



Friday, 15 March 2019

Rates: US eco data overshadowed by looming Fed?

We expect US eco data to beat consensus today, but they might be overshadowed by next week's FOMC meeting which will likely result in a more dovish US monetary policy stance. The US 10-yr yield is still battling with 2.61% intermediate support. ECB Rehn, who is one of the frontrunners for succeeding President Draghi, speaks on monetary policy.

Currencies: EUR/USD to remain well supported ahead of next week's Fed meeting

The EUR/USD rebound took a breather as risk sentiment turned less buoyant and as news flow was less euro supportive. Still, the dollar remains in the defensive as markets expect the Fed to cement expectations for a (prolonged?) pause. The sterling rally also met resistance as uncertainty remains elevated even as chances on a no-deal Brexit have diminished.

Calendar

Headlines

- **US equity markets** halted a three-day rally, ending close to opening levels yesterday. **Asian equities** are largely trading in green this morning with Chinese indices outperforming.
- **UK Parliament voted to extend the Brexit deadline beyond March 29.** PM May will now put her Brexit deal again to a vote on Tuesday. If passed, an extension until the end of June is likely. Otherwise, a longer extension is inevitable.
- **The US Senate voted to block President Trump's declaration of a national emergency** to free funds to build his wall at the Mexican border. US President **Trump already said to veto** this decision and to continue with his plans.
- North Korean Vice Foreign Minister Choe Son Hui said his leader **Kim Jong Un will decide soon whether to keep the denuclearization talks with the US ongoing.** He added that the US threw away a golden opportunity when in Hanoi.
- **China has passed a new investment law granting foreign companies equal standing with state-owned businesses.** PM Li Keqiang said he hopes this will pave the way to a new trade deal with the US.
- **The Bank of Japan has left its policy balance rate unchanged at -0.1%** and said it will keep the asset purchases steady, while it downgraded its assessment of exports, factory output and overseas economies.
- **Today's US eco calendar** contains the Empire Manufacturing Survey (March), Industrial production data (February) and University of Michigan Consumer Confidence (March). ECB's Rehn speaks

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

Eco data overshadowed by looming Fed?

	US yield	-1d
2	2,46	0,00
5	2,42	0,00
10	2,63	0,01
30	3,03	0,03

	DE yield	-1d
2	-0,54	0,01
5	-0,34	0,02
10	0,09	0,02
30	0,74	0,01

Global core bonds ended unchanged yesterday in choppy trading. Main US indices ended flat. The US eco calendar contained mixed second tier numbers. Brent crude tested this year's high around \$68/barrel. A possible extension of oil production cuts have been the buzzwords lately. UK Parliament voted in favour of extending the March 29 brexit deadline, but that was discounted. US yield changes ranged -0.4 bps (2-yr) and +0.9 bps (10-yr) with the very long end of the curve underperforming (30-yr +3 bps). The German yield curve shifted 0.4 bps (2-yr) to 2.1 bps (10-yr) higher. 10-yr yield spread changes vs Germany narrowed by up to 3 bps with Ireland (-5 bps) and Italy (-7 bps) outperforming.

Most Asian stock markets are upwardly oriented with China and Japan outperforming (>0.75%). Chinese premier Li Keqiang said that the country can use reserve requirements and interest rates to support the economy. Xinhua news agency said that Chinese VM Liu He spoke with key US officials (Mnuchin, Lighthizer) by telephone, with both sides making substantial progress on trade talks. **Core bonds edge carefully higher overnight despite these positive vibes.** The BoJ downgraded its economic assessment, but refrained from taking policy actions. North Korea supposedly reconsiders denuclearization talks with the US after last month's failed Summit.

Today's US eco calendar contains Empire manufacturing survey, industrial production and Michigan consumer confidence. Sentiment gauges are forecasted to show a modest uptick in March. We see upside risks. Industrial production is expected to rebound by 0.4% M/M in February following a very weak January outcome (-0.6% M/M). **Eco data might in theory weigh on US Treasuries, but US investors start to look forward to next week's FOMC meeting.** Fed chair Powell already suggested in front of US Congress to halt the balance sheet run-off by the end of the year. That's much sooner than the Fed originally had in mind and market participants had expected until the turn of last year. Apart from this, we only expect the Fed's plotted rate hikes to drop from 3 currently (2 in 2019 and 1 in 2020) to maximum 1. **Long term bond yields will probably remain under some downward pressure in anticipation of a dovish Fed remaining sidelined for longer. The US 10-yr yield is heavily testing intermediate support (2.61%). A break lower becomes likelier, with a return to the lower bound of the 2.49%-2.78% range.**

Last week's decision by the ECB to delay the earliest timing for an interest rate hike into 2020 pulled German yields to their lowest levels since the end of 2016. In combination with the grim outlook, **it might mean no ECB rate hikes at all this cycle.** The technical picture suggests **a return to negative levels** for the German 10-yr yield unless we see a pick-up soon in growth/activity data.



German 10-yr yield reaches lowest level since end 2016. Markets fear that the ECB signal suggests no rate hikes this cycle.



US 10-yr yield tests first intermediate support (2.61%), but remains within broad 2.49%-2.78% range

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1304	-0,0023
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8537	0,0044
S1	0,8500	
S2	0,8314	

EUR/USD rather well protected ahead of the Fed

This week's euro rebound slowed yesterday. IFO downgraded its growth outlook for Germany (0.6% for 2019). US eco data were mixed and didn't provide directional guidance even as markets assume the Fed to stay soft next week. The risk of a disorderly Brexit was seen declining due to recent votes in the UK Parliament. Yesterday's vote to delay Brexit added to that picture, but it was expected and didn't provide any further support for the euro or sterling anymore. A pause in the risk rally also blocked further euro gains. EUR/USD closed at 1.1304 (from 1.1327). USD/JPY followed a broader USD rebound (close at 111.70).

