



Tuesday, 01 October 2019

Rates: Japanese curve bear steepens for second session straight

The Japanese curve bear steepens as the BoJ will cut bond purchases beyond 3 year in October's buying plan. A weak 10-yr bond auction and the country's pension fund's decision to up the level of foreign bond holdings adds to the move. Today's US manufacturing ISM kicks off a busy US eco calendar. The outlook for the sector remains bleak.

Currencies: Dollar setting new top for 2019

The (trade-weighted) dollar extends its gradual, but protracted rise. EUR/USD slipped below the 1.0926 support, merely a continuation of established trends. Today and later this week, US data might guide the next USD move. Given recent positive USD momentum (and poor euro sentiment) really negative US news is probably needed to halt the EUR/USD slide.

Calendar

Headlines

- **US equities** pushed higher yesterday with the Nasdaq (+0.75%) outperforming. **Asian markets** track WS' gains. Korea (+1.3%) outperforms. Chinese markets are closed for a 7-day holiday.
- The Daily Telegraph reported that **PM Johnson will present his Brexit plan to the EU within the next 24 hours**. Key will be his solution for the Irish border issue. It is said to include customs clearance centres on both sides of the border.
- **European central bankers urge national authorities to introduce tighter regulations in the mortgage market** as they see risks linked to rising house prices (in f.e. Belgium, Germany and the Czech Republic) building.
- **The CEO of Saudi Aramco said the state-owned company has fully recovered from the attacks on its infrastructure** last month with production now even a "little bit" higher. Brent oil is again trading below \$60/b.
- **The Reserve Bank of Australia cut rates to 0.75%** and is prepared to ease further if needed. The move is designed to ensure the resilience of the local economy against the global slowdown and should support the labor market.
- **Japan's Tankan index fell less than expected but are at levels not seen in years.** The data comes amid a weak 10-year JGB sale after the central bank announced aggressive plans for curve steepening.
- **Today's economic calendar** contains the US ISM manufacturing confidence (September). The EMU publishes September (core) CPI figures. ECB's Draghi and Lane and the Fed's Clarida are scheduled to speak.

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	1.62	-0.01
5	1.57	-0.02
10	1.66	-0.02
30	2.15	-0.02

	DE yield	-1d
2	-0.77	0.00
5	-0.77	0.00
10	-0.57	0.00
30	-0.07	0.02

Japanese curve is bear steepening

Global core bonds ended near opening levels yesterday, with US Treasuries slightly outperforming German Bunds. US yields fell by 0.9 bps to 1.8 bps on a daily basis with German yields adding up to 1.6 bps (30-yr), steepening the curve. The marginal outperformance of US Treasuries came during US dealings and started after the release of **a disappointing Chicago PMI (September)**. The regional business barometer fell back in contractionary territory (47.1 from 50.4) with production and new orders falling. A slightly better performance of US stock markets (+0.5%) didn't change the tide. 10-yr yield spread changes vs Germany barely changed.

Asian stock markets gain up to 1% this morning. Chinese markets are closed from today until October 7 for National Holidays. **The Japanese yield curve bear steepens for a second session straight.** The 30-yr yield rises to its highest level since early June (0.42%). The BoJ announced in its October bond purchase plan to cut purchases for all conventional tenors longer than three years. Other news factors that influence the move are this morning's very weak 10-yr JGB auction (worst since 2016) and the decision from Japan's Government Pension Investment Fund, the world's biggest pension fund, to consider currency-hedged overseas bond holdings as similar to domestic debt investments. The GPIF will thus be able to buy foreign debt beyond the 19% portfolio limit in its current mandate. The Bund and US Note future lose ground as well this morning.

Today's eco calendar contains EMU inflation numbers and US manufacturing ISM. EMU (core) inflation is expected to stay well below the ECB's 2% inflation target (both 1% Y/Y) with risks probably even tilted to the downside after yesterday's German reading (0.9% Y/Y). We don't expect any market reaction to the release, given that the focus currently is on activity data. **The manufacturing ISM is expected to rebound from 49.1 to 50.** We don't expect the picture to brighten in the suffering production sector. The employment component will be closely watched with investors looking for whether or not Joe Sixpack will eventually be effected. ADP employment change (Wednesday), non-manufacturing ISM (Thursday) and payrolls (Friday) are still up for release later this week and might keep the market reaction guarded. **Wildcards for trading are mostly politically related with developments in the US Democrats impeachment inquiry and in the Brexit process.**

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Both fell short of really testing first resistance levels, respectively at -0.41% and 1.94%. Going forward, we expect range trading with August lows protecting the downside (German 10y: -0.73%; US 10y: 1.43



German 10-yr yield: rangetrading between -0.73% and -0.41%



US 10-yr yield: sideways range between 1.43% and 1.94%. Bond friendly bias with key eco data looming

Currencies

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.0899	-0.0041
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8869	-0.0029
S1	0.8500	
S2	0.8314	

Dollar drifting to new ST top

Selling the euro and **buying the dollar** remained the 'natural' tendency on the FX market yesterday. There were some specific topics to support the move, but the EUR/USD break below 1.09 was merely a continuation of the established trend. Soft German (0.9% Y/Y) and Italian (0.3% Y/Y) inflation data reinforced the disinflationary EMU picture. The US Chicago PMI also dropped below the 50-mark but affected the USD only temporarily. EUR/USD closed at 1.0899. The trade-weighted dollar reached a minor cycle top and closed at 98.37.

Overnight, Asian equities start the quarter mostly with a positive bias. **BoJ Tankan business conditions** declined further, but the loss in most sub-indicators was less than expected. The steepness of the Japanese yield curve still takes center stage. Japan 10-y yield rose about 5 bp after a poor 10-y auction and as the government pension fund indicated to consider more (currency hedged) overseas bond buying. As such this should have a big impact on the currency. Still, USD/JPY is trending higher north of 108. EUR/USD hovers near recent lows just below 1.09.

