

Friday, 13 December 2019

Rates: US 10-yr yield tests 1.94% resistance

Core bonds sold off during ECB President Lagarde's inaugural Q&A session after the central bank's policy meeting. However, all credit was due to US President Trump's optimistic tweet on a phase one trade deal with China which could be presented in Washington as early as today. The US 10-yr yield tests 1.94% resistance.

Currencies: EUR/USD nears 1.12. EUR/GBP returns to 2016 post referendum area

EUR/USD was supported overnight as cable jumped higher after the Conservative election victory in the UK. The announcement of a trade deal between the US and China for now is more mixed for EUR/USD. Even so, the short-term technical picture remains EUR/USD constructive.

Calendar

Headlines

- **US equities** jumped higher (up to 0.86%) and set new records as geopolitical tensions melted away, buoying sentiment. **Asian equities** are following track and colour green. Japan outperforms (+2.5%).
- **US president Trump signed off on a trade deal with China.** The agreement averts a fresh round of US tariffs that were set to take effect on 15 December in return for Beijing's promise to boost US farm product purchases in 2020.
- **UK PM Johnson and his Conservatives secured a crushing election victory** and are forecast to win between 360-365 seats out of 650, crumbling Labour's "red wall". Johnson can now deliver on his promise and "get Brexit done".
- **China's Tewoo Group, a state-owned company, defaulted on its debt**, dragging investors into losses. The default is the latest in a string of corporate delinquencies, **prompting fears of a wave of defaults** as the economy slows.
- **Confidence among Japanese manufacturers over the present and ST outlook deteriorated**, the BoJ's Tankan survey showed, while **non-manufacturers' sentiment appeared to weather the October's sales tax hike hit**.
- **The NY Fed plans to double its repo operations** and raise the limits to some existing facilities over the end of the year to stave off a cash crunch. The operations may leave the Fed pumping almost half a trillion USD of ST liquidity.
- **Today**, investors will scrutinize US retail sales to gauge whether the consumer still stands firm. The ECB's Holzmann and the Fed's Williams are due to speak today. Investors will keep an eye on additional trade deal/UK election details.

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	↗

Rates

US 10-yr yield tests 1.94% resistance

	US yield	-1d
2	1.66	0.04
5	1.75	0.09
10	1.89	0.10
30	2.33	0.08

	DE yield	-1d
2	-0.63	0.02
5	-0.54	0.04
10	-0.27	0.05
30	0.26	0.06

Core bonds sold off yesterday. The move started during ECB Lagarde's first Q&A session with the press following the central bank's policy meeting, **but all credit was due to... US President Trump.** He tweeted **"Getting VERY close to a BIG DEAL with China. They want it, and so do we!"**. The message triggered a risk rally and pulled core bonds lower. Especially, the second part, indicating that the US wanted a deal, grabbed attention. **Washington officials later suggested that a phase one trade deal would be announced today.** US stock markets rallied around 0.75% to fresh all-time highs. US yields added 4.4 bps (2-yr) to 10 bps (10-yr) in a daily perspective. The German yield curve bear steepened with yields rising by 1.3 bps (2-yr) to 5.4 bps (30-yr). 10-yr yield spread changes vs Germany narrowed slightly with Greece outperforming (-7 bps).

Briefly returning to that ECB meeting: The ECB signaled **slightly reduced risks to the economic outlook**, lessening the likelihood that a further easing might be required while the persistence of subdued growth and inflation in its new projections would suggest policy tightening wouldn't be warranted for the foreseeable future. In addition, the indication that **a strategic review of ECB policy is expected to take until the end of next year** provided an additional rationale for the ECB to avoid any early alteration in current policy settings.

Asian stock markets rally significantly this morning with China and Japan outperforming. **The German Bund and US Note future follow UK Gilts lower after Boris Johnson's landslide election victory (see below).** A Chinese state company's dollar bond default gets little attention, but is something to keep in mind longer term. **Today's eco calendar contains US November retail sales. Risks are tilted to the upside of expectations (record Thanksgiving sales), adding to the global context (US-China trade deal, UK elections, risk rally) which is a negative one for core bonds.** Strong retail sales would add evidence that the US consumer remains the backbone of the economy.

The German 10-yr yield in October broke above -0.41% resistance, improving the technical picture. **Targets of this double bottom formation are -0.25% and -0.13%.** The 38% retracement level of the Oct-Aug decline stands at -0.24%. **The US 10-yr yield trades in the upper half of the 1.43%-1.94% sideways trading channel. Recent development trigger a fresh test of the upper bound resistance levels.**



German 10-yr yield: break above -0.41% opens new range capped by -0.13% and floored by previous resistance.



US 10-yr yield: trade and data cause volatility in upper half of trading range. New test of upper bound

Currencies

EUR/GBP drops to 2016 post-referendum area

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1130	0.0000
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8457	0.0022
S1	0.8500	
S2	0.8314	

Yesterday, the dollar initially traded soft but in tight ranges after a 'soft' message from Powell Wednesday. The first ECB meeting preceded by Christine Lagarde didn't bring high profile news for FX traders. Later, the USD rebounded as **president Trump tweeted** that a trade deal was imminent. **USD/JPY in particular profited** from the trade headlines, breaking north of 109 to close at 109.31. The **gain of the dollar against the euro was more modest**. EUR/USD closed at 1.1130.

