



**Tuesday, 23 October 2018**

### Rates: Risk aversion to reign trading today?

Asian stock market lose up to 2% overnight with risk aversion set to spill to European/US trading. Core bonds could profit with US Treasuries lagging German Bunds going into the US Treasury's end-of-month refinancing period. BTP markets could stabilize in the short run with Italy and the EU entering a negotiation phase after placing opening bets.

### Currencies: dollar regains the benefit of the doubt.

Yesterday, EUR/USD couldn't maintain earlier gains as uncertainty on the Italian budget finally pushed the single currency back south. This morning, sentiment in Asia turned outright risk-off. For now, it looks that the dollar and the yen are again in the best position to profit. DXY is testing the 96 level. EUR/USD again nears the 1.1432 support.

### Calendar

## Headlines

- **US equity markets** closed yesterday's session with losses, with the exception of technology shares (Nasdaq +0.26%). All **Asian markets** open in red this morning with Japan and Hong Kong underperforming with losses over 2%.
- **President Trump sent CIA director Gina Haspel to Turkey to seek clarification on the Khashoggi murder.** He said he is not satisfied with Saudi Arabia's explanation so far, after Treasury Secretary Mnuchin met with the Crown Prince.
- **UK PM May survived another confrontation in parliament yesterday,** as a vote of no confidence was again rumoured but didn't take place. She reaffirmed a split between Northern Ireland and the rest of the UK is really not an option.
- **The UK government is making plans to issue instructions to UK-based companies next month to prepare them for a no-deal Brexit.** The move is independent of how the negotiations with the EU proceed.
- **Pablo Casado, Spanish opposition leader, accused the socialist government of committing economical suicide in regard with the budget plan.** The plan envisages higher spending, higher taxes and a sharp rise in the minimum wage.
- **Mexico rejected Canada's move to impose new tariffs and quotas** on imports on seven steel categories from many countries. It is considering different types of retaliation measures, including going to the WTO.
- **Today's eco calendar** contains October Richmond Fed Manufacturing Index and EMU Consumer Confidence. BoE chief economist Haldane, Governor Carney and Fed Bostic, Kashkari and Kaplan are scheduled to speak. The US taps the market.

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

## Risk aversion to dominate trading today?

	US yield	-1d
2	2,91	0,00
5	3,02	0,00
10	3,20	0,01
30	3,36	0,01

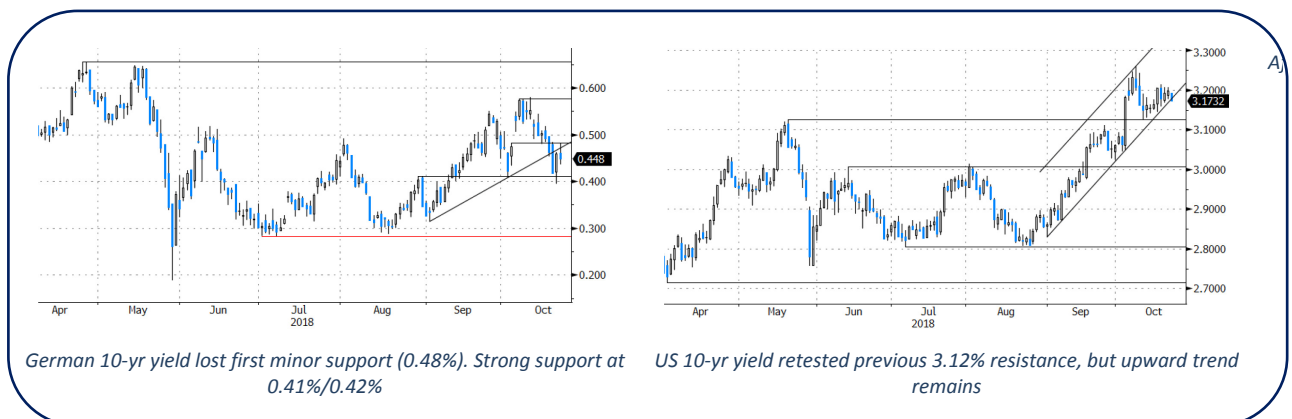
	DE yield	-1d
2	-0,59	-0,01
5	-0,14	-0,01
10	0,45	-0,01
30	1,07	-0,01

