



Sunrise

Friday, 12 January 2018

Rates: Hawkish ECB Minutes are bearish for Bunds

Hawkish ECB Minutes surprised markets yesterday. They suggest changes to the ECB's forward guidance early this year. The German 10-yr yield is heading for a test of the 2017 cycle top at 0.62%. Today's eco calendar heats up in the US with CPI and retail sales. Especially higher CPI readings won't go unnoticed in current volatile, negative, core bond sentiment.

Currencies: EUR/USD nears again 1.2092 range top

USD weakness was replaced by euro strength yesterday as the ECB Minutes signaled a potential change in the central bank's policy assessment. US CPI and retail sales take center stage today. A miss might cause further USD softness short-term. The key EUR/USD 1.2092 resistance might again be challenged.

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 overcame Wednesday's off-day and closed around 0.7-0.8% higher**, supported by a weaker dollar. **Risk sentiment is positive overnight with China and mainly Japan underperforming.**
- China's exports rose more than expected in December (10.9% Y/Y), but import growth (4.5% Y/Y) slowed dramatically, **helping to drive up the country's trade surplus to \$54 bn for the month, the highest since January 2016.**
- **NY Fed president Dudley said that US tax cuts pushed through last month added to the risk that the economy could overheat**, hardening the case for higher short-term interest rates.
- **The EU has begun debating the price for prolonging Britain's Brexit transition beyond December 2020**, with Brussels, Paris and Berlin attempting to maximise their bargaining power should trade talks drag on for several years.
- **Bulgaria stepped up its campaign to adopt the euro**, challenging member states to let it into the single currency's "waiting room" in the coming months or spell out why it cannot join.
- **Brazil paid the price for failing to approve President Temer's flagship pension overhaul as S&P downgraded Latin America's largest economy further into junk territory (BB-; outlook stable).**
- **Today's eco calendar** heats up with US retail sales and CPI data. ECB Weidmann and Boston Fed Rosengren are scheduled to speak. The Q4 earnings season kicks off with JP Morgan and Well Fargo.

Rates

Hawkish ECB Minutes are bearish signal for Bunds

	US yield	-1d
2	1,98	0,01
5	2,33	0,00
10	2,54	-0,02
30	2,88	-0,03

	DE yield	-1d
2	-0,57	0,04
5	-0,13	0,06
10	0,58	0,04
30	1,34	0,02

The German Bund and US Note future took again a different direction yesterday.

The German Bund significantly underperformed after hawkish ECB Minutes which suggested a change in forward guidance early 2018. The Euribor 3m forward curve bear steepened with markets now discounting positive 3m Euribor rates in Q3 2019 vs Q4 2019 earlier. US Treasuries didn't suffer from spill-over selling. Disappointing PPI's were even marginally supportive.

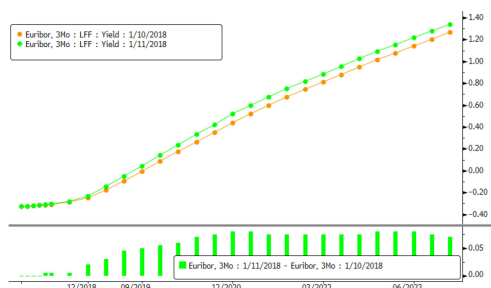
Eventually, the US curve flattened. The front end suffered from hawkish comments from Fed Dudley. The outgoing NY Fed President favours 3 rate hikes, but warned for risks of an overheating economy. **The long end of the curve profited from a spectacular 30-yr Bond auction.**

US yield changes ranged between +0.5 bps (2-yr) and -3.1 bps (30-yr). German yields rose by 1.7 bps (30-yr) to 6.3 bps (5-yr) in a daily perspective. 10-yr yield spread changes versus Germany were limited between -2 bps and +2 bps with Greece underperforming (+14 bps) and Portugal & Spain outperforming (-5/6 bps).

