



Tuesday, 18 December 2018

Rates: US Treasuries rally on market jitters ahead of Fed

Global core bonds were mixed yesterday. Ongoing growth concerns and slumping oil prices caused US equities to slide to a multi-month low. US Treasuries heavily outperformed German Bunds. With only secondary housing data in the US and IFO Expectations in Germany, risk sentiment will remain in today's driver's seat ahead of tomorrow's Fed meeting.

Currencies: Diminishing interest rate support prevents USD to play its safe haven role

Yesterday, the dollar lost modest ground intraday. Overall uncertainty caused investors to question the Fed's rate hike intentions for next year. Interest rate differentials narrow in the disadvantage of the dollar. Today, USD traders will further countdown to tomorrow's Fed decision. Will the USD gradually stop losing interest rate support?

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 has put up another dismal performance, suffering 2%+ losses.** Nasdaq now joined the Dow Jones and S&P 500 in the red for the year. **Asian stock markets slide as well, with setbacks ranging between -1% and -2%.**
- **UK Labour leader Corbyn suggested a motion of no-confidence in PM May, but was rapidly rebuffed** by back benching Tories and the DUP who said to be unwilling to vote with Labour, even as they oppose May's Brexit deal.
- **The NAHB housing market index dropped unexpectedly from 60 to 56** in December, the weakest level since 2015 and providing more evidence that borrowing costs and property prices are **cooling the US housing market.**
- **Chinese President Xi offered no specific new measures to boost the economy** at a high-level conference. **China Daily earlier reported that individual income tax cuts will be a priority for the Chinese government next year.**
- **Chinese US Treasuries' holdings fell a fifth month straight in October,** by \$12.5bn to \$1.14tn and equalling mid-2017 levels. Total foreign holdings dropped by more than \$60bn, the largest decline since November 2016.
- **WTI crude closed below \$50/barrel for the first time since October last year.** Rumours suggest a big jump in US inventories ahead with others worrying about OPEC's ability to stick to next year's production cut agreement.
- **Today's economic calendar** contains US housings starts and building permits and German Ifo Business sentiment. New Zealand confidence data beat consensus this morning, lifting NZD/USD from 0.68 to 0.6850.

Rates

US Treasuries rally on market jitters ahead of Fed

	US yield	-1d
2	2,69	-0,04
5	2,68	-0,04
10	2,86	-0,03
30	3,10	-0,03

	DE yield	-1d
2	-0,61	0,00
5	-0,29	0,01
10	0,26	0,00
30	0,88	-0,01

Global core bonds were mixed yesterday with US Treasuries heavily outperforming German Bunds. US equity markets continued to sell-off, pushing major indices to a multi-month low. Global growth fears remain at play, with the US and China still in trade discussions and oil prices slumping. Ahead of the Fed meeting of tomorrow, investors worry a widely expected new rate hike will give the US economy further headwind. Focus will be on the Fed 'dot plot' to see how many rate hikes the central bank projects next year. The NAHB Housing Market index unexpectedly decreased this month to 56, down from 60 the month before and confirming the US housing market is cooling down. **All this combined pushed investors in the direction of safe havens. US Treasuries rallied higher with the US yield curve bull steepening.** Changes ranged from -3.1 bps (30-yr) to -4.0 bps (2-yr). This suggests that investor take even take into account a scenario where this week's Fed rate hike is the final one of the tightening cycle! European markets were able to limit losses, with changes on the German curve varying between -0.5 bps (30-yr) and +1 bp (5-yr).

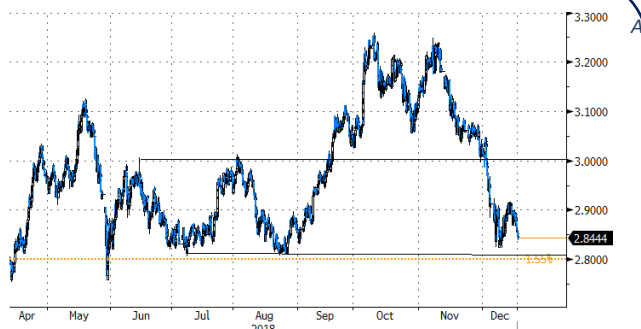
Asian equity markets are tracking losses on WS, with Japanese indices underperforming. Chinese equities briefly profited from a new tax-cut plan, but continued to slide after president Xi Jinping failed to meet investor expectations by offering no new commitments to open or stimulate China's economy at a high-level speech. China has also cut its US Treasuries' holdings for a fifth straight month in October, matching mid 2017 levels. Given the current sentiment, we expect a similar (weak) opening for European equity markets. US Treasuries and German Bunds are in positive territory this morning.

Today's eco calendar is paper thin. In the US, more housing data will be published. **Both Housing Starts and Building Permits** are expected to remain stable. Risks are for **a further deterioration which would add evidence to the slowdown of the US housing market**. German IFO business sentiment for December is released as well.. Consensus expects a little decrease to for the forward looking expectations index to 98.3, down from 98.7 in November. Given the disappointing PMI's of last Friday, we see risks rather tilted to the downside. US/German eco data will thus unlikely shift risk sentiment for the better today.

From a technical point of view, the German 10-yr yield tested the previous 0.28% support level last week, but a rebreak didn't occur. The US 10-yr yield heads again to the 2.78/2.8% support level ahead of tomorrow's Fed meeting.