This morning, two big pending event risks for markets **were 'solved'**. UK PM **Johnson** obtained a big majority, allowing him to get Brexit done. Later, headlines reported that **US president Trump signed** a phase-one **trade deal** with China, avoiding new tariffs on Chinese goods. A sharp rise of cable on the Tory victory also propelled EUR/USD close to the 1.12 level. The announcement of a trade deal had only limited impact on EUR/USD. The pair is trading in the 1.1165/70 area. USD/JPY is trading in the 109.60 area, but a test/break of the 109.73 ST top apparently isn't that easy. The yuan gains further (USD/CNY 6.973).

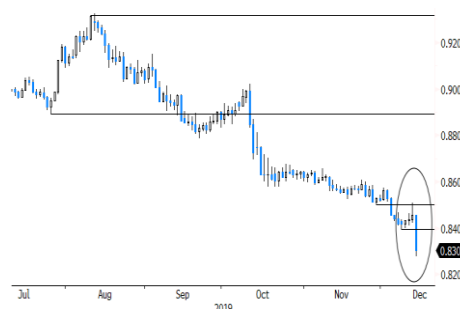
Today, investors will try to assess the consequences of a trade truce and of Brexit happening soon. As such, the removal of those event risks is positive for risky assets. Question is how much good news is already discounted. **In a first reaction**, the dollar might stay in the defensive overall. The US retail sales to be published this afternoon are a wildcard.

EUR/USD this week reversed the post-payrolls downtick and broke above 1.11 as the Fed committed to stay accomdative for long. The ST technical picture improved. The 1.1179 resistance was temporarily (?) broken this morning. 1.1250 is the next resistance area. Some further EUR/USD gain is possible, but over time better EMU news is needed to continue this trend.

The convincing Tory victory brought **EUR/GBP back to levels seen immediately after the Brexit referendum in 2016 (0.83 area)**. Cable tested the 1.35 area. Sterling already anticipated on a Tory victory. However, some further pro-sterling repositioning might still continue. Yesterday, we suggested some kind of **sterling 'sugar rally' in case of a Conservative victory. For now, we don't fight this market repositioning yet. A sustained break below 0.83 would also be signifcant from a technical point of view.**



EUR/USD gains modestly from 'Brexit solution'. Impact of trade truce modest, for now.



EUR/GBP: sterling jumps on Conservative election victory.

Calendar

Friday, 13 December		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Nov)	0.20%/-1.20%	-0.50%/-3.00%
14:30	Import Price Index ex Petroleum MoM (Nov)	-0.10%	-0.10%
14:30	Export Price Index MoM/YoY (Nov)	0.10%/--	-0.10%/-2.20%
14:30	Retail Sales Advance MoM (Nov)	0.50%	0.30%
14:30	Retail Sales Ex Auto MoM (Nov)	0.40%	0.20%
14:30	Retail Sales Ex Auto and Gas (Nov)	0.40%	0.10%
14:30	Retail Sales Control Group (Nov)	0.30%	0.30%
16:00	Business Inventories (Oct)	0.20%	0.00%
Japan			
00:50	Tankan Large Mfg Index/Outlook (4Q)	0A/0A	5/2
00:50	Tankan Large Non-Mfg Index/Outlook (4Q)	20A/18A	21/15
00:50	Tankan Large All Industry Capex (4Q)	6.80%A	6.60%
05:30	Industrial Production MoM/YoY (Oct F)	-4.5%A/-7.7%A	-4.20%/-7.40%
05:30	Capacity Utilization MoM (Oct)	-4.5%A	1.00%
Events			
09:00	ECB Vice President Luis de Guindos speaks in Madrid		
09:30	ECB's Villeroy Speaks in Paris		
10:00	ECB's Holzmann Presents Austrian C.Bank's Economic Outlook		
17:00	Fed's Williams Discusses Topics in Monetary Policy (voter)		
18:00	ECB Vice President Luis de Guindos speaks in Madrid		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.89	0.10		US	1.66	0.04		DOW	28132.05	220.75
DE	-0.27	0.05		DE	-0.63	0.02		NASDAQ	8717.317	63.27
BE	0.02	0.05		BE	-0.62	0.02		NIKKEI	24023.1	598.29
UK	0.82	0.05		UK	0.58	0.01		DAX	13221.64	74.90
JP	-0.01	0.00		JP	-0.13	-0.01		DJ euro-50	3706.35	18.90
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.29	1.67	0.84	Eonia	-0.4590	0.0000				
5y	-0.19	1.71	0.90	Euribor-1	-0.4640	-0.0080		Libor-1	1.7405	0.0000
10y	0.12	1.84	1.01	Euribor-3	-0.3950	-0.0020		Libor-3	1.8874	0.0000
				Euribor-6	-0.3400	-0.0020		Libor-6	1.8883	0.0000
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1130	0.0000		EUR/JPY	121.68	0.85		CRB	182.92	1.42
USD/JPY	109.31	0.75		EUR/GBP	0.8457	0.0022		Gold	1472.30	-2.70
GBP/USD	1.3161	-0.0035		EUR/CHF	1.0960	0.0019		Brent	64.20	0.48
AUD/USD	0.6909	0.0033		EUR/SEK	10.4566	-0.0055				
USD/CAD	1.3185	0.0011		EUR/NOK	10.103	-0.0386				

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