



Friday, 14 June 2019

## KBC Sunrise Market Commentary

### Markets

- Yesterday's news flow provided global core bonds little guidance. Investors are in a Fed-countdown mode (June 19). US (and German) **bond markets entered a state of calm** even as geopolitical tensions rose dramatically after alleged attacks on two oil vessels in the Gulf of Oman. The US note future followed volatility in Japanese bonds in lockstep during Asian trading hours but hovered sideways afterwards. A fine US 30y auction possibly created some spillovers to the rest of the yield curve as rates dropped a few bps towards the end of the session. **The US curve bull steepened** with yields changing from -4bps (2y) to -2.5bps (10y) over -1.5bp (30y). The German curve flattened with yields declining marginally at the long end. Peripheral spreads narrowed up to 7bps (Italy). **Today's US retail sales and U. of Michigan consumer confidence is expected at solid levels.** We would err on the side of caution as the US economy started to show signs of fatigue lately. However, with yields already at bottom levels and the Fed meeting looming we do not expect a notable and durable market reaction from a rates perspective unless a significant (negative) surprise would emerge. We would argue for a sideways trading pattern going into the weekend.
- EUR/USD trading was mostly technical in nature yesterday. **An upside test of the 1.1340/50 resistance was rejected** twice this week, indicating that the USD correction was meeting a roadblock. EMU April production was weak, but didn't come as a surprise. The intraday correction of the euro accelerated as the IMF warned on EMU growth. The pair dropped to the 1.1270 area. FX and interest rate markets are counting down to next week's Fed meeting, where at dovish tone is expected. US yields stayed downwardly oriented, but with little additional negative impact on the dollar anymore. EUR/USD closed at 1.1276. USD/JPY finished 108.38.

This morning, **Asian equity markets mostly show modest losses.** Persistent uncertainty on the US-China trade developments and rising geopolitical tensions (US-Iran) cause investors to stay cautious. Australian touched new record low level this morning and **AUD/USD struggles not to fall below the 0.69 handle.** The yuan continues trading with a tentative soft bias (USD/CNY 6.92 area). USD/JPY is little changed at 108.35. EUR/USD is holding near this week's low (1.1270 area).

Today, the **US retail sales and Michigan consumer confidence** will be published. Markets expect sales to rebound after a soft April reading. Michigan consumer is expected to ease slightly, albeit from very strong levels. We see little reason for a big negative surprise for today's US data. We expect any USD reaction to be guarded ahead of the (soft expected) Fed. Within the 1.1107/1.1348 trading range, intermediate support is seen near 1.1255 and 1.1200.
- EUR/GBP traded a bit choppy hovering near the 0.89 pivot yesterday as markets were awaiting the outcome of the first round in leadership vote of the conservative party. EUR/GBP traded north of 0.8920 ahead of the publication of the result. **Boris Johnson beat the other candidates by a wide margin**, but this was expected. Sterling even regained a few ticks after the publication. EUR/GBP closed at 0.8973. There are no eco data in the UK today. We expect more technical trading for sterling ahead of the next vote for the leadership in the conservative party next week.

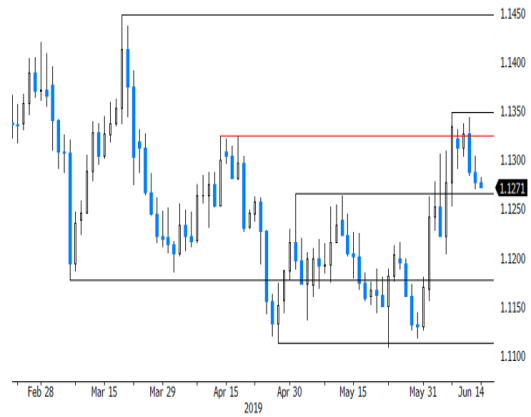
### News Headlines

- Today's event calendar focusses on the **US. May retail sales, industrial production and U. of Michigan consumer confidence (June)** are scheduled for release. We also take a close look at some important **Chinese data** later this morning. Bank of England chair Carney speaks in London.
- China decided to raise the anti-dumping duties** on some US and EU steel products after the previous ones expired in May. The levies can be as much as ten times higher (up to 148%) compared to the previous rates and come amid the recent escalation of the US/Sino trade dispute.

