



Sunrise

Monday, 06 January 2020

## Rates: Geopolitics take markets hostage

Core bonds remain supported this morning as tensions in the Middle East soured further this weekend. Other safe haven assets profit as well. Today's empty eco calendar suggests focus remains on risk sentiment. US eco data (non-manufacturing ISM, ADP & Payrolls) might grab more attention later this week.

## Currencies: Dollar profits only modestly from global risk-off

The US-Iran conflict was also visible on global FX markets on Friday, but the impact was less pronounced compared to what happened in equities or bonds. The yen outperformed. The damage for EUR/USD was modest. Global sentiment will set the tone for FX trading today. Still we assume the 1.1066/1.12 area to be solid support for EUR/USD.

## 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	↗

- **Wall Street** slipped on Friday amid rising geopolitical tensions and a disappointing manufacturing ISM. The Dow Jones (-0.81%) underperformed. **Asian stocks** open the week in red. Japan underperforms on yen strengthening.
- **Iran said it will no longer comply to the limits on uranium enrichment** as agreed under the nuclear pact while **Iraq's parliament voted to expel US troops** in the country. President Trump warned of "disproportionate" US retaliation.
- **Chinese Caixin PMI's declined in December.** Following a slightly weaker than expected manufacturing reading last week, services also slipped to 52.5 from 53.5 (vs. 53.2 expected). The composite index declined from 53.5 to 52.5.
- **The US manufacturing ISM unexpectedly fell from 48.1 to 47.2 last Friday, the weakest level since 2009.** Orders continue shrinking. Factories dial back on production and shed employees at a faster pace.
- **NY Fed Williams said that low interest rates are here to stay "for the next five to 10 years"**. The central bank should hold itself accountable to their 2% target and should make sure that inflation expectations do not slip too far.
- **Spanish Socialist leader Sánchez failed to secure an absolute majority** for a new mandate as PM during a vote on Sunday. A second vote is scheduled tomorrow where he only needs a simple majority and will likely narrowly win.
- **Today's economic calendar** is of little importance with only final PMI's and producer price inflation due in the euro zone. Risk sentiment will be key for trading today.

# Rates

## Geopolitics take markets hostage

	US yield	-1d
2	1.52	-0.04
5	1.58	-0.08
10	1.79	-0.09
30	2.24	-0.09

	DE yield	-1d
2	-0.62	-0.02
5	-0.55	-0.04
10	-0.28	-0.06
30	0.25	-0.06

**Core bonds ended last week with a stellar performance. US Treasuries outperformed German Bunds. Both cashed in on their safe haven statute.** The main move occurred during Asian trading hours after an American airstrike in Iraq killed one of Iran’s most powerful generals. **Markets started discounting elevated geopolitical risk with Brent crude this morning rising above \$70/barrel, gold prices closing in on \$1600/ounce for the first time since 2013 and stocks correcting lower. Tensions in the Middle East overshadowed a weak December US manufacturing ISM**, printing at the softest level since 2009. Subcomponents like production, new (export) orders and employment all drifted further in contractionary territory. US yields dropped by 4.2 bps (2-yr) to 8.9 bps (10-yr). Changes on the German yield curve varied between -1.8 bps (2-yr) and -5.8 bps (10-yr). 10-yr yield spread changes vs Germany ended narrowly mixed.

**Main Asian equity indices lose up to 2% this morning. Core bonds and other safe haven assets remain upwardly oriented with the spotlight still on the Middle East.** Iran warned it will retaliate while almost completely retreating from the Joint Comprehensive Plan of Action (nuclear deal). US president Trump on his turn threatened to hit 52 Iranian sites if Tehran retaliated. Iraq’s parliament called on US troops to withdraw from the country. Chinese December Caixin services PMI followed the manufacturing gauge (published last week) lower (52.6 from 53.2).

Today’s eco calendar only contains final EMU PMI’s. **Focus remains on elevated geopolitical risk which should keep core bonds supported. US eco data (non-manufacturing ISM, ADP employment, payrolls) and the US mid-month refinancing operation might start grabbing some attention later this week. The Spanish political deadlock will probably end tomorrow in the second parliamentary vote** for a progressive government led by Socialist leader Sanchez. He didn’t get the required majority in yesterday’s first vote, but probably narrowly get the numbers (simple majority) tomorrow. We don’t expect real outperformance of Spanish bonds.

**Technically:** the German 10-yr yield failed to take out the July high (-0.19%), causing rebound action lower. The geopolitical safe haven bid could end the Q4 upleg. Key support stands around -0.40%. The US 10-yr yield on several occasions failed to move north of 1.94%. A return lower in the 1.42%-1.94% trading can be expected. First minor support stands at 1.66%/1.69%.



German 10-yr yield: Q4 uptrend about to end because of geopolitical stress?



US 10-yr yield: Failure to take out 1.94% resistance suggests short term return action lower.

# Currencies

## Dollar profits only modestly from global risk-off

R2	1.1265	-1d
R1	1.1199	
EUR/USD	1.1161	-0.0011
S1	1.1000	
S2	1.0879	

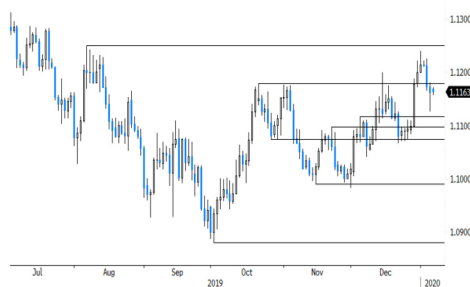
R2	0.8798	-1d
R1	0.8676	
EUR/GBP	0.8534	0.0034
S1	0.8275	
S2	0.8117	

The US airstrike killing Iranian general Soleimani on Friday morning triggered a **standard risk-off correction** across global markets. The fall-out from this trade also filtered through into FX trading, but **the impact was smaller compared to what happened in equities or in the interest rate markets**. EUR/JPY, EUR/USD and USD/JPY drifted lower. After the initial decline, the yen preserved its gain with USD/JPY holding near 108. However, **the euro gradually found its composure**, with EUR/USD and EUR/JPY rebounding. EUR/USD finished the day at 1.1161 (1.1172 on Thursday evening). USD/JPY closed at 108.09 (from 108.57). The gain in the likes of the CHF (EUR/CHF mid-1.08 area) was modest.

