



Sunrise

Tuesday, 16 January 2018

Rates: Core bond sell-off to slow with key yield resistance levels looming?

US investors return from the long weekend, but they don't have much catching up to do. Only hawkish comments from ECB Hansson inflicted some Bund losses towards the end of European dealings. Today's eco calendar probably won't impact trading. Risk sentiment on stock markets and technical factors (looming resistance in yields) are the main considerations.

Currencies: Dollar decline slows, but no sign of a sustained U-turn yet.

Yesterday, the EUR/USD rally continued after Friday's break above a key resistance area. US investors return from a long weekend. The eco calendar probably provides no high profile trigger for a trend reversal on the FX market. Even so, USD/JPY showed a cautious rebound this morning. The focus for sterling trading turns to the UK price data.

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 were closed** yesterday because of Martin Luther King Day. **Asian stock market sentiment is positive overnight** with Japan and China outperforming.
- **The ECB should adjust its policy guidance before the summer** and shouldn't have any problems **ending net asset purchases in one swoop after September**, Governing Council member **Hansson** said.
- Japanese **Finance Minister Aso** said that he did **not see problems with USD/JPY weakening to around 110.80 yen, but that big swings in currencies would be problematic.**
- **The EU has toughened up its conditions for a post-Brexit transition deal for the UK**, demanding that Britain abide by stricter terms on immigration, external trade agreements and fishing rights for nearly two years after it leaves the bloc.
- **Greek lawmakers approved an omnibus package of labour**, energy and fiscal reforms **needed to wrap up the penultimate review of its €86bn bailout**, as police clashed with leftwing demonstrators outside the parliament building.
- **Republican congressional leaders** don't believe they have the time to complete a fiscal year spending deal by Friday, according to a person familiar with the talks. They **are weighing legislation for a short-term extension until Feb. 16.**
- **Today's eco calendar** contains UK inflation data (Dec) and US empire manufacturing (Jan). The Belgian debt agency is expected to launch a new 10-yr bond (OLO 85 Jun2028) by syndication.

Rates

	US yield	-1d
2	2,00	0,00
5	2,35	0,00
10	2,55	0,00
30	2,84	0,00

	DE yield	-1d
2	-0,57	-0,01
5	-0,12	0,00
10	0,59	0,01
30	1,34	0,02

Core bond sell-off to slow with ECB in mind?

US markets were closed for Martin Luther King Day yesterday. **The German yield curve steepened with yield changes ranging between -0.6 bps (2-yr) and +1.9 bps (30-yr).** The Bund hovered sideways near opening levels and near the recent sell-off lows in low volume trading for the most part of the session. **Comments from ECB Hansson**, who advocates changing forward guidance before Summer and ending APP after September, **inflicted some weakness.** From a technical point of view, German yields remain below key resistance levels (2017 tops). 10-yr yield spread changes versus Germany were limited. **The Kingdom of Belgium announced the launch of new 10-yr syndicated benchmark (OLO 85 Jun2028) in the near future (likely today).**

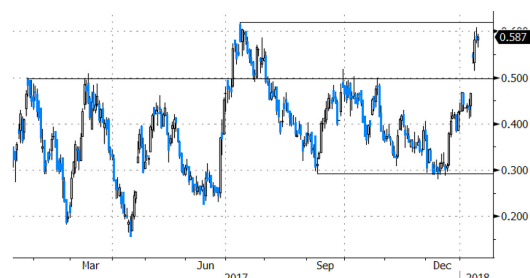
Most Asian stock markets trade positive overnight. Brent crude hovers near the cycle high around \$70/barrel. **The US note future opens neutral after yesterday's holiday and we expect the same to happen for the Bund.**

Today's eco calendar is thin with only the US Empire manufacturing index (Jan). Consensus expects a modest increase from 18 to 19 which remains a rather high level. **Activity data failed to impact trading lately, unlike inflation data.** A huge surprise in UK CPI readings could have some spill-over effects on the Bund and the US Note future via the UK Gilt market. **US Congress faces a January 19 deadline to reach a spending deal and avoid a government shutdown.** An agreement is unlikely and Republicans will probably consider a stopgap spending bill and short term extension until Feb 16. **In previous government shutdown spells, which is not our base scenario this time, US Treasuries tended to profit from safe haven flows.**

