



Friday, 12 October 2018

KBC Sunrise Market Commentary

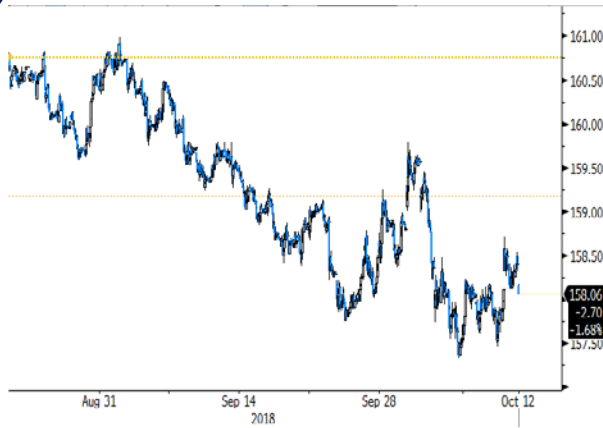
Markets

- Calm returned on global core bond markets yesterday as US Treasuries moved sideways throughout the day, while Bunds couldn't sustain early session gains. The US curve flattened with changes ranging from +0,6 bps (2-yr) to -2,4 bps (30-yr). German yields lost ground in an order up to -3,4bps (10-yr). Equity markets continued their losing streak while slight weaker than expected US inflation had little influence on trading. This morning, media report the US Treasury Department's staff advised Secretary Steven Mnuchin that China isn't manipulating the yuan, improving risk sentiment. US Treasuries open today's session lower on the news. **An improved sentiment on global markets will probably put some pressure on the German Bunds as well.** Asian equities try to rebound as do US equity futures. Today's eco calendar contains no primary data that has the ability to steer trading. The University of Michigan sentiment index is expected to gain some ground. Fed governors Evans and Bostic are set to speak. Interesting to see if they have something to say on Trump's repeated criticism on the Fed's rate hike path. Major banks (JPMorgan Chase, Wells Fargo & Co and Citigroup inc.) release their third quarter earnings.
- Yesterday, risk sentiment remained negative. However, European equities soon set a tentative bottom. This brought some calm on the bond markets. Dollar didn't profit from the risk-off correction on Wednesday and this pattern continued. **This time, the euro maintained the benefit of the doubt.** The Minutes of the September ECB meeting showed that the Bank was aware of the risks related to the trade war, but Draghi and Co remain confident that underlying inflation will pick up. **This message was slightly euro constructive, but EUR/USD trading was mostly a USD story.** US Inflation data were slightly softer than expected and propelled EUR/USD closed to 1.16. In nervous US equity trading, the dollar hovered up and down. President Trump said that the dollar is 'very strong, very powerful' and that this causes difficulties for doing business. The quotes had only little direct impact on USD trading. EUR/USD closed the session at 1.1593. USD/JPY finished a rather calm day at 112.16. **Overnight,** Asian equities try a cautious comeback, but sentiment stays fragile. Still, this tentative improvement in risk sentiment isn't outright USD-positive. EUR/USD is holding in the 1.16 area. USD/JPY gains slightly ground above 112. Later today, there are few eco data. **US consumer confidence** (U. of Michigan) maybe has most market moving potential. Of late, we left our ST USD positive bias and turned neutral on EUR/USD. The pair rebounded off the 1.1432 correction low. Italy remains a source of uncertainty. However, for now, some further EUR/USD gains in the 1.1432/1.1815 ST range are possible.
- Yesterday, EUR/GBP finally regained some ground after a 6-day losing streak. Investors maybe grew a bit nervous as there was too little concrete news on Brexit progress ahead of next week's EU summit. EUR/GBP closed the session at 0.8762. Today, Brexit will continue to dominate sterling trading. This morning, headlines give a bit more attention to the internal division in May's coalition. The wind can turn, but is might be slightly?/temporarily? GBP-negative. More erratic sterling trading might be on the cards.

News Headlines

- **Canada announced new volume quotas and tariffs (25%) on certain overseas steel imports on Thursday.** The measure aims to prevent excessive dumping from China and other low-cost producers. Countries have been diverting steel shipments to Canada from the US after the latter imposed its own import duties.
- **The US and Turkey might be close to a deal to end their dispute over Andrew Brunson,** the American pastor held in Turkish custody. Tensions between both nations peaked in August when US Treasury Mnuchin threatened to impose more sanctions on Turkey if they did not quickly release Brunson. The Turkish lira rallied on the report.
- **Chinese trade data** showed exports picking up unexpectedly to 14.5% YoY in September. Its trade surplus with the US reached a record, which could further add fuel to the trade conflict. On a different note, **the US Treasury staff has advised Mnuchin that China is not manipulating its currency.** The country will remain on a monitoring list, however.