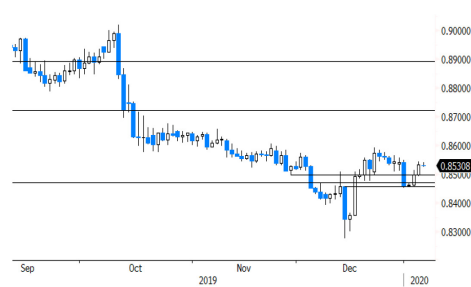
During the weekend, US officials tried to justify the killing of Soleimani. However, for now, **it didn't reduce uncertainty**. Sentiment remains risk-off in Asia this morning. Most regional indices show losses of 1%-1.5%. The yuan weakened (USD/CNY 6.9775). The Caixin Services PMI disappointed (52.6 from 53.2) but wasn't the focus of trading. USD/JPY is struggling not to fall below the 108/107.80 area. EURUSD is losing a few ticks (1.1160 area). For now, the euro decline/USD gain was rather modest.

**Today, the eco calendar** is rather thin with mainly the final EMU services PMI's. Investors will try to assess the next developments in the US-Iran conflict. **The risk of Iranian retaliation most likely will cause investors to keep a defensive bias**. We keep a close eye on EUR/JPY. Any euro gains will probably be difficult in an outright risk-off context. That said, we assume that **the 1.1125/1.1066 area might be a solid support for EUR/USD**. In EUR/JPY we keep an eye at the 120 area and 119.25 area.

**Sterling started the new year on the back foot**. UK eco data indicate that Brexit uncertainty continued to weigh on the economy in December. For now, it isn't sure to what extent this uncertainty will disappear even as the UK will leave the EU at the end of this month. The EU-UK trade negotiations will continue to cast a shadow on economic activity. Global uncertainty also doesn't help sterling. Sterling traders are looking for the new trading theme as Brexit enters a new phase. In a ST perspective, we assume that the 0.8450 area to be a first solid support for EUR/GBP.



EUR/USD: Middle East tensions block year-end rebound, but damage remains modest, for now.



EUR/GBP: bottoming out process continues

# Calendar

Monday, 6 January		Consensus	Previous
<b>UK</b>			
10:00	New Car Registrations YoY (Dec)	--	-1.30%
<b>EMU</b>			
10:00	Markit Eurozone Services PMI (Dec F)	52.4	52.4
10:00	Markit Eurozone Composite PMI (Dec F)	50.6	50.6
10:30	Sentix Investor Confidence (Jan)	2.6	0.7
11:00	PPI MoM/YoY (Nov)	0.10%/-1.50%	0.10%/-1.90%
<b>Germany</b>			
06JAN-07JAN	Retail Sales MoM/NSA YoY (Nov)	1.0%/1.0%	-1.6%R/1.4%R
<b>China</b>			
02:45	Caixin China PMI Composite (Dec)	52.6	53.2
<b>02:45</b>	<b>Caixin China PMI Services (Dec)</b>	<b>52.5</b>	<b>53.5</b>

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>		<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
<b>US</b>	1.79	-0.09		<b>US</b>	1.52	-0.04		<b>DOW</b>	28634.88	-233.92
<b>DE</b>	-0.28	-0.06		<b>DE</b>	-0.62	-0.02		<b>NASDAQ</b>	9020.77	-71.42
<b>BE</b>	0.00	-0.05		<b>BE</b>	-0.60	-0.01		<b>NIKKEI</b>	23204.86	-451.76
<b>UK</b>	0.74	-0.06		<b>UK</b>	0.55	-0.01		<b>DAX</b>	13219.14	-166.79
<b>JP</b>	-0.02	-0.01		<b>JP</b>	-0.15	-0.02		<b>DJ euro-50</b>	3773.37	-19.87
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>		<b>USD</b>	<u>-1d</u>	<u>-2d</u>
<b>3y</b>	-0.28	1.59	0.79	<b>Eonia</b>	-0.4540	0.0000				
<b>5y</b>	-0.18	1.61	0.83	<b>Euribor-1</b>	-0.4430	-0.0070		<b>Libor-1</b>	1.7143	-0.0201
<b>10y</b>	0.12	1.75	0.93	<b>Euribor-3</b>	-0.3840	-0.0050		<b>Libor-3</b>	1.8739	-0.0264
				<b>Euribor-6</b>	-0.3230	0.0000		<b>Libor-6</b>	1.8929	-0.0166
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
<b>EUR/USD</b>	1.1161	-0.0011		<b>EUR/JPY</b>	120.49	-0.83		<b>CRB</b>	186.90	1.36
<b>USD/JPY</b>	108.09	-0.48		<b>EUR/GBP</b>	0.8534	0.0034		<b>Gold</b>	1552.40	24.30
<b>GBP/USD</b>	1.3083	-0.0062		<b>EUR/CHF</b>	1.0852	0.0000		<b>Brent</b>	68.60	2.35
<b>AUD/USD</b>	0.695	-0.0043		<b>EUR/SEK</b>	10.4889	0.0275				
<b>USD/CAD</b>	1.3001	0.0020		<b>EUR/NOK</b>	9.858	0.0294				

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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
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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