

**Friday, 11 October 2019**

### Rates: Trade optimism lifts risk sentiment

Investors turned more positive about US-Sino trade talks after US President Trump announced a meeting with Chinese VP Liu He today. The intraday core-bond sell-off accelerated. Medium-term established, sideways, ranges remain within place. Today's eco calendar will again be overshadowed by discussions in Washington. Asian risk sentiment remains positive

### Currencies: EUR/USD regains 1.10 barrier, but no acceleration yet.

EUR/USD and USD/JPY profited from a constructive atmosphere around the US-China trade talks. EUR/USD regained the 1.10 level. USD/JPY is testing the 108 area. Even so, gains in both cross rates aren't exceptional. Even a positive outcome of the trade talks still contains mixed signals for USD trading. EUR/USD 1.1110 is next resistance.

### 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	↘

- **WS closed higher (+0.64%, S&P)** as markets took an optimistic stance on positive comments from the US-China trade talks. Asian markets join the risk-on trade, with Hongkong outperforming (+2.50%).
- **Optimism grows as US president Trump said the first day of US-China trade negotiations** went "very well" and that he plans to meet with top Chinese negotiator, vice premier Liu He.
- **Italy will start taxing digital companies including Facebook and Alphabet starting in January**, following France with an initiative that has raised the prospect of US sanctions.
- Renewed hopes for a Brexit deal between the UK and the EU emerge after UK's **Boris Johnson and Irish Varadkar said they could see a pathway to a potential deal**.
- US president **Trump said the US has three options in dealing with Turkey's incursion into Syria**: send the American military back in, unleash punishing sanctions on Turkey if it acts 'inhumanely' or mediate between the two sides.
- The **Romanian government collapsed** yesterday after Social democrat prime minister Viorica Dancila lost a confidence vote in parliament, raising the prospect of **prolonged political uncertainty**.
- **Today's economic calendar** schedules some Fed speakers. The preliminary University of Michigan consumer sentiment survey for October will be published. Italy taps the bond market.

# Rates

## Trade optimism improves risk sentiment

	US yield	-1d
2	1.54	0.08
5	1.49	0.08
10	1.67	0.08
30	2.16	0.08

	DE yield	-1d
2	-0.71	0.04
5	-0.69	0.07
10	-0.47	0.08
30	0.05	0.07

*"Big day of negotiations with China. They want to make a deal, but do I? I meet with the Vice Premier tomorrow at The White House."* Another tweet by US President Trump which proved to have more market moving potential than ordinary eco data. **His message sent US stock markets 0.6% higher and accelerated the sell-off on core bond markets.** It was soon followed by a joint statement between UK PM Johnson and Irish PM Varadkar who *"see a pathway to a possible deal in coming weeks."* Core bonds already faced some selling pressure ahead of these events with **a technical acceleration after the Bund fell through the 173.31 neckline of a small double top formation.** US CPI inflation (slightly below forecasts), ECB Minutes (highlighted split within ECB) and a decent 30-yr US bond auction were overshadowed by geopolitical events. US yields added 7.8 bps to 8.5 bps on a daily basis with the belly of the curve underperforming the wings. The German yield curve steepened with yields 4.3 bps (2-yr) to 7.9 bps (10-yr) higher. 10-yr yield spread changes vs Germany ended unchanged with Greece (-5 bps) outperforming.

**Asian stock markets profit as well this morning, rising up to 1% with Hong Kong outperforming (+2.5%)** as protesters debate halting vandalism ahead of the weekend. US President Trump added that high-level trade talks were going very well. The German Bund and US Note future hover near yesterday's sell-off lows as does the Japanese yen.

Today's eco calendar contains **US import/export prices and October Michigan consumer confidence.** The latter might be negatively affected by the GM strike. However, everything will be about the (outcome of) the Trump-Liu He meeting. **Investors shifted their guarded approach into an optimistic one which could weigh further on core bonds, within established technical ranges.** Speeches by Fed governors are wildcards. Dovish Fed member Kashkari dropped his dovish 50 bps rate cut call and now thinks a 25 bps cut will do. Are we nearing the end of the Fed's mid-cycle adjustments?

**Technically,** the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Both fell short of really testing first resistance levels, respectively at -0.41% and 1.94% as disappointing eco data ended the run. Bullish risk sentiment now causes a return to the upper bounds. Going forward, we expect range trading with August lows protecting the downside (German 10y: -0.73%; US 10y: 1.43%).



German 10-yr yield: turning higher within sideways trend channel between -0.73% and -0.41%



US 10-yr yield: sideways range between 1.43% and 1.94%. Drift to lower bound stopped by fresh trade optimism

# Currencies

## EUR/USD tries to hold north 1.10 barrier

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1005	0.0034
S1	1.0864	
S2	1.0778	

EUR/USD finally regained the 1.10 barrier yesterday. After volatile trading in Asia, markets saw indications that the US and China were heading toward a (partial) trade agreement. The global risk-on move supported a congruent rise of EUR/USD, EUR/JPY and USD/JPY. During the day, the US-German interest rate differential narrowed further. The ECB minutes confirmed a highly divided MPC, raising the bar for further easing. Even so, EUR/USD gains stayed modest and there were few follow-through gains as the pair tested incoming trend line just north of 1.10. EUR/USD closed at 1.1005. USD/JPY finished the day at 107.98.

