



Thursday, 19 September 2019

KBC Sunrise Market Commentary

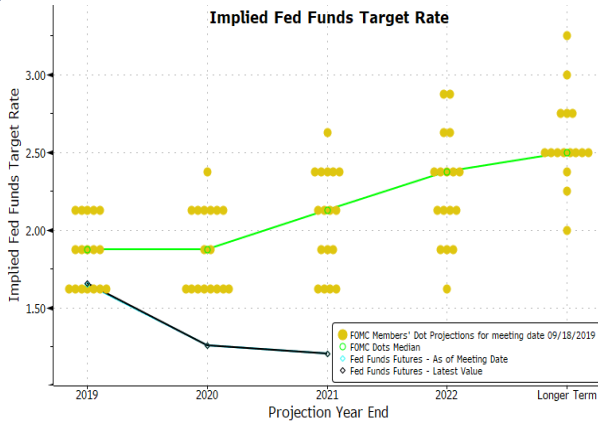
Markets

- The FOMC cut its policy rate for a second meeting straight by 25 bps, from 2%-2.25% to 1.75%-2%.** The US central bank cut **the interest rate on excess reserves and the offering rate for reverse repo's by slightly more (30 bps)** to respectively 1.8% and 1.7% to help control short term money market rates. The Fed will **continue offering reserve repo's (eg today)** if necessary, but Fed Chair Powell hinted during the Q&A session that **a resumption of balance sheet growth would be put on the table at the next Fed meeting.** Powell yesterday faced dissent from the same two regional Fed governors as in July (Rosengren & George) while one governor (Bullard) voted in favour of a bigger, 50 bps, rate cut. **The FOMC statement largely resembled the July one** apart from a more positive assessment of household spending ("rising on a strong pace") and a more pessimistic view on business fixed investment and exports ("weakened"). New growth forecasts faced marginal upward revisions: 2.2% from 2.1% in 2019, unchanged at 2% in 2020 and 1.9% from 1.8% in 2021. PCE inflation forecasts were unchanged at 1.5%, 1.9% and 2% for the 2019-2021 period. **The new dot plot shows a median estimate of the Fed policy rate of 1.75%-2% through 2020. There's quiet some disagreement on the Committee though with 7 out of 17 governors still expecting one additional cut this year (8 out of 17 in 2020)** while 5 other indicated that yesterday's decision was unwarranted. Median policy rate estimates for 2021 (2%-2.25%) and 2022 (2.25%-2.5%) suggest one rate hike in each of these years. Fed Chair Powell **stressed the uncertain outlook** at his press conference: *"Sometimes the path ahead is clear, and sometimes less so." "There will come a time, I suspect, when we've done enough. But there may also come a time when the economy worsens and we would then have to cut more aggressively. We don't know."* The Fed thus indicated **readiness to act as appropriate to sustain the expansion.** While fresh dots don't envision an additional rate cut this year, we hold our view that we'll get a final one in Q4. US interest rate markets still attach an 80% probability to the scenario where the Fed cuts interest rates at least one more time by the end of the year.
- Markets expected a more dovish Fed, **explaining the slightly hawkish reaction afterwards. US Treasuries sold off, underperforming Bunds while the dollar gained some ground.** The US yield curve flattened with the front end rising 3.6 bp and the very long end falling by 2.4 bps. It could be **a first hint that markets expect the Fed to face a trade-off between an additional rate cut in Q4 or restarting some sort of QE to increase reserves in the financial system and take pressure off US money markets.** The German yield curve bull flattened with yields losing 1.6 bps (2-yr) to 6.5 bps (30-yr). 10-yr yield spread changes vs Germany were close to unchanged. EUR/USD closed around 1.1030 from a 1.1073 open. EUR/GBP hovered near opening levels with Brexit talks yielding no progress.
- The Bank of Japan kept its monetary policy unchanged this morning but announced a review of its assessment of prices and the economy at the October meeting.** A similar exercise preceded major changes to monetary settings back in 2016. **The Japanese yen isn't really impressed** with USD/JPY falling back below 108. Today's eco calendar contains weekly jobless claims and the Philly Fed Business Outlook. We don't expect them to be detrimental for trading, with markets digesting the impact from last week's ECB meeting and yesterday's Fed meeting. **We put range trading ahead for the German and US 10-yr yields, respectively between -0.72% & -0.4% and 1.43% & 1.93%. EUR/USD is still locked between 1.0926 and 1.1112.** UK traders might keep an eye on the **"intermediate" BoE meeting (no new inflation report)**, but we don't think they'll alter course with Brexit deadline approaching. Sufficient positive sterling news is probably discounted by now.