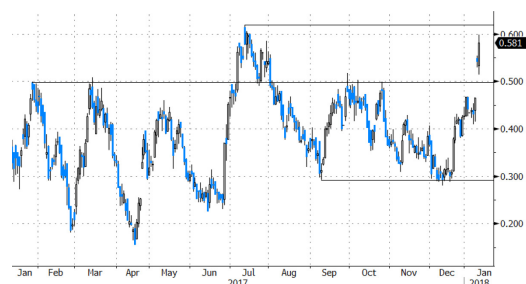
Most Asian stock markets gain ground overnight in line with WS's yesterday with Japan underperforming. Brent crude briefly spiked to \$70/barrel yesterday, but couldn't maintain gains and returned to \$69/barrel. The US note future trades flat, suggesting a neutral opening for the Bund.

Today's US eco calendar heats up with CPI and retail sales. Consensus expects a 0.1% M/M increase for the headline inflation reading (2.1% Y/Y) and a 0.2% M/M rise for the core measure (1.7% Y/Y). CPI readings have market moving potential in the current volatile US Treasury market. **We think that especially higher CPI data won't go unnoticed since the US 10-yr yield's technical break above 2.5% earlier this week (bearish signal US Treasuries).** The technical break suggests a move to 2.63%/2.64%. US retail sales are forecast to increase 0.5% M/M in December, but activity data lost their market-moving appeal recently.

The EMU eco calendar is empty. German trade union negotiations about pay rises haven't concluded yet. **German wages are expected to be pivotal to start an upward spiral in EMU price dynamics and could be a bearish signal for Bunds.** We expect the German 10-yr yield to rise towards 0.62%. Yesterday's hawkish ECB Minutes suggest more short term repositioning, anticipating perhaps already changes to the ECB's forward guidance in March. Strong global growth, rising inflation expectations and the global push to monetary normalisation are bearish factors for bonds medium term.



Euribor 3m forward curve bear steepens after hawkish ECB Minutes



German 10-yr yield heading for a test of the 2017 top at 0.62%

Currencies

R2	1,2225	-1d
R1	1,2092	
EUR/USD	1,2032	0,0084
S1	1,1713	
S2	1,1554	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8888	0,0042
S1	0,8690	
S2	0,8657	

EUR/USD 1.2092 resistance again on the radar

The dollar entered calmer waters yesterday as China indicated that news on the country reducing US Treasury holdings was false. However, calm was disturbed by the December ECB Minutes. The ECB discussed a change in communication. Forward guidance will focus more on interest rates rather than on the APP. **The Minutes propelled EMU yields and the euro.** EUR/USD jumped north of 1.20. The US PPI printed softer than expected and gave no reason for the dollar to counterbalance the rise of the euro. EUR/USD finished the day at 1.2032. USD/JPY lost modestly further ground and closed at 111.26, despite strong US equities.

Overnight, Asian equities mostly trade in positive territory. Japan underperforms as the strong yen weighs. EUR/USD holds in the mid 1.20 area. There are only second tier EMU data today, but **markets will still contemplate the consequences from yesterday's ECB Minutes.** US data contain the December CPI and retail sales. Retail sales are expected solid (0.5% M/M headline; 0.4% control group). Headline CPI is expected subdued (0.1% M/M and 2.1% Y/Y, core 1.7% Y/Y).

The dollar was resilient yesterday as the Chinese news was dismissed. **Euro strength finally prevailed after the ECB minutes.** US price data were not really strong of late. Retail sales are expected solid. **So, an outright beat for US data is not that evident. Another miss in the US data contains the risk for further USD losses short term. EUR/USD might revisit the 1.2092 top. This level proved solid off late. We don't preposition for a break yet, but the pressure grows. Partial stop-loss protection against a break beyond 1.21 might be considered. We look out whether the USD/JPY decline might slow after this week's setback. If so, it could be a first sign that pressure on the USD might ease.**

There were no important UK data **yesterday**. Underlying sterling sentiment was sluggish as the bickering on Brexit, including on the role of the UK financial sector, continued. In the afternoon, EUR/GBP jump above 0.89 on the ECB minutes. The pair closed the day at 0.8888. **There are again no UK data today. Political noise and the broader EUR & USD price moves will guide sterling trading. Euro strength and Brexit uncertainty will probably keep the downside in EUR/GBP well protected. We keep a EUR/GBP buy-on-dips in case of return action to 0.87 big figure. A break beyond 0.8925 would indicated a further improvement in the ST EUR/GBP momentum.**



EUR/USD 1.2092 again within reach after ECB Minutes. US data to decide on a break?



