



Wednesday, 20 February 2019

Rates: More clarity in FOMC Minutes?

Investors will be looking for more clues about future Fed policy in Minutes of the January meeting. Consensus is building that the Fed will adjust the balance sheet run-off process in March or June. We hold a cautious positive intraday bias for core bonds.

Currencies: Sterling rallies ahead of key meeting between EU's Juncker and UK PM May

Yesterday, EUR/USD rebounded further even as the news flow on Europe remained soft. The dollar showed tentative signs of weakness, too. Today, EC consumer confidence, the Minutes of the January Fed meeting and headlines on trade and Brexit will dominate FX trading. The EUR/GBP 0.8620 support is coming on the radar as Brexit talks enter key phase.

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 equity markets** re-opened yesterday after a long weekend with modest gains (0.15%). **Asian equity markets** are trading in green this morning with China and Australia marginally underperforming.
- **The US pushes China to keep the yuan stable** in an attempt to neutralize efforts from China to devalue its currency to counter US tariffs. US President Trump repeated an extension of the March 1 deadline is possible. The yuan gains.
- **NY Fed's Williams doesn't see the need to raise interest rates any further**, unless growth or inflation shifts unexpectedly higher. He also estimated that the Fed would continue the balance sheet run-off well into next year.
- **UK PM May will meet with EU Commission president Juncker today**. May will try to save her Brexit deal by searching for legally binding changes to the Irish backstop. Juncker already played down prospects of any breakthroughs.
- **Japanese exports fell 8.4% (Y/Y) in January for a second straight month** and well below expectations (-5.7%). A large decline in shipments to China (-17%) is the main driver. Imports declined -0.6% (Y/Y), beating expectations(-3.5%).
- **German Chancellor Merkel and French President Macron are intensifying their campaign to review EU antitrust rules**. They want EU companies to be able to compete on a global level, which is currently blocked by tough EU merger rules.
- **Today's eco calendar** contains the Minutes of the January Fed meeting and February EMU Consumer Confidence. ECB chief economist Praet speaks in Frankfurt. Germany taps the market.

Rates

More clues about future Fed policy in FOMC Minutes?

	US yield	-1d
2	2,49	-0,03
5	2,47	-0,04
10	2,63	-0,03
30	2,98	-0,02

	DE yield	-1d
2	-0,57	0,00
5	-0,35	0,00
10	0,11	-0,01
30	0,74	-0,01

Global core bonds ended mixed with German Bunds flat and US Treasuries higher as US investors returned from a long weekend. **Early gains for the Bund came as Italian BTP's sold off on weak eco data, but couldn't be maintained** into the close. The US Note future gained most momentum around the start of US dealings. **Heavyweight NY Fed governor Williams** said that policy rates could remain unchanged this year unless the eco outlook changes. He was more hawkish on the balance sheet run-off compared to other governors that recently spoke. He suggested that bank reserves could get to \$1tn or somewhat more (currently > \$1.6tn), indicating a run-off into 2020. The US Treasury market didn't react to his comments. US yields lost 1.6 bps (30-yr) to 3.5 bps (5-yr) in a daily perspective with the belly of the curve outperforming the wings. The German yield curve flattened slightly with yield changes ranging between +0.1 bp (2-yr) and -0.7 bps (30-yr). 10-yr yield spread changes vs Germany were negligible with Italy (+3 bps) underperforming.

Most Asian stock markets advance this morning with **China (flat) lagging behind. The Chinese yuan rallies on headlines that the US is pushing for a "stable" (strong?!) yuan in trade talks.** The Bund and US Note future tread water, suggesting a neutral start to European trading.

Today's eco calendar contains **EMU consumer confidence**. Consensus expects a further, limited, rebound in February (-7.7 from -7.9) after 2018's nearly uninterrupted slide. **Minutes of the January FOMC meeting will be published and will provide more insight in the Fed's decision for a U-turn.** Several Fed-governors recently flavoured the debate. **Current market thinking suggests especially sensitivity to dovish remarks.** The future of the balance sheet run-off (pace, composition, end date) is a topic of interest. More clarity can be expected probably in June, but perhaps already in March. **ECB Praet and Fed Kaplan are scheduled to speak.** The former sounded dovish early this week (potential lengthening of ZIRP) while the latter is a non-voter. We hold a cautious upward intraday bias for core bonds today. **Italian deputy PM Salvini categorically rules out a revision to the 2019 budget because of weaker-than-expected growth. We continue to shun BTP's.**

Technically, the German 10-yr yield fell through the lower bound of the 0.15%-0.31% range, suggesting a return to the psychological 0% mark or even to negative levels. The US 10-yr yield trades in a 2.49%-2.78% sideways range.



German 10-yr yield: break below 0.15% suggests return to 0%.



US 10-yr yield: 2.49%-2.78% sideways range

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1341	0,0030
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8680	-0,0072
S1	0,8620	
S2	0,8314	

Sterling rallies ahead of key May-Juncker meeting

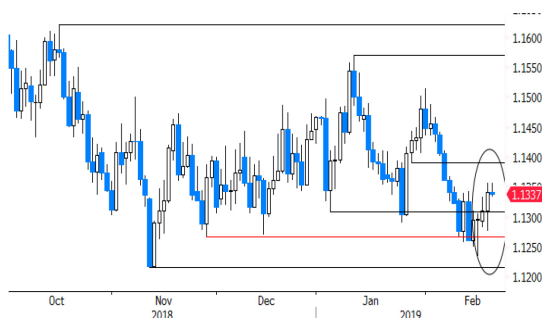
Yesterday, EUR/USD rebounded further. If anything, headlines were euro negative rather than positive. Italian production and order data were again weak. ZEW German confidence was mixed and ECB members did speak soft. **EUR/USD fell briefly below 1.13, but rebounded later.** A better risk sentiment dented appetite for the dollar. A rebound of cable maybe also supported EUR/USD. The US NABH housing index rose more than expected but failed to inspire USD bulls. EUR/USD closed at 1.1341 (from 1.1311). Soft BOJ comments initially weighed on the yen, but USD softness finally caused USD/JPY to close little changed at 110.63.

