

Thursday, 04 April 2019

Rates: Hints of tiering in ECB Minutes?

A disappointing US non-manufacturing ISM failed to lift US Treasuries. Today's eco calendar only contains second tier eco data. Minutes of the March ECB meeting could be interesting. Talk about tiering up the deposit rate intensified since that meeting. The ECB might elaborate on this issue in June or September.

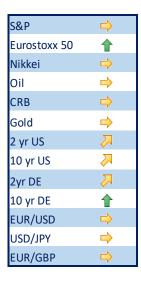
Currencies: EUR/USD drifting higher off 1.1187/77 support

The dollar rally met resistance yesterday. At the same time the euro enjoyed some positive news. EUR/USD gradually rebounded off recent lows. Today, the eco calendar is thin. USD traders are looking forward to tomorrow's payrolls. The dollar probably needs exceptionally strong US data to extend recent rally

Calendar

Headlines

- **US equity markets** edged higher yesterday with technology shares outperforming (Nasdaq +0.6%). **Asian equities** are trading mixed with Chinese indices outperforming.
- The UK parliament narrowly passed an emergency bill to avert a no-deal Brexit
 by forcing PM May to seek a new extension to the current deadline of April 12.
 Meanwhile, PM May continues talks with Labour leader Corbyn.
- Bank of England governor Carney said the UK is better prepared for a no-deal Brexit than it was six months ago. A no-deal scenario is still possible, despite the new UK bill, in case the UK and the EU cannot agree on a new extension.
- The US sets a 2025 target for China to meet its commitments on commodity purchases and to provide full market access for US companies. US President Trump will meet Chinese Vice Premier Liu He later today.
- National Bank of Poland governor Glapinski reiterated that the current low policy rate may stay unchanged until 2022, after the NBP kept its policy rate unchanged at 1.5%.
- US crude oil inventories rose by 7.3 million barrels last week, the most since January. The news put a pause to the biggest quarterly advance(+33%) for oil prices since 2009. The price for a barrel of crude Brent oil declined to \$69,3.
- Today's eco calendar contains this week's jobless claims in the US and factory orders (February) in Germany. The ECB publishes the meeting minutes of the March meeting, while Fed's Mester and Harker speak.







Rates

-1d **US** yield 0,03 2,33 0,04 2,31 10 2,52 0,05 30 2,92 0,06

	55 111	4.1
	DE yield	-1d
2	-0,58	0,03
5	-0,41	0,04
10	0,01	0,06
30	0,67	0,07

Hints of tiering in ECB Minutes?

Global core bonds lost ground yesterday. The main move occurred overnight after the FT ran an article on US-Sino trade talks. Both parties supposedly resolved most of the issues in their trade dispute apart from the implementation and enforcement of the deal. High-levels talks are currently held in Washington. Eco data printed mixed without directly impacting trading. For once, good news came from Europe with upward revisions to March services PMI's. US ADP employment and non-manufacturing ISM both fell short of forecasts. The latter fell to the lowest level since 2017, with key subcomponents declining as well. The ISM remains at an elevated absolute level for now, north of 56. US stock markets closed in positive territory, but failed to cling to initial momentum. The German and US yield curves both bear steepened. German yields increased by 2.9 bps (2-yr) to 7.2 bps (30-yr). US yields added between 3.4 bps (2-yr) and 5.6 bps (30-yr). Peripheral yield spreads vs Germany narrowed by 3-4 bps with Greece (-9 bps) outperforming.

Asian stock markets are mixed overnight while core bonds tread water. The UK House of Commons narrowly passed a bill to block a no-deal Brexit (see below). Avoiding a crash out of the EU after April 12 was by and large discounted. We expect a neutral start to European trading.

Today's eco calendar is thin with only second tier figures like US weekly jobless claims. The release of the Minutes of the ECB's March policy meeting could be interesting. ECB Draghi highlighted afterwards the split between governors willing to get rid of negative interest rates and the ones willing to extend the unchanged policy guidance beyond the current end of 2019. Talk about "ECB tiering", splitting up the deposit rate to allow some deposits at zero or positive rates, intensified since that meeting. A decision is unlikely at next week's ECB gathering, but expect the debate to really come alive in June or September. In first instance, this could be considered a rate hike, but it simultaneously raises the bar to engage to a full normalisation later on.