## Graphs & Table



*US 30-y yield: US yields holding near recent lows ahead of Fed meeting. 30-y auction was well received yesterday.*



*EUR/USD: USD correction slows as EUR/USD failed to break beyond the 1.1340/50 resistance.*



*EUR/GBP: sterling enters a ST holding pattern as the process to find a new UK Prime minister has started*



*AUD/USD extends decline as RBA rate cut bets are building*

Source: Bloomberg

# Calendar

Friday, 14 June		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (May)	0.60%	-0.20%
14:30	Retail Sales Ex Auto MoM (May)	0.40%	0.10%
14:30	Retail Sales Ex Auto and Gas (May)	0.40%	-0.20%
14:30	<b>Retail Sales Control Group (May)</b>	<b>0.40%</b>	<b>0.00%</b>
15:15	Industrial Production MoM (May)	0.20%	-0.50%
15:15	Manufacturing (SIC) Production (May)	0.10%	-0.50%
15:15	Capacity Utilization (May)	78.00%	77.90%
16:00	<b>U. of Mich. Sentiment (Jun P)</b>	<b>98.0</b>	<b>100</b>
16:00	U. of Mich. Current Conditions (Jun P)	109.0	110
16:00	U. of Mich. Expectations (Jun P)	92.0	93.5
16:00	U. of Mich. 1 Yr Inflation (Jun P)	--	2.90%
16:00	U. of Mich. 5-10 Yr Inflation (Jun P)	--	2.60%
16:00	Business Inventories (Apr)	0.50%	0.00%
<b>Japan</b>			
06:30	Industrial Production MoM/YoY (Apr F)	0.60%A/-1.10%A	0.60%/-1.10%
06:30	Capacity Utilization MoM (Apr)	1.60%A	-0.40%
<b>Italy</b>			
10:00	Industrial Sales MoM/WDA YoY (Apr)	--/--	0.30%/1.30%
10:00	Industrial Orders MoM/NSA YoY (Apr)	--/--	2.20%/-3.60%
<b>Belgium</b>			
15:00	Trade Balance (Apr)	--	-636.1m
<b>China</b>			
09:00	Fixed Assets Ex Rural YTD YoY (May)	6.10%	6.10%
09:00	Industrial Production YoY (May)	5.40%	5.40%
09:00	Retail Sales YoY (May)	8.00%	7.20%
09:00	Surveyed Jobless Rate (May)	--	5.00%
09:00	Property Investment YTD YoY (May)	--	11.90%
<b>Sweden</b>			
09:30	CPI MoM/YoY (May)	0.10%/2.10%	0.70%/2.10%
09:30	CPIF MoM/YoY (May)	0.10%/1.90%%	0.60%/2.00%
09:30	CPIF Excl. Energy MoM/YoY (May)	0.10%/1.50%	0.60%/1.60%
<b>Events</b>			
14:55	<b>BOE Governor Mark Carney speaks in London</b>		

	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2.09	-0.02		US	1.84	-0.04	DOW	26106.77	101.94
DE	-0.24	-0.01		DE	-0.68	0.00	NASDAQ	7837.13	44.41
BE	0.18	-0.02		BE	-0.58	0.01	NIKKEI	21116.89	84.89
UK	0.84	0.00		UK	0.59	-0.02	DAX	12169.05	53.37
JP	-0.13	-0.02		JP	-0.20	0.00	DJ euro-50	3390.5	3.87
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	-0.29	1.80	0.87	Eonia	-0.3610	0.0060			
5y	-0.16	1.83	0.91	Euribor-1	-0.3760	0.0010	Libor-1	2.4011	0.0000
10y	0.26	2.04	1.04	Euribor-3	-0.3180	0.0000	Libor-3	2.4279	0.0000
				Euribor-6	-0.2590	0.0000	Libor-6	2.3416	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	1.1276	-0.0011		EUR/JPY	122.22	-0.26	CRB	174.42	1.18
USD/JPY	108.38	-0.12		EUR/GBP	0.8898	0.0002	Gold	1343.70	6.90
GBP/USD	1.2674	-0.0015		EUR/CHF	1.1207	-0.0031	Brent	61.31	1.34
AUD/USD	0.6915	-0.0013		EUR/SEK	10.6935	-0.0016			
USD/CAD	1.3327	-0.0016		EUR/NOK	9.7884	0.0148			

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