



**Thursday, 14 November 2019**

### Rates: Corrective short covering on core bond markets

Core bond yield curves showed corrective bull flattening yesterday. Risk sentiment and technical factors will continue to dominate trading. Stock markets hovered near highs the past couple of sessions, showing more vulnerability for corrective action lower. The German (-0.24%) and US (1.94%) 10-yr yields ran into resistance earlier this week.

### Currencies: EUR/USD stays in the defensive, at risk of falling below 1.10

A modest risk off dominated global FX trading yesterday. Havens like the Swiss franc or the yen outperformed but the dollar also remains well supported. EUR/USD extends recent decline and is testing the 1.10 level. With few important data on the agenda technical consideration will dominate FX trading. For now, there is no apparent trigger available for a euro reversal.

### Calendar

## Headlines

- **WS** ended flat to 0.33% higher yesterday, undoing opening losses. **Asian markets** are mixed this morning. Regional eco data are weak. Japan underperforms (-1.01%).
- **US-China trade talks hit a snag have hit a snag over farm purchases** as officials seek to lock down the limited trade deal US president Trump outlined last month, WSJ reported. **WH trade advisor Navarro played down the rumours.**
- **China's economy is looking grim** as the bruising trade war is taking its toll. Fixed-asset investment growth in October is the weakest on record (5.2% y/y). Industrial output (4.7%) and retail sales (7.2%) baffled and missed estimates.
- **Japan's economy grinded to a near standstill in Q3 with growth at its weakest in a year (0.2% y/y).** The dragging Sino-US trade war and soft global demand knocked exports while private consumption cooled following a higher sales tax.
- **Australian employment suffered its sharpest fall (-19k) in three years in October while the unemployment rate rose to 5.3%** from 5.2% in September. The softening labour market underlines the call for additional RBA stimulus.
- **Oil prices got a boost** for a second day after an industry report pointed to a drop in US crude inventories and OPEC said it sees potential for a "sharp" cut in crude production next year from countries outside the group.
- In **today's economic calendar** EMU Q3 GDP data will be published. Investors will gauge whether the solid labour market continue to underpin UK's retail sales. In the US jobless claims will be released and several Fed speeches are due.

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 yield	-1d
2	1.64	-0.03
5	1.67	-0.05
10	1.89	-0.05
30	2.35	-0.05

	DE yield	-1d
2	-0.62	0.00
5	-0.56	-0.03
10	-0.30	-0.05
30	0.22	-0.06

## Corrective short covering on bond markets

**Core bonds gained ground yesterday with risk aversion mainly dominating at the start of European dealings.** Key European stock indices eventually lost less than 0.5%, closing well off the intraday lows. US indices even managed to turn opening loss into marginal closing gains. **Core bonds nevertheless thrived, with some short covering probably at play. Technical elements had their impact as well. The US 10-yr yield on three occasions failed to take out 1.94% resistance, prompting some investors to throw the towel, at least short term.** Somewhat better September EMU production figures and higher than expected US (headline) inflation failed to impact dealings. Fed Chair Powell's testimony for US Congress, copy-paste from the last Fed statement, couldn't trigger reaction neither. **The US and German yield curves bull flattened in a daily perspective.** German yields shed 0.3 bps (2-yr) to 5.5 bps (30-yr). US yields declined by 2.4 bps (2-yr) to 5.1 bps (30-yr). Peripheral yield spreads vs Germany widened by 8 bps for Italy and by 6 bps for Greece, Spain and Portugal.

**Asian stock markets trade mixed this morning.** Japan underperforms (-1%) and China outperforms. **The overall tone of Asian eco data (Australian, Chinese & Japanese; see headlines) is downbeat. Hong Kong protests continue to weigh on the regional market. The WSJ reports that US-Chinese trade talks hit a snag over farm purchases, but that was later denied by US Trade Representative Navarro.** He advised everybody to stop listening to rumours and that they are on "a glide path to a phase one agreement". US President Trump added that talks are moving along very rapidly without reiterating his recent threat to lift barriers if the deal collapses. **Core bonds hold yesterday's corrective upward momentum.**

