



**Thursday, 16 January 2020**

### Rates: Core bonds recover in absence of inflation uptick

Core bonds regained some vigor since wage inflation (last Friday), US CPI inflation (Tuesday) and PPI numbers (yesterday) didn't deliver the feared overshoot. We think that can remain the case this week with positive trade vibes also fading. US retail sales are a wildcard given upside risks to consensus.

### Currencies: Dollar looking for new trading narrative

The dollar lost a few ticks yesterday as core bond yields eased. Even so, the EUR/USD trading range remains firmly in place. Today's US data, including the retail sales, might cause some intraday USD swings, but we don't see a trigger for a clear directional move. Sterling avoided big losses despite a soft CPI and with markets discounting a January BoE rate cut.

### Calendar

## Headlines

- **Wall Street** eked out small gains yesterday (+0.1-0.3%) following a volatile session as the US and China sealed the Phase one trade deal. **Asian markets** drift sideways this morning. (+0.7%) Korea outperforms.
- Under the partial trade deal, **China commits to do more to protect IP while it also contains an FX manipulation clause**. China would also spend some \$200 billion to close the trade imbalance. The US keeps existing tariffs put as leverage.
- Philly Fed Harker said **the US central bank is still mulling to introduce a standing repo facility** in the wake of the September money market turmoil but should be wary not to become the primary provider of liquidity.
- **French labor unions have called for new strikes across the country next week**, planning a major event on January 24 despite president Macron having backtracked on raising the retirement age as part of the pension overhaul.
- **WH advisor Kudlow said the US administration is continuing efforts for a new tax-cut plan**. Details will be released in the Summer but depend on Republicans regaining the House and maintaining the Senate after the November elections.
- **The US House voted yesterday to send the articles of impeachment to the Senate**. Senate Majority leader McConnell said the trial will begin not sooner than Tuesday and will probably last several weeks.
- **Today's economic calendar** contains US December retail sales, jobless claims and the January Philly Fed business outlook. The ECB releases its December meeting accounts. Its president Lagarde is giving a speech tonight.

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

## Core bonds recover in absence of inflation uptick

	US yield	-1d
2	1,19	0,00
5	1,93	0,00
10	2,44	0,00
30	3,07	0,00

	DE yield	-1d
2	-0,79	-0,02
5	-0,56	-0,03
10	0,18	-0,03
30	0,92	-0,03

Core bonds eked out modest gains yesterday with UK Gilts again outperforming German Bunds and US Treasuries. Bets on a January rate cut rose north of 50% following a disappointing UK CPI inflation print. **EMU bonds put on a decent performance given huge EMU bond supply.** Belgium and Italy launched new syndicated deals, raising €6bn (Jun2030) and €7bn (Sep2050) respectively while Germany tapped the very long end. **Europe's primary bond market already crossed the €150bn mark since the start of the year.** That's nearly a week earlier than last year. **The ECB's Q4 2019 revamp of asset purchases is the main driver behind successful supply operations.** Eco data, US and China signing their Phase 1 trade deal, central bank speeches, and the Fed's Beige Book left no traces on markets. We retain that **voting Dallas Fed governor Kaplan repeated this week's earlier warning by Boston Fed Rosengren that growth in the Fed balance sheet is supportive of higher valuations and risk assets (possible financial stability risks).** The German and US yield curves both bull flattened. German yields lost 0.8 bps (2-yr) to 3.6 bps (30-yr) while US yields declined by 1.7 bps (2-yr) to 3.4 bps (30-yr). 10-yr yield spread changes vs Germany were unchanged with Italy (+3 bps) underperforming.

Most Asian stock markets cede some ground this morning with South Korea outperforming. Core bonds tread water. Today's eco calendar contains US retail sales, Philly Fed Business Outlook and weekly jobless claims. **We see upside risks for retail sales but can they impress markets?** We think investors are looking more at potential clues of inflation picking up rather than to the domestic data. **Core bonds regained some vigor since wage inflation (last Friday), US CPI inflation (Tuesday) and PPI numbers (yesterday) didn't deliver the feared overshoot.** We think that can remain the case this week with positive trade vibes also fading. Minutes of the ECB meeting, a Lagarde speech (unlikely to touch on monetary policy) and Q4 earnings serve as today's wildcards.

**Technically:** core bond yield's Q4 upleg was interrupted at the start of the year because of the US-Iran conflict. Geopolitical tensions in the Middle East again proved to have a limited shelf date as market theme. Inflation risk premia remain underpriced at current yield levels and could grab market attention with eg inflation expectations bottoming out. **The German 10-yr yield tested -0.18% (July high)/-0.15% (38% retracement of Feb '18 – Sep '19 decline) resistance, but a break didn't occur (yet).** The US 10-yr yield on multiple occasions failed to take out the 1.94% upper bound of the reigning trading channel.



German 10-yr yield: -0.18%/-0.15% resistance holds for now.



US 10-yr yield: 1.94% proves to be tough resistance.