Risk sentiment on stock markets and technical considerations will probably remain the key trading elements for the Bund and US Note future. German yields might be lured towards a test of nearby resistance levels ahead of next week's ECB meeting, respectively at -0.55% (2-yr), -0.06% (5-yr), 0.62% (10-yr) and 1.38% (30-yr). **This week's uneventful eco and event calendar suggests that a break won't be easy. Therefore, we argue in favor of some consolidation near the highs (in yield terms). Medium term, we closely follow German trade union negotiations about pay rises. German wages are expected to be pivotal to start an upward spiral in EMU price dynamics and could be a bearish signal for Bunds.** Strong global growth, rising inflation expectations and the global push to monetary normalization are **bearish factors for bonds medium term.** The US 10-yr yield's new trading range is between 2.5% and 2.63% (2017 top).



US 10-yr yield: new trading range between 2.5% and 2.63%?



German 10-yr yield: test of 2017 top is probable ahead of the ECB meeting, but a break unlikely

Currencies

Dollar decline slows, but no U-turn yet

R2	1,2643	-1d
R1	1,2297	
EUR/USD	1,2264	0,0062
S1	1,1713	
S2	1,1554	

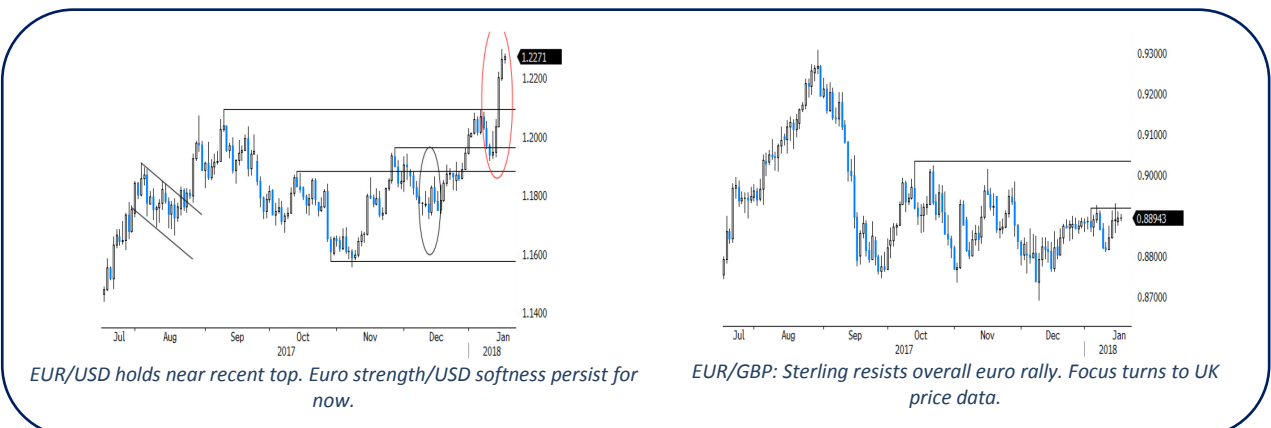
R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8894	0,0005
S1	0,8690	
S2	0,8657	

Last week's trends in the dollar and the euro continued yesterday even as US markets were closed (Martin Luther King Day). EUR/USD made further follow-through gains after Friday's break above 1.2092/1.2167, reaching a 3 year top. There was little news. Investors continued adjusting as the December minutes indicated that the ECB will probably soon prepare markets for a gradual scaling back of policy stimulation. Euro strength coincided with broader USD weakness. USD/JPY also declined further on optimistic comments of BOJ Kuroda. EUR/USD came close to 1.23 and finished the day at 1.2264. USD/JPY closed at 110.54.

Overnight, Asian markets **continue the risk rally** with Australia and India underperforming. Japan Fin Min Aso said that the current USD/JPY level is no problem but warned on sudden FX-moves. USD/JPY returned to the high 110 area. **EUR/USD stabilizes in the 1.2265 area**. ECB's Hanson indicated that the ECB could change guidance before Summer and that it could end asset purchases in one step in September. **The Yuan (USD/CNY 6.43)** trades near the strongest level in 2-years. **Later today**, the calendar is again thin with the final German CPI and the US Empire manufacturing survey. The Empire survey is expected slightly higher at 19.0. **Recent US sentiment indicators were mixed, despite the approval of the tax reform**. The report will only be of intraday significance.