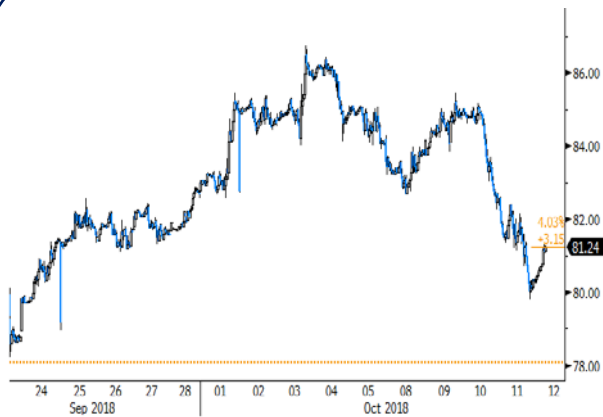
Graphs & Table



Bund contract: German bonds profit only modestly from global market turmoil.



EUR/USD rebounds as dollar fails to play its usual safe haven role



Oil (Brent) looking for a new equilibrium after recent swings.



CSI 300: Chinese equities sell-off taking a breather after recent carnage.

Source: Bloomberg

Calendar

Friday, 12 October		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Sep)	0.2%/3.1%	-0.6%/3.7%
14:30	Import Price Index ex Petroleum MoM (Sep)	-0.1%	-0.2%
14:30	Export Price Index MoM/YoY (Sep)	0.2%/2.9%	-0.1%/3.6%
16:00	U. of Mich. Sentiment (Oct P)	100.5	100.1
16:00	U. of Mich. Current Conditions (Oct P)	--	115.2
16:00	U. of Mich. Expectations (Oct P)	--	90.5
16:00	U. of Mich. 1 Yr Inflation (Oct P)	--	2.7%
16:00	U. of Mich. 5-10 Yr Inflation (Oct P)	--	2.5%
Japan			
01:50	Money Stock M3 YoY (Sep)	2.5%A	2.5%
06:30	Tertiary Industry Index MoM (Aug)	0.5%A	0.1%
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Aug)	0.5%/-0.2%	-0.8%/-0.1%
China			
12OCT	Trade Balance (Sep)	\$31.69bA	\$27.89bR
12OCT	Exports/Imports YoY (Sep)	14.5%/14.3%	9.8%/19.9%R
Events			
Q3 earnings	JPMorgan Chase, Wells Fargo & Co, Citigroup Inc ...		
15:30	Fed's Evans Takes Part in Moderated Discussion on Economy		
18:30	Fed's Bostic Discusses Recruitment, Economics & Public Policy		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	3,15	-0,01		US	2,85	0,01	DOW	25052,83	-545,91
DE	0,52	-0,03		DE	-0,54	-0,01	NASDAQ	7329,061	-92,99
BE	0,90	-0,02		BE	-0,47	-0,01	NIKKEI	22694,66	103,80
UK	1,67	-0,05		UK	0,87	-0,04	DAX	11539,35	-173,15
JP	0,15	0,00		JP	-0,11	0,00	DJ euro-50	3209,19	-57,71
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	0,09	3,11	1,34	Eonia	-0,3660	0,0010			
5y	0,43	3,13	1,53	Euribor-1	-0,3690	0,0000	Libor-1	2,2832	0,0000
10y	1,06	3,20	1,77	Euribor-3	-0,3180	0,0000	Libor-3	2,4252	0,0000
				Euribor-6	-0,2670	0,0010	Libor-6	2,6363	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	1,1593	0,0073		EUR/JPY	130,04	0,70	CRB	196,63	-1,49
USD/JPY	112,16	-0,11		EUR/GBP	0,8763	0,0030	Gold	1227,60	34,20
GBP/USD	1,323	0,0034		EUR/CHF	1,1473	0,0067	Brent	80,26	-2,83
AUD/USD	0,7124	0,0069		EUR/SEK	10,4042	-0,1218			
USD/CAD	1,3032	-0,0036		EUR/NOK	9,5242	0,0357			

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