**Today's eco calendar contains US weekly jobless claims, PPI data and EMU GDP data.** Risks for the latter are on the upside after this morning's upward surprise from Germany (0.1% Q/Q; avoiding technical recession). Speeches by ECB and Fed governors are wildcards, but it's common talk that the ECB's hands are tied for some months while the Fed is again in wait-and-see mode after three mid cycle rate cuts. **Risk sentiment (stock markets prone for correction) and technical factors (German 10y and US 10y yield ran into resistance) might be key and support core bonds short term.** Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. The German 10-yr yield broke above -0.41% resistance as geopolitical uncertainty diminished, 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 1.43%-1.94% sideways trading channel. Recent tests to take out 1.94% failed, causing corrective return action lower.**



German 10-yr yield: painting double bottom on charts. Targets are -0.25% and -0.13%.



US 10-yr yield: first tests of upper bound of sideways trading range between 1.43% and 1.94% failed.

# Currencies

## EUR/USD at risk of returning below 1.10

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1007	-0.0002
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8565	-0.0007
S1	0.8500	
S2	0.8314	

Global FX trading was yesterday quite similar to Tuesday. Investors kept a cautious bias as they pondered the status of the US-China trade talks. Press reports that China was reluctant to commit on large purchases of US agricultural products – although later downplayed by the US – added to the uncertainty.

**Haven currencies like the yen and the Swiss franc outperformed.** USD/JPY drifted further below 109 (close 108.82). The (trade-weighted) dollar also stayed well bid (98.40 area). **EUR/USD remained in the defensive, drifting toward 1.10 mark** (close at 1.1007). Fed's Powell in his testimony before Congress kept the line from the October 30 press conference with little impact on USD/FX trading.

**This morning**, Asian equities are trading mixed to slightly lower. Regional data (Japan GDP, China production and retail sales, Australian job data) all printed weak. Even so, the yuan didn't decline further (USD/CNY 7.02). USD/JPY reversed earlier weakness (108.75 area). EUR/USD struggles to hold north of 1.10. Disappointing labour data pushed AUD/USD to the 0.68 mark.

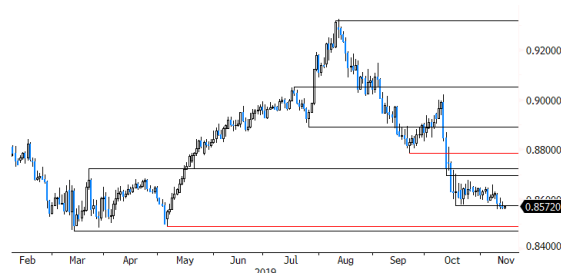
**Today**, the calendar is moderately interesting with the German and EMU Q3 growth. **EMU growth is expected at a sluggish 0.2% Q/Q.** The report probably won't help the euro, but is a bit 'outdated'. US PPI and jobless claims probably will only be of intraday significance for USD trading. Fed's Powell appears before the House but most likely won't bring much news anymore. Global sentiment and headlines on trade will likely set the tone for global (FX) trading.

**The rise in global yields and the prospect that the Fed might stay on hold for some time recently supported the dollar. At the same time, EMU data didn't convince euro bulls.** The October EUR/USD rally met resistance near 1.1175 and later dropped below the 1.1073 neckline. For now, the EUR/USD picture remains unconvincing, but targets of the ST double top formation are nearby (1.0967). We look for a euro bottoming but for now the USD keeps the benefit of the doubt.

The trading dynamics in sterling also didn't change. UK data (yesterday CPI) are mostly ignored. Sterling is holding strong as the Conservative party is still seen in pole position for the December election. Today, UK retail sales probably will have to deviate substantially from consensus to have any impact on sterling. We see more EUR/GBP trading near current levels assuming that quite some good news is discounted for sterling.



EUR/USD drifting toward the 1.10 psychological level.