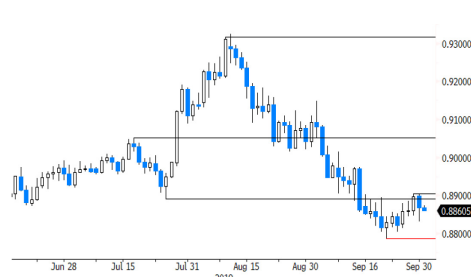
Today, the focus for EUR/USD trading will turn to the US manufacturing ISM. Markets will look out whether there is some tentative bottoming after the index dropped below 50 in August. The potential negative spill-over effects from the manufacturing to the broader economy are even more important (non-manuf ISM on Thursday). Even so, **a halt in the manufacturing decline might be enough to support the USD positive momentum**. In EMU, the September CPI (expected at 1.0%), probably won't help the euro. (Geo)political headlines remain a wildcard.

The dollar is testing its MT top (DXY and EUR/USD). EUR/USD dropped below the 1.0925 area. There was no aggressive further stop-loss selling. Even so, the trend looks firmly in place and some high-profile negative news is probably needed to stop further USD gains. EUR/USD 1.0864 (76% retr.) and 1.0778 (gap April 2017) are next supports. A break above 1.1055/1.11 would ease downside momentum.

In technical trading, **sterling yesterday regained modest** ground after Friday's decline (soft Saunders comments). **Today**, UK manufacturing PMI is interesting to assess health of this part of the economy (and potential need for further BoE help). Even so, any reaction will probably be guarded as long as visibility on Brexit remains this low. We don't ant



EUR/USD declines below 1.0926, setting new lows for 2019.



EUR/GBP: sterling correction slows, awaiting 'new news' on Brexit

Calendar

Tuesday, 1 October		Consensus	Previous
US			
	Wards Total Vehicle Sales (Sep)	17.00m	16.97m
16:00	ISM Manufacturing (Sep)	50.0	49.1
16:00	ISM Employment (Sep)	--	47.4
16:00	ISM Prices Paid (Sep)	50.5	46
16:00	ISM New Orders (Sep)	--	47.2
16:00	Construction Spending MoM (Aug)	0.50%	0.10%
China			
Chinese financial markets closed for a seven-day national holiday.			
Canada			
14:30	GDP MoM/YoY (Jul)	0.10%/1.40%	0.20%/1.50%
15:30	Markit Canada Manufacturing PMI (Sep)	--	49.1
Japan			
01:30	Jobless Rate (Aug)	2.20%A	2.20%
01:30	Job-To-Applclicant Ratio (Aug)	1.59A	1.59
01:50	Tankan Large Mfg/Non-Mfg Index (3Q)	5A/21A	7/23
01:50	Tankan Large Mfg/Non-Mfg Outlook (3Q)	2A/15A	7/17
07:00	Vehicle Sales YoY (Sep)	--	4.00%
UK			
08:00	Nationwide House Px MoM/NSA YoY (Sep)	0.10%/0.50%	0..00%/0.60%
10:30	Markit UK PMI Manufacturing SA (Sep)	47	47.4
EMU			
10:00	Markit Eurozone Manufacturing PMI (Sep F)	45.6	45.6
11:00	CPI Core YoY (Sep A)	1.00%	0.90%
11:00	CPI Estimate YoY (Sep)	1.00%	1.00%
Australia			
06:30	RBA Cash Rate Target	0.75%A	1.00%
Norway			
09:00	DNB/NIMA PMI Manufacturing (Sep)	53.5	53.8
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Sep)	52.0	52.4
Events			
01OCT	Chinese president Xi Jinping speaks during 70 th anniversary of the People’s Republic of China		
03:00	ECB Chief Economist Lane Speaks in Los Angeles		
09:15	Fed’s Evans Speaks at Bundesbank Event in Frankfurt (voter)		
14:50	Fed’s Clarida Makes Brief Remarks at AI Conference (vice chairman)		
15:30	Fed’s Bowman Speaks at Community Banking Conference (voter)		
18:45	ECB’s Draghi Speaks in Athens		
19:30	Bundesbank President Weidmann Speaks in Vienna		

Tuesday, 01 October 2019									
10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.66	-0.02		US	1.62	-0.01	DOW	26916.83	96.58
DE	-0.57	0.00		DE	-0.77	0.00	NASDAQ	7999.338	59.71
BE	-0.25	0.01		BE	-0.67	0.00	NIKKEI	21885.24	129.40
UK	0.49	-0.01		UK	0.37	-0.03	DAX	12428.08	47.14
JP	-0.15	0.07		JP	-0.29	0.03	DJ euro-50	3569.45	23.57
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	-0.45	1.55	0.62	Eonia	-0.4510	0.0010			
5y	-0.41	1.50	0.60	Euribor-1	-0.4570	0.0050	Libor-1	2.0315	0.0000
10y	-0.15	1.56	0.64	Euribor-3	-0.4180	-0.0060	Libor-3	2.0986	0.0000
				Euribor-6	-0.3860	-0.0090	Libor-6	2.0630	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	1.0899	-0.0041		EUR/JPY	117.8	-0.31	CRB	173.94	-1.78
USD/JPY	108.08	0.16		EUR/GBP	0.8869	-0.0029	Gold	1472.90	-33.50
GBP/USD	1.2289	-0.0003		EUR/CHF	1.0875	0.0035	Brent	59.25	-1.79
AUD/USD	0.675	-0.0014		EUR/SEK	10.7248	0.0097			
USD/CAD	1.3241	-0.0006		EUR/NOK	9.9147	-0.0150			

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