Overnight, sentiment on Asian markets turned again positive. Chinese officials including Premier Li confirmed selective (fiscal) stimulus to support growth and job creation. The BOJ as expected left its policy unchanged but downgraded its assessment on the economy due to a less favourable international context. The BOJ decision is only of second tier importance for (FX) markets in Asia. USD/JPY hovers in the 111.70 area. The risk-on trade helps putting a floor for EUR/USD (1.1315 area).

Today, the EMU calendar contains the final CPI and Italian industrial production. In the US, the Empire survey, production and Michigan consumer confidence will be released. US data are expected to rebound after soft/poor numbers the previous month. Still, it is unlikely they will change markets' assessment on the Fed's cautious stance next week. (Moderately) positive US data might even support the ST risk rebound which shouldn't be too bad for EUR/USD and USD/JPY. Brexit might move a bit to the background as a driver for (FX) trading. This week, EUR/USD profited from the risk rebound, at least partially supported by soft expectations on next week's Fed meeting. After a pause yesterday, it looks the risk rebound might continue. Whatever, **we don't expect a big dollar comeback ahead of next week's Fed meeting**. Post-ECB euro negativism eased and the technical picture for EUR/USD become more stable compared to this time last week. The 1.12 range bottom survived. Any further sustained rebound needs better EMU data. As long as the EMU eco picture remains foggy, more EUR/USD consolidation might be in the cards (1.12/1.14 area).

Yesterday, the sterling rebound did run into resistance. A non-deal scenario has become for less likely after this week's votes in parliament. Still, visibility on the outcome of the political process remains limited. This is a fortiori the case for the fallout on the economy. We don't front-run on possible further Brexit-related GBP-gains from current levels. **The 0.85 area might become a ST floor for EUR/GBP**



EUR/USD: rebounds from 1.12 range bottom due risk rebound and as markets position for a soft Fed next week.



Sterling rally stalls. EUR/GBP 0.85 to become intermediate support?

Calendar

Friday, 15 March		Consensus	Previous
US			
13:30	Empire Manufacturing (Mar)	10.0	8.8
14:15	Industrial Production MoM (Feb)	0.4%	-0.6%
14:15	Capacity Utilization (Feb)	78.5%	78.2%
14:15	Manufacturing (SIC) Production (Feb)	0.1%	-0.9%
15:00	JOLTS Job Openings (Jan)	7225	7335
15:00	U. of Mich. Sentiment (Mar P)	95.7	93.8
15:00	U. of Mich. Current Conditions (Mar P)	112.0	108.5
15:00	U. of Mich. Expectations (Mar P)	88.1	84.4
15:00	U. of Mich. 1 Yr Inflation (Mar P)	--	2.6%
15:00	U. of Mich. 5-10 Yr Inflation (Mar P)	--	2.3%
Japan			
	BOJ Policy Balance Rate	-0.100%A	-0.100%
	BOJ 10-Yr Yield Target	0.000%A	0.000%
China			
02:30	New Home Prices MoM (Feb)	0.53%A	0.61%
EMU			
08:00	EU27 New Car Registrations (Feb)	--	-4.6%
11:00	CPI Core YoY (Feb F)	1.0%	1.0%
11:00	CPI MoM / YoY (Feb)	0.3%/1.5%	-1.0%/1.4%
Germany			
08:00	Wholesale Price Index MoM / YoY (Feb)	--/--	-0.7%/1.1%
Italy			
10:00	Industrial Sales MoM / WDA YoY (Jan)	--/--	-3.5%/-7.3%
10:00	Industrial Orders MoM / NSA YoY (Jan)	--/--	-1.8%/-5.3%
11:00	CPI EU Harmonized YoY (Feb F)	1.2%	1.2%
Events			
10:00	ECB's Rehn Speaks at Helsinki Press Conference on Mon. 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	2,63	0,01		US	2,46	0,00	DOW	25709,94	7,05
DE	0,09	0,02		DE	-0,54	0,01	NASDAQ	7630,91	-12,49
BE	0,54	0,01		BE	-0,46	0,01	NIKKEI	21450,85	163,83
UK	1,22	0,03		UK	0,77	0,02	DAX	11587,47	15,06
JP	-0,04	0,01		JP	-0,16	0,00	DJ euro-50	3342,03	18,58
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	-0,10	2,52	1,15	Eonia	-0,3680	-0,0010			
5y	0,10	2,50	1,25	Euribor-1	-0,3680	0,0000	Libor-1	2,4838	0,0000
10y	0,59	2,64	1,41	Euribor-3	-0,3090	0,0010	Libor-3	2,6109	0,0000
				Euribor-6	-0,2320	0,0000	Libor-6	2,6764	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	1,1304	-0,0023		EUR/JPY	126,27	0,35	CRB	183,39	-0,02
USD/JPY	111,7	0,53		EUR/GBP	0,8537	0,0044	Gold	1295,10	-14,20
GBP/USD	1,3242	-0,0096		EUR/CHF	1,1347	-0,0024	Brent	67,23	-0,32
AUD/USD	0,7064	-0,0030		EUR/SEK	10,5183	-0,0048			
USD/CAD	1,3335	0,0033		EUR/NOK	9,6885	-0,0105			

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