Global Picture. Euro strength still prevails as markets prepare for a change in policy from major central banks outside the US, including the ECB and even the BOJ. Especially the ECB is signalling a gradual turn. Looking at the fundamentals/interest rate differentials (2-y US/German spread at +250 bps), the euro rise/dollar decline has gone quite far. **However, there is no trigger for a ST change in sentiment**. The technicals turned USD negative as EUR/USD cleared 1.2090/1.2167 resistance. The dollar is a failing knife and there is no sign of a reversal. 1.2598 (62% Retracement) is next important resistance on the charts.

Sterling traded resilient of late, supported by hope that the EU could turn less hard in the Brexit negotiations. **Today, the focus turns to the UK price data**. Headline and core CPI are expected to decline slightly to respectively 3.0% Y/Y and 2.6% Y/Y. A scenario of a gradual easing of inflation might convince markets that little additional BoE action is needed anytime soon. **Short term sterling sentiment was constructive of late, but we expect EUR/GBP 0.8700/60 to be a solid support**.



Calendar

Tuesday, 16 January		Consensus	Previous
US			
14:30	Empire Manufacturing (Jan)	19.0	18.0
Japan			
00:50	PPI MoM / YoY (Dec)	A; 0.2%/3.1%	0.5%/3.6%
UK			
10:30	CPI MoM / YoY (Dec)	0.4%/3.0%	0.3%/3.1%
10:30	CPI Core YoY (Dec)	2.6%	2.7%
10:30	RPI MoM / YoY (Dec)	0.6%/3.9%	0.2%/3.9%
10:30	PPI Input NSA MoM / YoY (Dec)	0.4%/5.3%	1.8%/7.3%
10:30	PPI Output NSA MoM / YoY (Dec)	0.2%/2.9%	0.3%/3.0%
10:30	PPI Output Core NSA MoM / YoY (Dec)	0.2%/2.3%	0.2%/2.2%
10:30	House Price Index YoY (Nov)	--	4.5%
Germany			
08:00	Wholesale Price Index MoM / YoY (Dec)	--/--	0.5%/3.3%
08:00	CPI EU Harmonized MoM / YoY (Dec F)	0.8%/1.6%	0.8%/1.6%
Italy			
10:00	CPI EU Harmonized YoY (Dec F)	1.0%	1.0%
Events			
Q4 earnings	Citigroup (14:00), ...		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,55	0,00	US	2,00	0,00	DOW	25803,19	0,00	
DE	0,59	0,01	DE	-0,57	-0,01	NASDAQ	7261,062	0,00	
BE	0,73	0,00	BE	-0,45	0,00	NIKKEI	23951,81	236,93	
UK	1,32	-0,02	UK	0,60	0,00	DAX	13200,51	-44,52	
JP	0,08	0,01	JP	-0,13	0,00	DJ euro-50	3611,81	-0,80	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,06	2,31	0,99	Eonia	-0,3690	-0,0100	Libor-1	1,5595	0,0000
5y	0,39	2,39	1,16	Euribor-1	-0,3690	0,0000	Libor-3	1,7215	0,0000
10y	0,97	2,54	1,40	Euribor-3	-0,3290	0,0000	Libor-6	1,8877	0,0000
				Euribor-6	-0,2740	-0,0030			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2264	0,0062	EUR/JPY	135,56	0,06	CRB	196,06	0,00	
USD/JPY	110,54	-0,52	EUR/GBP	0,8894	0,0005	Gold	1334,90	0,00	
GBP/USD	1,3792	0,0064	EUR/CHF	1,1811	0,0011	Brent	70,26	0,39	
AUD/USD	0,7965	0,0048	EUR/SEK	9,8405	0,0177				
USD/CAD	1,2429	-0,0030	EUR/NOK	9,6673	0,0037				

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Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
		Institutional Desk	+32 2 417 46 25
		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		
Petr Baca	+420 2 6135 3570		
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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