Markets concluded that the ECB missed out on this cycle. The 3M Euribor stripcurve only returns to positive levels by mid-2022. Regarding Fed policy, they now discount a 64% probability of a Fed rate cut by December. The US 10yr yield fell through the lower bound of the 2.5%-2.79% trading range, continuing the downward trend since the beginning of March. The previous support now serves as resistance which is tested. On the downside, next support levels are the 2.3% area (intermediate) and 2% zone (key). The German 10-yr fell to negative levels again, the first time since October 2016. The downtrend remains in place with the all-time low (-0.2%) in sight.



message early March

US 10-yr yield bounces back to test previous support levels



Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1233	0,0029
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8535	0,0003
S1	0,8500	
S2	0,8314	

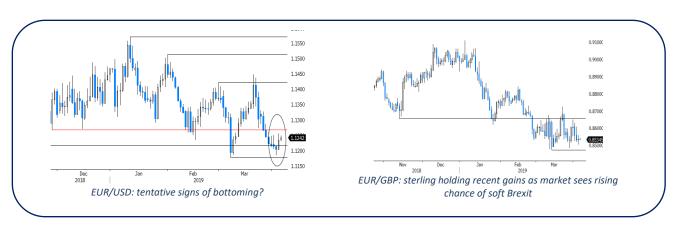
EUR/USD driting higher off 1.1187/77 support

The recent USD up-leg ran into resistance yesterday and fortunes changed in favour of the euro. On Tuesday, the dollar came close to important technical resistance (DXY 97.50/75 area). EUR/USD had dropped to close to the 1.1177/87 support. At least yesterday, there was **no trigger for the USD to break beyond these levels.** At the same time, the euro was supported by a positive risk sentiment. EMU services PMI's also printed stronger than expected. Especially positive surprises from Italy and Spain provided some comfort. US data (ADP/non-manuf. ISM) were softer than expected, but had limited impact. EUR/USD rebounded off the 1.12 area to close at 1.1233. USD/JPY gains (close at 111.49) were modest given the rise in core yields and a positive risk sentiment.

Overnight, the risk rally is taking a breather. Investors await concrete progress in the US China trade talks. Asian equities show limited losses with China outperforming. Core yields show no clear trend after recent rise. The TW USD (DXY) is losing a few ticks (low 97 area). EUR/USD trades near 1.1245. Today, markets will be keen to see whether German February orders finally shows some signs of bottoming. If so, it might be a slightly euro supportive. The US calendar only contains the challenger job cuts and the jobless claims. So, USD trading might be order driven and technical in nature ahead of tomorrow's US payrolls. Headlines on the trade talks remain a wildcard.

Early this week, EUR/USD came close to the 1.1177/87 support, but a real test/break didn't occur. The jury is still out, but this week's price action suggests this support won't give away that easily. For that to happen, unexpected additional negative EMU news or surprisingly strong US data are probably needed. Recent data evidence doesn't support this scenario. A constructive risk sentiment/positive headlines on trade might be a euro supportive too. We keep the view that a sustained EUR/USD decline will not be that evident as we don't expect the Fed to leave its wait-and-see bias anytime soon.

EUR/GBP showed no clear trend yesterday. The pair mostly hovered in the lower half of the 0.85 big figure. Later yesterday, the House of commons approved a bill make a no-deal Brexit legally impossible. From here, markets will watch the talks between UK PM May and labour leader Corbyn. They might lead to a soft Brexit, but it is still highly uncertain how PM May will handle opposition in her own Party. We don't preposition for further sustained sterling gains at this stage.





Calendar

Thursday, 4 April		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Mar)		117.2%
14:30	Initial Jobless Claims	215k	211k
14:30	Continuing Claims	1750k	1756k
Germany			
08:00	Factory Orders MoM/WDA YoY (Feb)	0.3%/-3.1%	-2.6%/-3.9%
09:30	Markit Germany Construction PMI (Mar)		54.7
Events			
13:30	ECB Publishes Account of March Meeting		
19:00	Fed's Mester Speaks at Banking Conference (non-voter)		
19:00	Fed's Harker Speaks on the Economic Outlook (non-voter)		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,52	0,05		US	2,33	0,03	DOW	26218,13	39,00
DE	0,01	0,06		DE	-0,58	0,03	NASDAQ	7895,553	46,86
BE	0,49	0,04		BE	-0,49	0,02	NIKKEI	21724,95	11,74
UK	1,10	0,09		UK	0,71	0,07	DAX	11954,4	199,61
JP	-0,04	0,00		JP	-0,15	0,00	DJ euro-50	3435,56	39,86
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3у	-0,13	2,38	1,05	Eonia	-0,3680	-0,0010			
5у	0,05	2,37	1,14	Euribor-1	-0,3670	0,0000	Libor-1	2,4794	0,0000
10y	0,53	2,50	1,30	Euribor-3	-0,3100	0,0010	Libor-3	2,6024	0,0000
				Euribor-6	-0,2300	0,0000	Libor-6	2,6506	0,0000
Currencies	Close	<u>-1d</u>		Currencies	Close	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1233	0,0029		EUR/JPY	125,23	0,50	CRB	186,85	0,48
USD/JPY	111,49	0,17		EUR/GBP	0,8535	0,0003	Gold	1295,30	-0,10
GBP/USD	1,3158	0,0030		EUR/CHF	1,1213	0,0030	Brent	69,31	-0,06
AUD/USD	0,7113	0,0042		EUR/SEK	10,4125	-0,0387			
USD/CAD	1,3345	0,0008		EUR/NOK	9,631	-0,0073			



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