EUR/GBP: consolidation continues. Downside looks well protected

Calendar

Friday, 12 January		Consensus	Previous
US			
14:30	CPI MoM / YoY (Dec)	0.1%/2.1%	0.4%/2.2%
14:30	CPI Ex Food and Energy MoM / YoY (Dec)	0.2%/1.7%	0.1%/1.7%
14:30	Retail Sales Advance MoM (Dec)	0.5%	0.8%
14:30	Retail Sales Ex Auto MoM (Dec)	0.3%	1.0%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.4%	0.8%
14:30	Retail Sales Control Group (Dec)	0.4%	0.8%
14:30	Real Avg Hourly/Weekly Earnings YoY (Dec)	--/--	0.2%/0.8%
16:00	Business Inventories (Nov)	0.4%	-0.1%
Japan			
	Eco Watchers Survey Current SA (Dec)	A: 53.9	55.1
	Eco Watchers Survey Outlook SA (Dec)	A: 52.7	53.8
00:50	BoP Current Account Adjusted (Nov)	A: ¥1700.5b	¥2441.5b
China			
	Trade Balance CNY (Dec)	A: 361.98b	255.44b
	Exports YoY CNY (Dec)	A: 7.4%	9.5%
	Imports YoY CNY (Dec)	A: 0.9%	15.4%
	Trade Balance (Dec)	A: \$54.69b	\$38.98b
	Exports YoY (Dec)	A: 10.9%	11.5%
	Imports YoY (Dec)	A: 4.5%	17.6%
France			
08:45	CPI EU Harmonized MoM / YoY (Dec F)	0.4%/1.3%	0.4%/1.3%
Italy			
10:00	Industrial Production MoM / WDA YoY (Nov)	0.6%/3.3%	0.5%/3.1%
Spain			
09:00	CPI EU Harmonised MoM / YoY (Dec F)	0.1%/1.3%	0.1%/1.3%
Sweden			
09:30	CPIF MoM / YoY (Dec)	0.4%/1.9%	0.2%/2.0%
Events			
Q4 Earnings	Blackrock (Dur-mkt), JPMorgan Chase (12:45) & Wells Fargo (14:00)		
17:30	Bundesbank President Weidmann speaks in Rottach-Egern, Germany		
18:00	Fed's Market Speaks on Economic Outlook		
22:15	Fed's Rosengren Gives Keynote Address at UC San Diego Conf		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,54	-0,02		US	1,98	0,01	DOW	25574,73	205,60
DE	0,58	0,04		DE	-0,57	0,04	NASDAQ	7211,777	58,20
BE	0,73	0,04		BE	-0,46	0,05	NIKKEI	23653,82	-56,61
UK	1,31	0,02		UK	0,56	0,02	DAX	13202,9	-78,44
JP	0,08	0,01		JP	-0,13	0,00	DJ euro-50	3595,24	-14,59
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,05	2,27	0,97	Eonia	-0,3600	0,0100			
5y	0,37	2,37	1,14	Euribor-1	-0,3690	0,0000	Libor-1	1,5538	0,0000
10y	0,96	2,53	1,38	Euribor-3	-0,3290	0,0000	Libor-3	1,7091	0,0000
				Euribor-6	-0,2710	0,0000	Libor-6	1,8714	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,2032	0,0084		EUR/JPY	133,87	0,73	CRB	195,16	0,33
USD/JPY	111,26	-0,18		EUR/GBP	0,8888	0,0042	Gold	1322,50	3,20
GBP/USD	1,3538	0,0031		EUR/CHF	1,1741	0,0053	Brent	69,26	0,06
AUD/USD	0,7892	0,0049		EUR/SEK	9,7847	-0,0140			
USD/CAD	1,2519	-0,0028		EUR/NOK	9,6427	-0,0027			

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