**Global core bonds ended mixed yesterday with US Treasuries underperforming German Bunds.** The Bund mirrored moves in the BTP future amid an empty eco/event calendar. BTP's initially extended Friday's run as EU Moscovici softened language on next year's draft Italian budget. Moody's' rate cut (to Baa3, stable outlook) was discounted with some even fearing more damage (junk). The Bund bottomed out as the BTP topped off early in the session. The EU and Italy reached out to negotiate, but large differences on the budget remain whatsoever. The US Treasuries' slight underperformance is probably related to tonight's start of the end-of-month refinancing operation. German yields declined by 0.9 bps to 1.2 bps yesterday with the belly of the curve outperforming. The US yield curve bear steepened with yields ending 0.4 bps to 1.2 bps higher. Peripheral yield spreads vs Germany ranged between -3 bps (Spain) and +2 bps (Italy).

**The huge two-day rally on Chinese stock markets, backed by verbal and (effective?) market interventions, grinds to a halt this morning. Asian bourses lose 1% to 2% this morning.** Japan underperforms on the back of a stronger yen. The US Note future trends higher, suggesting a positive opening for the Bund as well.

Today's eco calendar contains EMU consumer confidence and the US Richmond Fed Manufacturing survey. Both are expected to show a minor setback from elevated levels, but will be second tier for trading. **The US Treasury sells \$28bn 2-yr Notes, with more supply coming tomorrow. It could be a trigger for more underperformance of US Treasuries.** Fed governors Kashkari, Kaplan and Bostic recently addressed the press. **That leaves general risk sentiment as today's main driver. Core bonds could benefit from risk aversion. Italian BTP's can stabilize in the short run as the EU and Italy placed opening bets and try to settle differences.**

**From a technical point of view,** the US 10-yr yield retested previous resistance around 3.12%. The yield remained above this level, strengthening the break and suggesting more upward potential in the medium term. The cycle high stands at 3.26%, but next real key resistance only kicks in around 3.75%. The German 10-yr yield lost minor support at 0.48%. Strong support kicked in at 0.41%/0.42%. We don't anticipate a return lower.



# Currencies

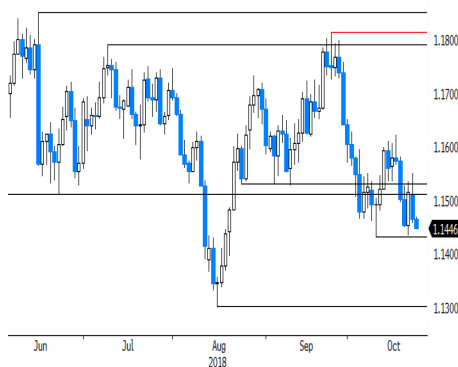
R2	1,2155	-1d
R1	1,1996	
<b>EUR/USD</b>	<b>1,1464</b>	<b>-0,0050</b>
S1	1,1510	
S2	1,1448	

R2	0,91	-1d
R1	0,9052	
<b>EUR/GBP</b>	<b>0,8844</b>	<b>0,0032</b>
S1	0,8628	
S2	0,8548	

## Dollar again in driver's seat. DXY tests 96.00

Swings in EUR/USD were mostly driven by the **news on Italy** Monday. Early in the day, investors mostly saw constructive headlines, including remarks from EU's Moscovici. Italian spreads narrowed and EUR/USD spiked higher to the mid 1.15 area. Later, there were ever more indications from Italian politicians that the government has little intention to change the 2019 budget. European equity markets reversed a positive open and so did the euro. EUR/USD closed at 1.1464, from 1.1514 on Friday. USD/JPY held up fairly well even as sentiment on risk deteriorated later in the day. The pair finished 112.82. **Overnight**, Chinese equities are unable to extend the comeback from Friday and yesterday, inspired by market friendly comments from all kinds of policy makers. The erosion sentiment in China weighs on regional markets. USD/CNY (currently 6.9420) is holding near recent peak levels. The yen regains modest ground (USD/JPY near 112.55). EUR/USD hovers in the 1.1460 area. **Today**, the US & EMU eco calendar contains only second tier data. The EC consumer confidence is worth keeping an eye on. Global market sentiment will probably again be the main driver for global FX trading. Of late, the dollar wasn't always able to profit from corrections on (US) equity markets. However, **with the trade-weighted USD at 96.00, it looks that the US dollar is again in the driver's seat.** This week, several US bellwethers will report results. Markets are keen to see whether they stay optimistic on the (near) future. Investors are growing more uncertain on the impact of (geo) political nervousness on growth. So, results probably will have to be strong to improve global risk. The jury is still out what this will mean for global FX trading. **As long as uncertainty on Italy persists, the dollar (and the yen) are most likely to profit from global political and economic noise, rather than the euro.** 1.1432 remains first intermediate support for EUR/USD. A break below would open the way to the 2018 low at 1.1301.