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8847	-0.0143
S1	0.8500	
S2	0.8314	

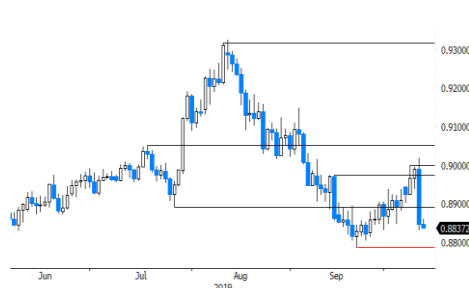
**Overnight**, Asian (equity) markets join the risk rally as comments from the US-China trade talks stay constructive. The **yuan** rebounds further (USD/CNY 7.1025). The **Aussie dollar** also outperforms (AUD/USD 0.6780). USD/JPY (108) and EUR/USD (1.1015/20) hardly makes any further headway on the positive trade story.

**Today**, the focus will stay on the US China trade talks. Eco data are scant. US Michigan consumer confidence may be of intraday significance for USD trading. Yesterday's risk-on move triggered a substantial rise in core yields and supported equities. USD/JPY and EUR/USD succeeded decently, but no exceptional gains. **A trade truce still contains conflicting drivers for EUR/USD.** An agreement might provide some comfort for the export-reliant EMU economy. At the same time, it might also reduce the chance for further aggressive Fed easing. On the other hand, a currency clause in the trade agreement might be USD negative. After modest USD losses last week, EUR/USD is testing an incoming trendline near 1.1010. A sustained break would improve the ST picture/ease the downside bias. 1.1110 is the next reference on the charts. A further positive development regarding Brexit might help to build a floor for the euro.

After initial weakness, **sterling jumped sharply higher yesterday as UK PM Johnson and Irish PM Varadkar after a meeting indicated that they still saw ways to reach a deal.** EUR/GBP tumbled from the 0.90+ area to the 0.8830 area. Ongoing talks between the UK and the EU might still be considered as constructive and sterling supportive. However, for now, there are no details on how the issue of the Irish backstop might be solved. Concrete progress in this topic is probably needed to push EUR/GBP below the 0.8787 support.



EUR/USD: tries to sustain above key trendline.



EUR/GBP declines sharply as Brexit-hope resurfaces

# Calendar

Friday, 11 October		Consensus	Previous
<b>US</b>			
14:30	Import Price Index MoM/YoY (Sep)	0.00%/-2.10%	-0.50%/-2.00%
14:30	Import Price Index ex Petroleum MoM (Sep)	-0.10%	0.00%
14:30	Export Price Index MoM/YoY (Sep)	0.10%/--	-0.60%/-1.40%
16:00	<b>U. of Mich. Sentiment (Oct P)</b>	<b>92</b>	<b>93.2</b>
16:00	U. of Mich. Current Conditions (Oct P)	109.0	108.5
16:00	U. of Mich. Expectations (Oct P)	82.5	83.4
16:00	U. of Mich. 1 Yr Inflation (Oct P)	--	2.80%
16:00	U. of Mich. 5-10 Yr Inflation (Oct P)	--	2.40%
<b>Canada</b>			
14:30	Part Time Employment Change (Sep)	-7.7	57.2
14:30	Full Time Employment Change (Sep)	20.8	23.8
14:30	<b>Net Change in Employment (Sep)</b>	<b>7.5k</b>	<b>81.1k</b>
14:30	<b>Unemployment Rate (Sep)</b>	<b>5.70%</b>	<b>5.70%</b>
14:30	Hourly Wage Rate Permanent Employees YoY (Sep)	3.80%	3.80%
14:30	Participation Rate (Sep)	65.7	65.8
<b>Japan</b>			
01:50	Money Stock M3 YoY (Sep)	2.00%A	2.00%
<b>Events</b>			
00:30	Fed's Bostic Speaking at Rainbow Push Coalition Conference (non-voter)		
10:00	Bank of Portugal's Costa Speaks at Conference in Lisbon		
11:00	Italy to Sell Bonds		
14:00	<b>Fed's Kashkari Speaks in Moderated Q&amp;A on Economy in New York (non-voter)</b>		
19:15	<b>Fed's Rosengren Speaks at Event in Madison, Wisconsin (voter)</b>		
21:00	<b>Fed's Kaplan Speaks at Event in San Francisco (non-voter)</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.67	0.08		US	1.54	0.08	DOW	26496.67	150.66
DE	-0.47	0.08		DE	-0.71	0.04	NASDAQ	7950.782	47.04
BE	-0.15	0.08		BE	-0.63	0.04	NIKKEI	21798.87	246.89
UK	0.59	0.13		UK	0.47	0.10	DAX	12164.2	69.94
JP	-0.18	0.02		JP	-0.29	0.02	DJ euro-50	3493.96	31.85
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.43	1.50	0.72	Eonia	-0.4670	0.0000			
5y	-0.35	1.47	0.71	Euribor-1	-0.4660	-0.0020	Libor-1	1.9274	0.0000
10y	-0.06	1.58	0.76	Euribor-3	-0.4180	0.0000	Libor-3	1.9843	0.0000
				Euribor-6	-0.3750	0.0090	Libor-6	1.9428	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1005	0.0034		EUR/JPY	118.83	0.90	CRB	173.58	0.51
USD/JPY	107.98	0.50		EUR/GBP	0.8847	-0.0143	Gold	1500.90	-11.90
GBP/USD	1.2443	0.0237		EUR/CHF	1.0972	0.0045	Brent	59.10	0.78
AUD/USD	0.6761	0.0036		EUR/SEK	10.8314	-0.0942			
USD/CAD	1.3291	-0.0042		EUR/NOK	10.0419	-0.0236			

If you no longer wish to receive this mail, please contact us: "[kbcmarketresearch@kbc.be](mailto:kbcmarketresearch@kbc.be)" to unsubscribe

# 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
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		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	Bratislava	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	Budapest	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)



This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.