# Currencies

## Dollar looking for new trading theme

R2	1,1145	-1d
R1	1,0851	
EUR/USD	1,0487	-0,0036
S1	1,0518	
S2	1,0458	

R2	0,8828	-1d
R1	0,8689	
EUR/GBP	0,8510	-0,0015
S1	0,846	
S2	0,8333	

The dollar lost modest ground yesterday as investors took a guarded approach awaiting the signing of the phase one US-China trade deal. Equities hovered near recent top levels, but core bond yields eased. The latter often is a negative for the dollar. US eco data were mixed with limited impact on trading. The trade-weighted dollar declined during most of the session, closing at 97.23. EUR/USD slightly outperformed (close at 1.1150). The setback in USD/JPY was modest (close at 109.90).

**Overnight**, Asian equities are trading mixed. WS yesterday challenged the all-time record levels but gains were modest. The US-China trade truce should be discounted and (FX) markets are looking for a new theme. Moves in bonds and in the major FX cross rate modest this morning. The yuan is holding relatively strong (USD/CNY 6.89). USD/JPY is trading close to, mostly marginally below the 110 barrier. EUR/USD maintains yesterday's gains, hovering near the 1.1150 level.

**Later today**, the US, the eco calendar is busy with the import prices, the Philly Fed business outlook, retail sales, the NAHB housing index and jobless claims. Retail sales take centre stage. December sales are expected solid (0.4% M/M control group). Meeting expectations should be possible after a mediocre November report. Even so, we assume that the dollar is slightly more sensitive to a negative rather than a positive surprise. A stabilisation/limited decline in core yields tends to weigh on the dollar more than on the likes of the euro. Global equity sentiment currently also doesn't provide clear guidance for USD trading.

From a technical point of view, **EUR/USD last week dropped temporarily below 1.11, but 1.1066 support survived on soft payrolls**. EUR/USD 1.1066 remains our first downside reference. A rebound above 1.1180 would call off the ST downside alert. Still, a ST break beyond 1.1250 looks far from easy.

Sterling temporarily suffered from much softer than expected UK CPI data yesterday. UK yields nosedived and markets currently discount a more than equal chance (about 65%) of a Jan 30 BoE rate cut. Even so, the damage for sterling could have been much bigger. **EUR/GBP closed the session only marginally higher at 0.8551**. There are few data in the UK today. **Even after yesterday's sterling resilience we see little sterling upside ST as the rate cut debate develops further.**



EUR/USD: USD losing a few ticks, but established range stays firmly in place.



EUR/GBP: no further sterling loss despite soft CPI and markets preparing for January BoE rate cut.

# Calendar

Thursday, 16 January		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (Dec)	0.30%	0.20%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.40%	0.00%
14:30	Retail Sales Ex Auto MoM (Dec)	0.40%	0.10%
14:30	Retail Sales Control Group (Dec)	0.40%	0.10%
14:30	Philadelphia Fed Business Outlook (Jan)	3.1	2.4R
14:30	Initial Jobless Claims	218k	214k
14:30	Continuing Claims	1750k	1803k
16:00	Business Inventories (Nov)	-0.20%	0.20%
16:00	NAHB Housing Market Index (Jan)	74	76
22:00	Net Long-term TIC Flows (Nov)	--	\$32.5b
<b>Japan</b>			
00:50	Core Machine Orders MoM/YoY (Nov)	18%A/5.30%A	-6.00%/-6.10%
00:50	PPI MoM/YoY (Dec)	0.10%A/0.90%A	0.20%/0.10%
<b>UK</b>			
01:01	RICS House Price Balance (Dec)	-2%A	-12%
<b>EMU</b>			
08:00	EU27 New Car Registrations (Dec)	--	4.90%
<b>Events</b>			
Q4 earnings	Morgan Stanley (13:15) ...		
12:30	Accounts of the ECB's December Meeting		
19:00	ECB President Lagarde Speaks in Frankfurt		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,44	0,00		US	1,19	0,00		DOW	19762,6	0,00
DE	0,18	-0,03		DE	-0,79	-0,02		NASDAQ	5383,117	0,00
BE	0,51	-0,04		BE	-0,69	-0,02		NIKKEI	19114,37	0,00
UK	1,24	0,00		UK	0,08	0,00		DAX	11575,57	94,51
JP	0,05	0,00		JP	-0,18	0,00		DJ euro-50	3302,48	11,96
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	-0,11	1,69	0,69	Eonia	-0,3290	0,0000				
5y	0,06	2,00	0,86	Euribor-1	-0,3680	0,0000		Libor-1	0,7717	0,0000
10y	0,64	2,34	1,23	Euribor-3	-0,3190	0,0000		Libor-3	0,9979	0,0000
				Euribors-6	-0,2210	0,0000		Libor-6	1,3177	0,0000
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0487	-0,0036		EUR/JPY	123,15	0,11		CRB	192,51	0,00
USD/JPY	117,43	0,52		EUR/GBP	0,8510	-0,0015		Gold	1151,70	0,00
GBP/USD	1,2326	-0,0018		EUR/CHF	1,0714	-0,0008		Brent	56,82	0,00
AUD/USD	0,717	-0,0040		EUR/SEK	9,5408	-0,0323				
USD/CAD	1,3417	-0,0024		EUR/NOK	9,0556	-0,0236				

If you no longer wish to receive this mail, please contact us: "[kbcmarketresearch@kbc.be](mailto:kbcmarketresearch@kbc.be)" to unsubscribe

## Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

