Sep)	0.1%/1.9%	0.2%/2%
10:30	House Price Index YoY (Aug)	0.6%	0.7%
<b>EMU</b>			
08:00	EU27 New Car Registrations (Sep)	--	-8.4%
11:00	Trade Balance SA (Aug)	18.0b	19.0b
11:00	CPI Core YoY (Sep F)	1%	1%
11:00	CPI MoM/YoY (Sep F)	0.2%/0.9%	0.1%/1%
<b>Events</b>			
Q3 earnings	Bank of NY (12:30), Bank of America (12:45), Netflix (22:00), Alcoa (aft-mkt), IBM (aft-mkt) ...		
16OCT	Institute of International Finance holds its annual meeting in Washington		
16OCT	Hong Kong leader Carrie Lam is expected to give her annual policy address		
14:30	ECB's Knot Speaks in New York		
<b>15:00</b>	<b>BOE's Carney Takes Part in Panel Discussion at IMF Event</b>		
<b>15:00</b>	<b>Fed's Evans Discusses Economy and Monetary Policy (voter)</b>		
<b>16:00/20:00</b>	<b>ECB Chief Economist Lane Speaks in Washington</b>		
19:00	Bundesbank President Weidmann Speaks in New York		
19:00	Fed's Kaplan Speaks in Austin		
<b>20:00</b>	<b>U.S. Federal Reserve Releases Beige Book</b>		
21:00	Fed's Brainard Speaks at Crypto Currency Conference (voter)		
23:00	Banque de France Governor Villeroy Speaks in New York		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.77	0.04		US	1.62	0.03	DOW	27024.8	237.44
DE	-0.42	0.04		DE	-0.69	0.02	NASDAQ	8148.706	100.06
BE	-0.13	0.03		BE	-0.62	0.01	NIKKEI	22472.92	265.71
UK	0.69	0.06		UK	0.53	0.03	DAX	12629.79	143.23
JP	-0.16	0.01		JP	-0.27	0.01	DJ euro-50	3598.65	42.39
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.38	1.62	0.77	Eonia	-0.4640	0.0000	Libor-1	1.8908	0.0000
5y	-0.30	1.60	0.79	Euribor-1	-0.4580	0.0100	Libor-3	2.0009	0.0000
10y	0.00	1.70	0.87	Euribor-3	-0.4180	-0.0020	Libor-6	1.9780	0.0000
				Euribor-6	-0.3580	-0.0050			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1033	0.0006		EUR/JPY	120.1	0.57	CRB	174.75	-0.24
USD/JPY	108.86	0.46		EUR/GBP	0.8630	-0.0117	Gold	1483.50	-14.10
GBP/USD	1.2787	0.0179		EUR/CHF	1.1019	0.0022	Brent	58.74	-0.61
AUD/USD	0.6753	-0.0022		EUR/SEK	10.824	-0.0046			
USD/CAD	1.3199	-0.0035		EUR/NOK	10.0641	0.0165			

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