German 10-yr yield tested the previous 0.28% support level but a break did not occur



US 10-yr yield: technical rebound away from 2.78%/2.8% support last week, but Fed will have final say tomorrow

Currencies

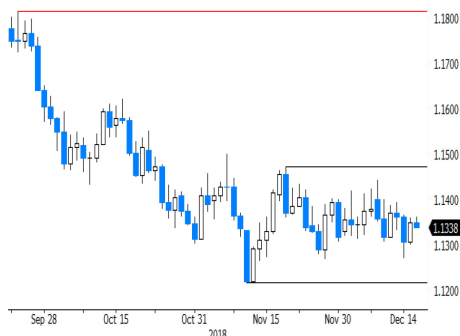
R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1348	0,0042
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8992	0,0009
S1	0,8700	
S2	0,862	

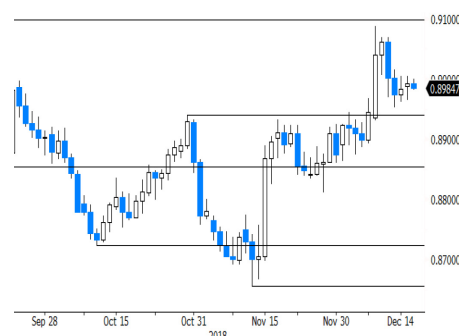
USD losing interest rate support

Uncertainty on the global economy continued to haunt (equity) markets **yesterday**. US equities were hit hard and **investors questioned the path of further Fed rate hikes** in 2019. **Poor US data**, including a substantial further decline in NAHB housing confidence added to uncertainty. **US yields nosedived**. Sentiment on markets outside the US also turned further negative, but the **loss of interest rate support this time prevented the dollar to fulfil its safe haven role**. The US currency underperformed the euro and the yen. EUR/USD closed the session at 1.1348 (from 1.1306). USD/JPY finished at 112.83 (from 113.39). The risk-off trade spreads further to Asia **overnight**, even as losses are smaller than in the US yesterday. In a long-awaited speech, Chinese president Xi Jinping confirmed the need for further reforms but didn't provide much info on new initiatives to address the current slowdown or on the US-China trade relations. The dollar maintains yesterday's decline. EUR/USD hovers in the 1.1340 area. The yen profits (albeit modestly) from a safe haven bid. USD/JPY trades in the 112.60 area. The yuan (USD/CNY 6.8970 area) trades little changed despite the risk-off. The kiwi dollar was supported by strong domestic confidence data. NZD/USD rebounded to the 0.6850 area after recent setback.

Later today, the German IFO business confidence will be published. In the US, housing starts and permits are scheduled for release. On both sides of the Atlantic, markets look for clues on a potential further slowdown. Recently, the repositioning on US markets was at least as violent as was the case in most non-US markets. **Question is whether the USD will lose further interest rate support going into tomorrow's Fed policy meeting**. We expect the Fed to remain much more positive on the economy (and on policy normalisation) compared to current market pricing. In theory, this should support the USD. However, at least until now, the market wasn't inclined to embrace a (modestly) positive US eco scenario. The dollar traded rather neutral and didn't profit from safe haven flows. More technical trading in the EUR/USD 1.12/1.15 trading range might be on the cards going into the Fed rate decision. EUR/GBP didn't go anywhere **yesterday** and meandered in the high 0.89 area as the political stalemate on Brexit persists. An attempt of labour to trigger a no confidence vote failed. UK PM May indicated that she will continue negotiations with the EU going into early next year. This might bring some temporary calm for sterling. Still we avoid sterling long **exposure**.



EUR/USD: a loss of interest rate support prevents to dollar to play its traditional safe have role



EUR/GBP: sterling (temporarily) enters calmer waters as market awaits next step in the Brexit saga

Calendar

Tuesday, 18 December		Consensus	Previous
US			
14:30	Housing Starts Total/MoM (Nov)	1228k/0.0%	1228k/1.5%
14:30	Building Permits Total/MoM (Nov)	1260k/-0.4%	1265kR/-0.4%R
Germany			
10:00	IFO Business Climate (Dec)	101.7	102.0
10:00	IFO Expectations (Dec)	98.4	98.7
10:00	IFO Current Assessment (Dec)	105.0	105.4
Events			
18DEC	China's Xi Jinping marks 40 th anniversary of the nation's economy to the world		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	2,86	-0,03		US	2,69	-0,04		DOW	23592,98	-507,53
DE	0,26	0,00		DE	-0,61	0,00		NASDAQ	6753,732	-156,93
BE	0,76	0,02		BE	-0,52	0,02		NIKKEI	21115,45	-391,43
UK	1,27	0,03		UK	0,74	0,01		DAX	10772,2	-93,57
JP	0,03	-0,02		JP	-0,16	-0,01		DJ euro-50	3063,65	-28,95
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0,02	2,81	1,24	Eonia	-0,3640	-0,0020		Libor-1	2,4550	0,0000
5y	0,26	2,80	1,32	Euribor-1	-0,3690	-0,0010		Libor-3	2,8007	0,0000
10y	0,87	2,89	1,45	Euribor-3	-0,3110	0,0000		Libor-6	2,9006	0,0000
				Euribor-6	-0,2370	0,0010				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,1348	0,0042		EUR/JPY	128,03	-0,16		CRB	177,92	-2,40
USD/JPY	112,83	-0,56		EUR/GBP	0,8992	0,0009		Gold	1251,80	10,40
GBP/USD	1,2624	0,0041		EUR/CHF	1,1269	-0,0012		Brent	59,61	-0,67
AUD/USD	0,7179	0,0007		EUR/SEK	10,2794	0,0359				
USD/CAD	1,3407	0,0023		EUR/NOK	9,8126	0,0713				

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