

Tuesday, 16 July 2019

Rates: Greece launches new 7-yr bond

The Greek treasury profits from the latest spread compression triggered by the ECB early June to keep all easing options alive. They launch a new 7-yr syndicated bond today. US retail sales and production data are expected to at least meet the consensus bar today, but won't alter thinking about Fed policy. US Treasuries can nevertheless underperform Bunds.

Currencies: EUR/USD cemented in middle of the 1.11/1.14 consolidation pattern

The dollar lost modest ground last week as Powell confirmed market expectations for a July pre-emptive rate cut. However, the USD correction was modest. Today's eco data might be slightly USD supportive, but probably won't trigger a breach of technically important levels. EUR/GBP easily returned to the 0.90 area after last week's temporary 'dip'.

Calendar

Headlines

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	→

- **Wall Street** ended a lacklustre trading session virtually unchanged with the Nasdaq (+0.17%) 'outperforming'. **Asian stocks** trade mixed. Japan (-0.7%) underperforms following a long weekend.
- **The EU is said to consider concessions to the UK for it to avoid a hard Brexit.** Meanwhile, EC president to be (?) von der Leyen said she would support a further extension of Brexit if more time is required.
- US Treasury Secretary Mnuchin said **the government is "very close" to a deal on raising/suspending the debt ceiling.** It has been estimated that the government would run out of cash in early September ('X-date') otherwise.
- Minutes of **the RBA's** July policy meeting showed that the board **will "continue to monitor" eco developments and** that they could **cut rates even further "if needed"** to support employment, wages and inflation.
- **EU officials said they expected the WTO to approve a US demand to slap tariffs on products worth \$5-7 bn** as soon as the summer in their ongoing dispute over alleged illegal aircraft subsidies.
- **Germany's von der Leyen** will resign as minister of Defense and offered European socialists, greens and liberals last minute concessions in a bid to win over support during tonight's vote on the EC's presidency.
- **Today's eco calendar** contains US retail sales, UK's May unemployment report and the German ZEW investor confidence. A slew of central bankers (ECB, Fed, BoE) are scheduled to speak. JP Morgan, GS & Wells Fargo report earnings.

Rates

New syndicated Greek bond deal coming

	US yield	-1d
2	1.83	-0.02
5	1.85	-0.03
10	2.09	0.00
30	2.61	-0.04

	DE yield	-1d
2	-0.73	-0.02
5	-0.60	-0.03
10	-0.25	0.00
30	0.33	-0.06

Core bonds eked out gains yesterday with Bunds outperforming US Treasuries.

The German economy ministry said that the weak level of orders and deteriorating business sentiment suggest that weakness in the manufacturing sector will persist. **Traded volumes were extremely low even given Summer conditions, so we don't draw strong conclusions from the price action.** The German yield curve bull flattened with yields down 0.6 bps (2-yr) to 5.7 bps (30-yr). The US yield curve shifted in similar fashion, shedding 1.7 bps (2-yr) to 3.6 bps (30-yr). 10-yr yield spreads changes vs Germany narrowed by up to 5 bps. Greece (flat) marginally underperformed its peripheral neighbors after **the Hellenic Republic's announcement of the near term launch of a new 7-yr GGGB via syndication (likely today).** The country's treasury profits from increased investor appetite after Draghi's June asset put extension. Spanish bonds didn't react to the political deadlock. **Socialist PM Sanchez said that all talks with Podemos leader Iglesias were in vain.** Sanchez' Socialists won't be able to gain next week's parliamentary majority in a confidence week with centre right Partido Popular and Ciudadanos unlikely to abstain. In that case, the constitutional clock starts the countdown to a new snap election unless the premier wins parliamentary approval within two months. Asian stock markets are mixed this morning with Japan underperforming (-0.5%) after returning from a long weekend. German Bunds continue to (marginally) outperform US Treasuries. News flow is thin. **US Treasury Secretary Mnuchin and Trade Representative Lighthizer may travel to China** for trade negotiations in case of productive talks by phone this week.