EUR/GBP: sterling stays well bid as Conservative party stays in pole position for election win

# Calendar

Thursday, 14 November		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM/YoY (Oct)	0.30%/0.90%	-0.30%/1.40%
14:30	PPI Ex Food and Energy MoM/YoY (Oct)	0.20%/1.50%	-0.30%/2.00%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Oct)	0.20%/--	0.00%/1.70%
14:30	<b>Initial Jobless Claims</b>	<b>215k</b>	<b>211k</b>
14:30	Continuing Claims	1683k	1689k
<b>Japan</b>			
00:50	<b>GDP SA QoQ/QoQa (3Q P)</b>	<b>0.20%/0.90%</b>	<b>0.30%/1.30%</b>
<b>UK</b>			
01:01	RICS House Price Balance (Oct)	-3%	-2%
10:30	<b>Retail Sales Ex Auto Fuel MoM/YoY (Oct)</b>	<b>0.30%/3.50%</b>	<b>0.20%/3.00%</b>
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Oct)	0.30%/3.70%	0.00%/3.10%
<b>EMU</b>			
11:00	Employment QoQ/YoY (3Q P)	--/--	0.20%/1.20%
11:00	<b>GDP SA QoQ/YoY (3Q P)</b>	<b>0.20%/1.10%</b>	<b>0.20%/1.10%</b>
<b>Germany</b>			
08:00	<b>GDP SA QoQ/WDA YoY (3Q P)</b>	<b>-0.10%/0.50%</b>	<b>-0.10%/0.40%</b>
<b>France</b>			
07:30	ILO Unemployment Rate (3Q)	8.40%	8.50%
<b>China</b>			
03:00	Fixed Assets Ex Rural YTD YoY (Oct)	5.20%A	5.40%
03:00	Industrial Production YTD YoY/YoY (Oct)	5.60%A/4.70%A	5.60%5.80%
03:00	Retail Sales YTD YoY/YoY (Oct)	8.10%A/7.20%A	8.20%/7.80%
03:00	Surveyed Jobless Rate (Oct)	5.10%A	5.20%
03:00	Property Investment YTD YoY (Oct)	10.30%A	10.50%
<b>Events</b>			
10:45	ECB's Guindos Speaks in London		
11:30	Fed's Quarles makes Welcoming Remarks at Insurance Conference (voter)		
12:00	ECB's Lane Speaks in Frankfurt		
15:00	ECB's Knot Speaks in Frankfurt		
15:00	<b>Clarida Speaks at Cato Institute in Washington (vice chair)</b>		
15:10	Fed's Evans Speaks at Fintech Event in Philadelphia (voter)		
16:00	<b>Powell Appears Before House Budget Committee (chair)</b>		
17:45	Fed's Daly Makes Opening Remarks at Economic Policy Conference (non-voter)		
18:00	<b>Fed's Williams Speaks at Economic Policy Conference (voter)</b>		
18:20	<b>Fed's Bullard Speaks in Louisville (voter)</b>		
19:00	Fed's Kaplan Speaks at Community Forum in Texas (non-voter)		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.89	-0.05		US	1.64	-0.03	DOW	27783.59	92.10
DE	-0.30	-0.05		DE	-0.62	0.00	NASDAQ	8482.101	-3.99
BE	0.00	-0.03		BE	-0.60	-0.01	NIKKEI	23141.55	-178.32
UK	0.76	-0.05		UK	0.56	-0.01	DAX	13230.07	-53.44
JP	-0.07	-0.02		JP	-0.20	-0.01	DJ euro-50	3699.5	-12.70
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	-0.31	1.64	0.81	Eonia	-0.4520	0.0000			
5y	-0.21	1.65	0.85	Euribor-1	-0.4630	-0.0060	Libor-1	1.7616	0.0000
10y	0.10	1.79	0.94	Euribor-3	-0.4020	-0.0040	Libor-3	1.9093	0.0000
				Euribor-6	-0.3360	-0.0080	Libor-6	1.9261	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	1.1007	-0.0002		EUR/JPY	119.78	-0.24	CRB	180.31	0.51
USD/JPY	108.82	-0.19		EUR/GBP	0.8565	-0.0007	Gold	1463.30	9.60
GBP/USD	1.2851	0.0006		EUR/CHF	1.0897	-0.0036	Brent	62.37	0.31
AUD/USD	0.6838	-0.0003		EUR/SEK	10.71	0.0082			
USD/CAD	1.3251	0.0018		EUR/NOK	10.1096	0.0196			

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