News Headlines

- Australian labour market data beat forecast with 34.7k net job growth in August vs 15k consensus. Details were somewhat disappointing** as full-time employment fell by 15.5k while part time jobs rose by 50.2k. The higher unemployment rate (5.3%) was accompanied by a rise in the participation rate to 66.2%. AUD/USD fell below 0.68.

Graphs & Table



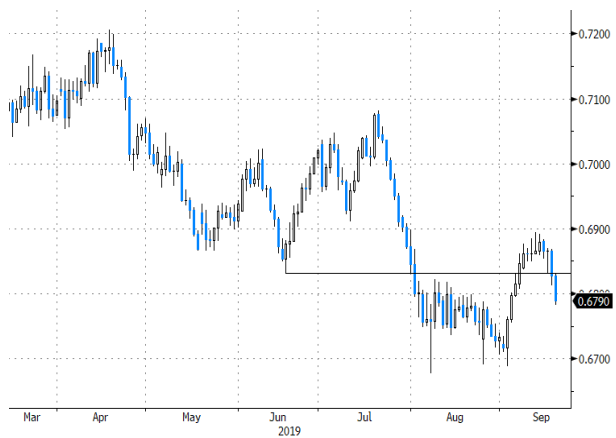
New dot plot by the Fed highlights split within Committee on how to go forward



EUR/USD: ECB & Fed meetings behind, but no new directional input



USD/JPY: yen not impressed by BoJ's upcoming policy review



AUD/USD: Aussie dollar loses ground. Headline payroll growth beat forecasts, but details somewhat disappointing

Source: Bloomberg

Calendar

Thursday, 19 September		Consensus	Previous
US			
14:30	Current Account Balance (2Q)	-\$127.4b	-\$130.4b
14:30	Philadelphia Fed Business Outlook (Sep)	10.5	16.8
14:30	Initial Jobless Claims	213k	204k
14:30	Continuing Claims	1672k	1670k
16:00	Existing Home Sales Total/MoM (Aug)	5.38m/0.7%	5.42m/2.50%
Japan			
	BOJ Policy Balance Rate	A: -0.1%	-0.10%
	BOJ 10-Yr Yield Target	A: 0%	0.00%
UK			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Aug)	-0.30%/2.30%	0.20%/2.90%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Aug)	0.0%/2.80%	0.20%/3.30%
13:00	Bank of England Bank Rate	0.75%	0.75%
EMU			
10:00	ECB Current Account SA (Jul)	--	18.4b
Norway			
10:00	Deposit Rates	1.25%	1.25%
Switzerland			
09:30	SNB Policy Rate	-0.75%	-0.75%
Events			
10:45	Spain to Sell Bonds (0.05% 2021, 0.6% 2029, 5.75% 2032, 1.85% 2035)		
10:50	France to Sell Bonds (1.75% 2023, 0% 2025, 3.5% 2026)		
12:00	ECB's Coeure, ESM's Regling Speak in Frankfurt		
14:00	ECB's Lautenschlaeger Speaks in New York		
19:00	US to Sell USD12 Bln 10-Year TIPS		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.80	-0.02	US	1.76	0.04	DOW	27147.08	36.28	
DE	-0.51	-0.04	DE	-0.73	-0.01	NASDAQ	8177.392	-8.62	
BE	-0.18	-0.05	BE	-0.65	-0.01	NIKKEI	22044.45	83.74	
UK	0.64	-0.05	UK	0.51	-0.03	DAX	12389.62	17.01	
JP	-0.23	-0.04	JP	-0.30	-0.04	DJ euro-50	3528.04	6.78	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.43	1.64	0.76	Eonia	-0.4570	-0.0900			
5y	-0.38	1.60	0.74	Euribor-1	-0.4380	0.0090	Libor-1	2.0570	0.0000
10y	-0.10	1.67	0.77	Euribor-3	-0.3960	0.0020	Libor-3	2.1641	0.0000
				Euribor-6	-0.3690	-0.0040	Libor-6	2.0853	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1030	-0.0043	EUR/JPY	119.62	-0.10	CRB	177.63	-1.16	
USD/JPY	108.45	0.32	EUR/GBP	0.8845	-0.0014	Gold	1515.80	2.40	
GBP/USD	1.2472	-0.0028	EUR/CHF	1.1000	0.0004	Brent	63.60	-0.95	
AUD/USD	0.6828	-0.0038	EUR/SEK	10.7283	0.0197				
USD/CAD	1.3289	0.0045	EUR/NOK	9.8666	-0.0118				

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