Today's eco calendar contains **US retail sales and production data.** Consensus expects (core) retail sales to rise by (0.3% M/M) 0.2% M/M following a strong month of May. Forecasts for industrial production stands only at 0.1% M/M. We expect for both numbers that **the bar will at least be met. Better-than-expected data aren't expected to influence market thinking on near term Fed policy though.** A 25 bps July rate cut is fully discounted. **German ZEW investor sentiment** will be released as well. Speeches by Fed's Bostic, Evans, Kaplan, Bowman and Powell are wildcards. Q2 earnings season continues with several US banks. **We continue to argue in favour of consolidation in German/US yields in the near term with main eco data printed, ECB/Fed action priced in and Summer trading conditions kicking in.** The German 10-yr yield last week's bounced higher after reaching a new all-time low around the ECB's deposit rate. First resistance appears around -0.03%/-0.13%. The US 10-yr yield managed to hold north of 2% after an intense test end of June/early July. First, small, resistance lures around 2.17%, with 2.33% being the more high profile test.



German 10-yr yield bounced off new all-time low around the ECB's deposit rate (-0.4%)

US 10-yr yield manages to retake 2.01% in last instance. Consolidation ahead?

Currencies

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1258	-0.0012
S1	1.1110	
S2	1.0864	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8995	0.0030
S1	0.8500	
S2	0.8314	

EUR/USD cemented in the 1.11/1.14 range

EUR/USD lost a few ticks in the 1.12 figure yesterday, but there was no driver to support a real directional USD or euro move. Interest rate differentials widened in favour of the dollar as Bunds outperformed Treasuries, but the spread was only of second tier significance for FX trading. At the kick-off of the earnings season, Citigroup earnings printed slightly better than expected and the NY Empire manufacturing also beat consensus. Both events triggered a tentative intraday USD bid, but the dollar held within established ranges. EUR/USD closed at 1.1259 (from 1.1270). USD/JPY finished unchanged at 107.91.

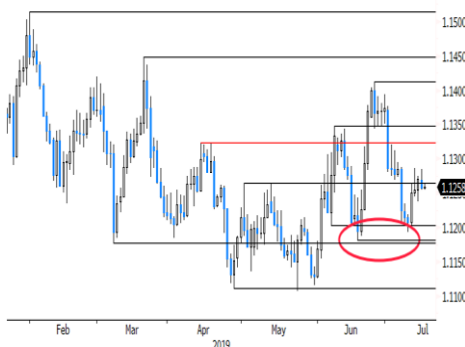
This morning, Asian equities are trading mixed in thin holiday market conditions. EUR/USD (1.1260) and USD/JPY (107.95) are going nowhere. **The Aussie dollar is holding well north of the 0.70 mark.** The RBA continues to monitor the labour market and might cut rates further if needed, but an additional cut probably won't happen in the very near future, providing a floor for the Aussie dollar short term.

Today, the eco calendar is well filled. German ZEW investor confidence is expected to stay at rather depressed levels. US June retail sales are expected at 0.2% (headline)/0.3% (control group). This reference should be achievable and that also applies to the US production data. Also keep an eye at the NAHB housing sentiment. The data might be a marginally USD supportive. That said, we have the impression that the dollar is currently slightly more sensitive to price rather than activity data. In Europe, the approval process of the new EC commission head might also create some (euro negative?) political noise.

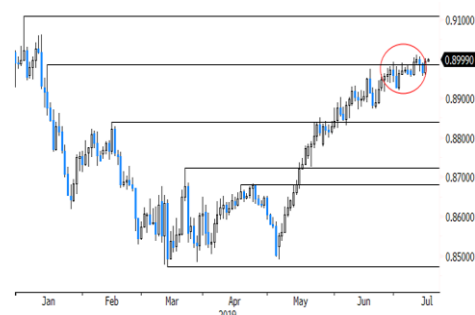
EUR/USD drifted lower in the 1.11/1.14 range but rebounded from recent lows after Powell paving the way for a July rate cut. A rebound to the 1.13 would further ease the downside momentum. With the most important eco data before the FOMC July meeting printed, we expect little inspired trading.

End of last week, sentiment on sterling turned less negative and EUR/GBP drifted (temporarily) off the 0.90 area. **However, any GBP rebound is still used to sell the UK currency as investors expect Brexit related tensions to return soon.**

Today, UK labour data are expected to remain solid despite mediocre activity data of late. We don't expect today's data to improve fortunes for sterling in a profound/lasting way. The EUR/GBP cross rate is still attached to the 0.90 area.



EUR/USD rebounded from recent lows after Powell paved the way for a July rate cut.



EUR/GBP: sterling upticks apparently are still considered a selling opportunity.

