

Monday, 28 October 2019

Rates: S&P 500 tests all-time high

A late risk rally on US stock markets caused weakness on bond markets last Friday. The US reported clear progress on phase one of the trade deal with China, which was confirmed by Beijing this weekend. The S&P 500 tested the all-time high. This week's eco calendar is backloaded with a Fed meeting, Q3 GDP prints, US payrolls and manufacturing ISM.

Currencies: Subdued trading ahead of a busy week

EUR/USD slipped below the 1.11 mark on Friday despite a constructive risk setting as trade optimism received another boost. The technical picture does not alter dramatically though but is likely to be defined later this week given the backloaded economic calendar. The EU is set to propose a three-month Brexit flexextension which could trigger UK elections.

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	→

- **WS** edged higher over the weekend (up to 0.70%) as investor sentiment got a boost from hopes of a US-China trade deal. **Asian markets** are following track, with China outperforming (+1.41%).
- **American and Chinese officials said over the weekend that the countries were on track to strike a phase 1 trade deal.** US president Trump and his Chinese counterpart, president Jinping, hope the sign the deal in Chile next month.
- **The EU hopes to extend the deadline for Brexit by 3 months with earlier departure possible.** French president Macron, who blocked the EU's attempt of a 3-month delay last Friday, has changed his opinion, Politico reported.
- **Opposition candidate Alberto Fernandez swept Argentina's presidential election on Sunday,** beating pro-market incumbent Mauricio Macri and ushering in a return to left-wing power at a time of crisis.
- **The University of Michigan's final sentiment index rose to 95.5 in October from September's 93.2,** suggesting Americans' spending remains solid and continues to bolster the economy despite weakness in the manufacturing sector.
- **General Motors employees voted in favour of new four-year labour contract,** ending a 40-day strike that has cost the company about \$2 billion and rippled through the US economy.
- **Today's economic calendar** centres the EU's decision on a Brexit delay and the long-awaited meeting of China's Central committee, after almost a year of delay amid a prolonged trade war and unprecedented civil unrest in Hong Kong.

Rates

US S&P 500 tests all-time high on positive trade talk

	US yield	-1d
2	1.62	0.04
5	1.63	0.04
10	1.79	0.03
30	2.30	0.02

Global core bonds lost ground during US hours of last week's final trading session. The move started after the Office of the US Trade Representative cited more progress on phase one of the US-Chinese trade deal. The headlines sparked a risk rally, sending the **US S&P 500 for a test of the all-time high**. The US yield curve bear flattened in a daily perspective with yields rising by 4.2 bps (2-yr) to 2.5 bps (30-yr). The German yield curve bear steepened with yields adding 1.4 bps (2-yr) to 6.1 bps (30-yr). 10-yr yield spread changes vs Germany barely moved with Greece (-7 bps) outperforming.

	DE yield	-1d
2	-0.65	0.01
5	-0.60	0.03
10	-0.36	0.04
30	0.17	0.06

Risk sentiment is more neutral in Asia this morning. Asian stock markets gain slightly with China (+1%) outperforming. The German Bund and US Note future are marginally lower. **China's Ministry of Commerce in a statement confirmed** that trade negotiators *"agreed to properly resolve their core concerns and confirmed that the technical consultations of some of the text agreement were **basically completed**"*. Both parties hope to seal the deal at a summit in Chile next month which US President Trump and Chinese President Xi Jinping will attend. **Politico reports that France agreed with a three-month Brexit extension** (see below).

Today's eco calendar isn't really enticing. **Risk sentiment will be key. Can the US S&P 500 pierce through the highs?!** Quite some positive news on Brexit and trade talks is probably discounted. Focus turns to the Fed meeting later this week. **We expect a third consecutive rate cut by 25 bps which would mark the end of the mid-cycle adjustment.** We think the FOMC statement will specifically mention so. On the data front, eyes are on Q3 GDP numbers in both US and EMU, US payrolls and manufacturing ISM. **This week's agenda is thus again clearly backloaded.**

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Risk sentiment and eco data drove action within sideways ranges since. The German 10-yr yield broke above -0.41% as Brexit deal hopes surged, improving the technical picture. Target of this double bottom formation are -0.25% and -0.13%. The 38% retracement level of the decline between October and August stands at -0.24%



German 10-yr yield: painting double bottom on charts. Targets are -0.25% and -0.13%.



US 10-yr yield: sideways range between 1.43% and 1.94%. Risk sentiment determines intraday gyrations

Currencies

Subdued trading ahead of a busy week

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1080	-0.0024
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8637	-0.0004
S1	0.8500	
S2	0.8314	

Friday's trading sentiment was initially slightly risk-off. European equities and the euro held a downward bias during a mainly technical driven trading session. Risk climate turned for the better as the US joined however. **Markets took comfort in a few headlines by trade negotiators suggesting the US and China "made headway"**. All looks set to sign the phase 1 deal at the APEC summit in November. EMU stocks reversed intraday losses, US equities headed north. The S&P 500 even set a new record high. The dollar outperformed on FX markets. EUR/USD slipped below 1.11 (1.108), USD/JPY inched higher towards 108.67.