Most Asian equity indices are trading in positive territory with China underperforming. The **yuan rallied** (USD/CNY 6.7250) on headlines that the US asked China to keep its currency stable as part of the trade talks. The yen (USD/JPY 110.85 area) weakened further on poor Japan foreign trade data. BOJ-Kuroda again suggested that BOJ policy isn't weakening the yen. **Still, recent BOJ-talk on the currency is striking.** AUD/USD stabilizes in the upper half of the 0.71 big figure despite (slightly) softer than expected Q4 wage data.

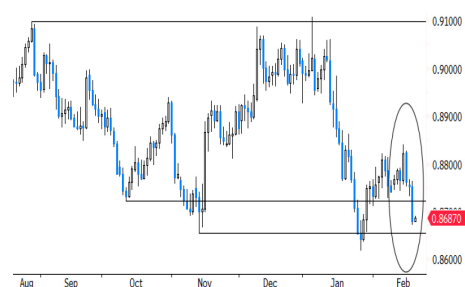
Today, the EC consumer confidence is expected to ease further to -7.7 from -7.9. In the US, markets will look out for **the minutes of the Jan 30 Fed meeting.** The turn in the Fed's bias is already well documented. Still, the (FX) market might be slightly more sensitive to dovish accents rather than 'hawkish' ones. Headlines on trade and on Brexit remain wildcards.

Last week, disappointing US data capped the USD rebound. EUR/USD rebounded off recent lows, but the picture remains fragile. Progress on **global trade issues** and better EMU data are needed for a more protracted EUR/USD comeback. There are **hopeful signs on trade, but the jury is still out.** EUR/USD 1.1216 marks the Nov low. EUR/USD 1.1287 is 61% retracement (2016 low/2018 top). The EUR/USD downside looks a bit more solid versus last week.

Yesterday, **sterling showed remarkable strength.** EUR/GBP drifted lower throughout the day and close below 0.87. Solid UK labour data helped sterling. At the same time, markets apparently hope that upcoming EU-UK talks might at least avoid a chaotic no-deal Brexit. **Today**, CBI order data are interesting but probably of second tier significance for GBP-trading. **The focus will be on a new 'crucial' meeting between EU's Juncker and UK PM May.** It is unsure whether any real progress will be made. At least for now, sterling trading are inclined to see the glass half full rather than half empty. **EUR/GBP 0.8621/17 is key MT support.**



EUR/USD rebounds off recent lows, but picture remains fragile.



EUR/GBP: sterling rallies as EU-UK Brexit talks enter key phase

Calendar

Wednesday, 20 February		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-3.7%
20:00	FOMC Meeting Minutes		
Japan			
00:50	Trade Balance Adjusted (Jan)	¥370.0bA	-¥183.6b
00:50	Imports/Exports YoY (Jan)	-0.6%A/-8.4%A	1.9%/-3.9%R
08:00	Convenience Store Sales YoY (Jan)	--	1.2%
UK			
12:00	CBI Trends Total Orders (Feb)	-5	-1
12:00	CBI Trends Selling Prices (Feb)	16	18
EMU			
16:00	Consumer Confidence (Feb A)	-7.7	-7.9
Germany			
08:00	PPI MoM/YoY (Jan)	-0.1%/2.2%	-0.4%/2.7%
Belgium			
15:00	Consumer Confidence Index (Feb)	--	-6
Events			
08:00	ECB's Praet to speak in Frankfurt		
11:30	Germany to Sell 4 Billion Euros of 0% 2024 Bonds		
17:30	US to Sell USD18 Bln 2-Year Floating Rate Notes		
19:10	Fed's Kaplan to speak in Q&A in Houston, Texas (non-voter)		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,63	-0,03	US	2,49	-0,03	DOW	25891,32	8,07	
DE	0,11	-0,01	DE	-0,57	0,00	NASDAQ	7486,766	14,36	
BE	0,66	-0,02	BE	-0,43	0,00	NIKKEI	21431,49	128,84	
UK	1,17	0,00	UK	0,74	0,01	DAX	11309,21	10,01	
JP	-0,03	-0,01	JP	-0,18	0,00	DJ euro-50	3239,41	-5,38	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,08	2,55	1,10	Eonia	-0,3690	0,0020			
5y	0,12	2,54	1,19	Euribor-1	-0,3670	0,0010	Libor-1	2,4848	0,0000
10y	0,65	2,66	1,36	Euribor-3	-0,3080	0,0000	Libor-3	2,6436	0,0000
				Euribor-6	-0,2320	0,0000	Libor-6	2,7554	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1341	0,0030	EUR/JPY	125,45	0,34	CRB	182,24	0,91	
USD/JPY	110,63	0,01	EUR/GBP	0,8680	-0,0072	Gold	1344,80	22,70	
GBP/USD	1,3062	0,0138	EUR/CHF	1,1353	-0,0008	Brent	66,45	-0,05	
AUD/USD	0,7165	0,0035	EUR/SEK	10,5599	0,0803				
USD/CAD	1,3211	-0,0029	EUR/NOK	9,7151	-0,0243				

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