Calendar

Tuesday, 16 July		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Jun)	-0.6%/-2.3%	-0.3%/-1.5%
14:30	Import Price Index ex Petroleum MoM (Jun)	-0.2%	-0.3%
14:30	Export Price Index MoM/YoY (Jun)	-0.2%/--	-0.2%/-0.7%
14:30	Retail Sales Advance MoM (Jun)	0.2%	0.5%
14:30	Retail Sales Ex Auto MoM (Jun)	0.1%	0.5%
14:30	Retail Sales Ex Auto and Gas (Jun)	0.3%	0.5%
14:30	Retail Sales Control Group (Jun)	0.3%	0.4%R
15:15	Industrial Production MoM (Jun)	0.1%	0.4%
15:15	Manufacturing (SIC) Production (Jun)	0.3%	0.2%
15:15	Capacity Utilization (Jun)	78.1%	78.1%
16:00	NAHB Housing Market Index (Jul)	64	64
16:00	Business Inventories (May)	0.3%	0.5%
22:00	Net Long-term TIC Flows (May)	--	\$46.9b
UK			
10:30	Claimant Count Rate (Jun)	--	3.1%
10:30	Jobless Claims Change (Jun)	--	23.2k
10:30	Average Weekly Earnings 3M/YoY (May)	3.1%	3.1%
10:30	Weekly Earnings ex Bonus 3M/YoY (May)	3.5%	3.4%
10:30	ILO Unemployment Rate 3Mths (May)	3.8%	3.8%
10:30	Employment Change 3M/3M (May)	45k	32k
EMU			
11:00	Trade Balance SA (May)	17.8b	15.3b
11:00	ZEW Survey Expectations (Jul)	--	-20.2
Germany			
11:00	ZEW Survey Current Situation (Jul)	5	7.8
11:00	ZEW Survey Expectations (Jul)	-22	-21.1
Events			
16JUL	Greece likely to Sell new 7-yr Bond		
16JUL	EU Parliament to vote on Ursula von der Leyen's nomination for head of European Commission		
2019Q2 earnings	Johnson & Johnson (12:45), JPMorgan Chase (13:00), Goldman Sachs (13:30), Wells Fargo (14:00) ...		
09:00	ECB's Villeroy Speaks at Conference in Paris		
14:00	BOE's Carney speaks on panel in Paris		
14:15	Fed's Bostic Moderates Fed Listens Event in Augusta, Georgia (non-voter)		
14:15	Fed's Bowman Makes Introductory Remarks at Fed Listens Event (voter)		
18:20	Fed's Kaplan Speaks at NABE Conference in Washington (non-voter)		
19:00	Powell Speaks at Bank of France Dinner in Paris (chair)		
21:30	Fed's Evans to Speak in Chicago (voter)		

	<u>Close</u>	<u>-1d</u>		<u>2-year</u>	<u>Close</u>	<u>-1d</u>	<u>Stocks</u>	<u>Close</u>	<u>-1d</u>
US	2.09	0.00		US	1.83	-0.02	DOW	27359.16	27.13
DE	-0.25	0.00		DE	-0.73	-0.02	NASDAQ	8258.186	14.04
BE	0.09	0.00		BE	-0.64	-0.01	NIKKEI	21535.25	-150.65
UK	0.80	0.00		UK	0.57	-0.02	DAX	12387.34	64.02
JP	-0.12	-0.01		JP	-0.19	-0.01	DJ euro-50	3502.22	4.59
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	-0.37	1.81	0.79	Eonia	-0.3680	-0.0020			
5y	-0.23	1.83	0.84	Euribor-1	-0.3930	0.0000	Libor-1	2.3320	0.0000
10y	0.20	2.03	1.01	Euribor-3	-0.3630	0.0000	Libor-3	2.3223	0.0000
				Euribor-6	-0.3430	-0.0010	Libor-6	2.2293	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		<u>Currencies</u>	<u>Close</u>	<u>-1d</u>	<u>Commodities</u>	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1258	-0.0012		EUR/JPY	121.49	-0.13	CRB	183.08	-1.28
USD/JPY	107.91	0.00		EUR/GBP	0.8995	0.0030	Gold	1413.50	1.30
GBP/USD	1.2516	-0.0056		EUR/CHF	1.1084	-0.0008	Brent	66.48	-0.24
AUD/USD	0.7039	0.0019		EUR/SEK	10.5338	-0.0231			
USD/CAD	1.3049	0.0021		EUR/NOK	9.614	0.0000			

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