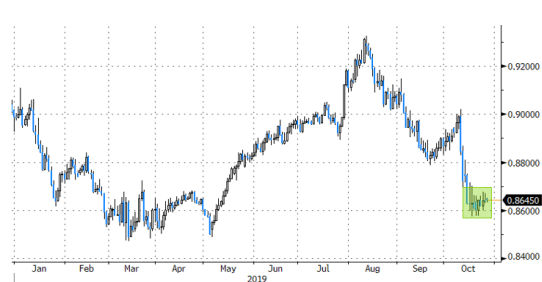
Asian markets begin the week on decent footing in the wake of WS's fresh all-time highs. China outperforms amid trade optimism. USD/CNY declines to 7.06. In Argentina, current president Macri conceded losing the elections to opposition candidate Fernandez over the weekend. The central bank already announced tighter capital controls in the vote's aftermath. USD/ARS stopped short of closing at another record high last Friday. EUR/USD is marginally grinding higher close to but below 1.11., but struggles not to fall below 1.11. USD/JPY is holding in the 108.70 area. Yen investors are looking forward to this week's BoJ meeting.

Today's economic calendar contains only secondary data and does no justice to what will be an important week. US investors brace for the Fed, the manufacturing sector's ISM and the payrolls report. Q3 GDP growth figures are due in the EMU and the US. The backloaded agenda might keep investors sidelined for today though. EUR/USD technical picture didn't alter dramatically even after slipping below 1.11 – but holding well above 1.10. **Brexit uncertainty hasn't been removed (yet?), capping the pair's upward potential.** At the same time, the dollar probably won't make much headway ahead of the Fed meeting. This should give EUR/USD some downside protection.

Sterling reversed Friday's intraday losses mainly on a U-turn in sentiment. EUR/GBP closed marginally lower near 0.864 even as France voiced opposition to a three-month delay in Brexit. This morning's headlines however suggest that Macron caved in after all. **The EU's draft proposal would now postpone the deadline until January 31 with the option to leave on November 30 or December 31** if both sides ratify the deal earlier. EUR/GBP barely moves, confirming our view that sterling discounted quite some positive news already. **Focus now turns to early elections:** will Johnson's call now get the support it needs?



EUR/USD's drift lower lead to a dip below 1.11. Technical picture does not alter dramatically however.



EUR/GBP: Brexit three-month flexextension probably approved. UK elections are now in focus.

Calendar

Monday, 28 October		Consensus	Previous
US			
13:30	Chicago Fed Nat Activity Index (Sep)	0.05	0.1
13:30	Wholesale Inventories MoM (Sep P)	0.3%	0.20%
13:30	Advance Goods Trade Balance (Sep)	-\$73.5b	-\$72.8b
13:30	Retail Inventories MoM (Sep)	0.1%	0.00%
15:30	Dallas Fed Manf. Activity (Oct)	1.0	1.5
Japan			
00:50	PPI Services YoY (Sep)	0.50%A	0.60%
UK			
12:00	CBI Retailing Reported Sales (Oct)	-20	-16
12:00	CBI Total Dist. Reported Sales (Oct)	--	3
EMU			
10:00	M3 Money Supply YoY (Sep)	5.70%	5.70%
Germany			
08:00	Import Price Index MoM/YoY (Sep)	-0.10%/-3.00%	-0.60%/-2.70%
Events			
28OCT	China holds its plenum – the full meeting of the Central committee		
28-29OCT	EU to decide on Brexit extension		
Q3 earnings	On Semiconductor (bef-mkt), AT&T (12:00), Alphabet (aft-mkt) ...		
16:00	ECB's Draghi holds Farewell Speech in Frankfurt		
18:00	BOE's Tenreyro speaks in London		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.79	0.03		US	1.62	0.04	DOW	26958.06	152.53
DE	-0.36	0.04		DE	-0.65	0.01	NASDAQ	8243.119	57.32
BE	-0.07	0.05		BE	-0.62	0.01	NIKKEI	22867.27	67.46
UK	0.68	0.06		UK	0.52	0.05	DAX	12894.51	22.41
JP	-0.13	0.01		JP	-0.21	0.02	DJ euro-50	3624.68	3.31
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	-0.33	1.61	0.78	Eonia	-0.4630	0.0000			
5y	-0.24	1.59	0.80	Euribor-1	-0.4560	-0.0090	Libor-1	1.8049	0.0006
10y	0.06	1.71	0.88	Euribor-3	-0.4130	-0.0090	Libor-3	1.9281	-0.0075
				Euribor-6	-0.3500	-0.0020	Libor-6	1.9333	0.0013
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1080	-0.0024		EUR/JPY	120.41	-0.21	CRB	178.37	0.66
USD/JPY	108.67	0.06		EUR/GBP	0.8637	-0.0004	Gold	1505.30	0.60
GBP/USD	1.2827	-0.0024		EUR/CHF	1.1019	-0.0001	Brent	62.02	0.35
AUD/USD	0.6823	0.0004		EUR/SEK	10.7297	0.0064			
USD/CAD	1.3058	-0.0013		EUR/NOK	10.1898	0.0413			

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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
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	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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