**On Monday**, an address of UK PM May before parliament illustrated the deadlock on Brexit as hard Brexiteers in the conservative party continue to reject proposals for a compromise. This time, sterling lost some ground. EUR/GBP returned to the mid 0.88 area. Today, CBI order data will be published. However, Brexit will probably continue to dominate sterling trading. Yesterday, sterling showed more vulnerability. Still, we assume more directionless trading as long as the Brexit uncertainty persists.



EUR/USD: dollar regains momentum, euro suffers from Italy. EUR/USD 1.1432 support again within reach.



EUR/GBP: sterling again slightly more vulnerable to Brexit noise

# Calendar

Tuesday, 23 October		Consensus	Previous
<b>US</b>			
16:00	Richmond Fed Manufact. Index (Oct)	24	29
<b>Japan</b>			
07:00	Supermarket Sales YoY (Sep)	--	0.1%
07:30	Nationwide Dept Sales YoY (Sep)	-3.0%A	-0.2%
07:30	Tokyo Dept Store Sales YoY (Sep)	0.3%A	1.6%
<b>UK</b>			
12:00	CBI Trends Total Orders (Oct)	2	-1
12:00	CBI Trends Selling Prices (Oct)	15	13
12:00	CBI Business Optimism (Oct)	-5	-3
<b>EMU</b>			
16:00	Consumer Confidence (Oct A)	-3.2	-2.9
<b>Germany</b>			
08:00	PPI MoM/YoY (Sep)	0.3%/3.0%	0.3%/3.1%
<b>Events</b>			
Q3 earnings	McDonald's (bef-mkt), Biogen Inc (bef-mkt), Caterpillar Inc (13:30) ...		
<b>12:30</b>	<b><a href="#">BOE Chief Economist Haldane Speaks in Paris</a></b>		
15:30	Fed's Kashkari Speaks at Early Childhood Development Event		
<b>17:20</b>	<b><a href="#">Carney Speaks at a Conference in Toronto</a></b>		
19:00	US to Sell USD28 Bln 2-Year Notes		
19:30	Fed's Bostic Speaks on Economic and Monetary Policy		
20:15	Fed's Kaplan Speaks at Economic Development Event in Texas		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,20	0,01		US	2,91	0,00	DOW	25317,41	-126,93
DE	0,45	-0,01		DE	-0,59	-0,01	NASDAQ	7468,629	19,60
BE	0,88	-0,02		BE	-0,49	0,00	NIKKEI	22010,78	-604,04
UK	1,53	-0,05		UK	0,77	-0,04	DAX	11524,34	-29,49
JP	0,15	-0,01		JP	-0,11	0,00	DJ euro-50	3190,09	-20,73
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,06	3,16	1,24	Eonia	-0,3690	-0,0010			
5y	0,40	3,19	1,41	Euribor-1	-0,3690	0,0010	Libor-1	2,2819	0,0000
10y	1,01	3,26	1,65	Euribor-3	-0,3170	0,0000	Libor-3	2,4772	0,0000
				Euribor-6	-0,2610	0,0010	Libor-6	2,7235	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1464	-0,0050		EUR/JPY	129,35	-0,23	CRB	197,25	0,07
USD/JPY	112,82	0,27		EUR/GBP	0,8844	0,0032	Gold	1224,60	-4,10
GBP/USD	1,2963	-0,0113		EUR/CHF	1,1420	-0,0049	Brent	79,83	0,05
AUD/USD	0,7081	-0,0038		EUR/SEK	10,3216	-0,0295			
USD/CAD	1,3101	-0,0003		EUR/NOK	9,4662	0,0020			

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## 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
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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