

Monday, 09 September 2019

Rates: Over to the ECB...

Thursday's profit taking move on core bond markets already ended on Friday. Mixed US payrolls and a speech by Fed chair Powell had no big impact. Powell did nothing to alter market expectations of a September rate cut. The eco calendar is extremely thin between today and Thursday's ECB meeting, leaving sentiment to guide trading.

Currencies: Payrolls and Powell fail to guide USD trading

The dollar gained marginally last Friday on mixed US payrolls and as Fed's Powell suggested room for further pre-emptive, but cautious Fed easing. At the start of this week, the euro will probably trade with a cautious bias ahead of Thursday's ECB meeting. Recent sterling rebound is running into resistance as political uncertainty in the UK remains elevated.

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	→

- **Wall Street** finished a choppy trade session mixed last Friday. The Dow Jones (+0.26%) outperformed. Most **Asian markets** eke out gains this morning. China (up to 1%) outperforms after it's central bank eased policy further last week.
- Fed's Powell said the US outlook remains favourable but sees significant risks looming. **He reiterated the central bank will act appropriately to sustain the expansion** and to not let inflation fall too far below target.
- UK PM Johnson's hardline strategy took another toll on its government with **Amber Rudd quitting her job over the weekend**. Meanwhile, Foreign Secretary Raab said **Johnson might challenge the no-deal legislation, if passed**.
- **Saudi Arabia replaced its energy minister**, a key player in the oil industry, al-Falih with Prince bin Salman, son of King Salman. The move breaks convention that ruling family members are not appointed. Oil rises about 1% (Brent \$62/b).
- **President Erdogan "believes" the central bank will cut rates this Thursday**. He added on Friday that the rate is headed towards single digits soon after which inflation will also slow to single digits. EUR/TRY held steady at around 6.3.
- After defying stock caps under the nuclear 2015 deal, **Teheran also announced it will no longer abide by the limits imposed on uranium enrichment**, adding further pressure on the EU to ease US/Iranian tensions.
- **Today's economic calendar** eyes rather meagre with no important data scheduled for release in the US or EMU. Industrial data in the UK is worth watching however.

Rates

Over to the ECB...

	US yield	-1d
2	1.54	0.01
5	1.43	0.01
10	1.56	0.00
30	2.03	-0.02

	DE yield	-1d
2	-0.87	0.00
5	-0.88	-0.02
10	-0.64	-0.04
30	-0.08	-0.07

Global core bonds ended higher last Friday with German Bunds outperforming US Treasuries. Thursday's violent profit taking on core bonds (more neutral positioning going into ECB/Fed meetings) didn't continue. Mixed US payrolls called off the downside alert. Fed Chair Powell in a speech in US trading did nothing to alter current market expectations of a September rate cut. The US yield curve flattened with daily changes ranging between +1.5 bps (2-yr) and -2.4 bps (30-yr). The German yield curve bull flattened with yields declining up to 7.3 bps (30-yr). Both the German 10-yr and 30-yr yield failed to close the week above first minor resistance, respectively at -0.61% and 0%. 10-yr yield spreads vs Germany narrowed by up to 2 bps with Greece underperforming (+5 bps).

Most Asian stock markets are in positive territory this morning with Japan and China outperforming. Core bonds trade listless. Eco/event news is thin apart from and unexpected contraction in China's exports in August.

Today's eco calendar is razor thin with only German trade data. Things don't improve on this front tomorrow and on Wednesday, leaving a void between now and Thursday's ECB meeting. Market sentiment will be responsible for intraday gyrations, but probably won't cause technically relevant moves. The US Treasury's mid-month refinancing operation is an exception to the rule which could cause some underperformance of US Treasuries vs German Bunds.

Regarding the ECB meeting, we expect President Draghi to deliver on his July "promise" to ease monetary policy. More specifically we expect a 10 bps deposit rate cut, possible with a tiered system, and an extension of current forward guidance to keep rates lower for longer. The money market is currently split on whether the ECB cut will be one by 10 bps (55%) or by 20 bps (45%). Some analysts expect the ECB to engage into a new asset purchase program as well, but that's not our base scenario. Overall, we think it might be hard for Draghi to deliver on very dovish market expectations. Recent ECB speeches suggest growing consciousness within the central bank about negative side-effects from additional easing.

September ECB (12) and Fed (18) meetings will probably lock/shape policy for several months ahead. The German 10-yr yield last week tried to return above first minor resistance (-0.61%), but a sustained break higher, necessary to call off the downside alert, didn't occur. Similar resistance for the US 10-yr yield kicks in around 1.6%. On the downside, key levels are 1.44% and 1.32% (all-time low).



German 10-yr yield tested all time low again. Return above -0.61% necessary to call off downside alert.



US 10-yr yield: range trading between 1.44% and 1.6%

Currencies

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1029	-0.0006
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8979	0.0032
S1	0.8500	
S2	0.8314	

Payrolls fail to guide USD trading

The dollar showed no clear trend on Friday. Thursday's rise in core yields was partially reversed with EMU yields declining more than US ones, putting modest pressure on euro ahead of the US payrolls. The labour report was mixed, but OK. Still, the dollar lost temporarily ground after the release, but rebounded later as Fed's Powell downplayed the risk for a US recession. At the same time, he kept the door open for another pre-emptive rate cut in September. EUR/USD finished the day at marginally lower at 1.1029. USD/JPY closed little changed at 106.92.

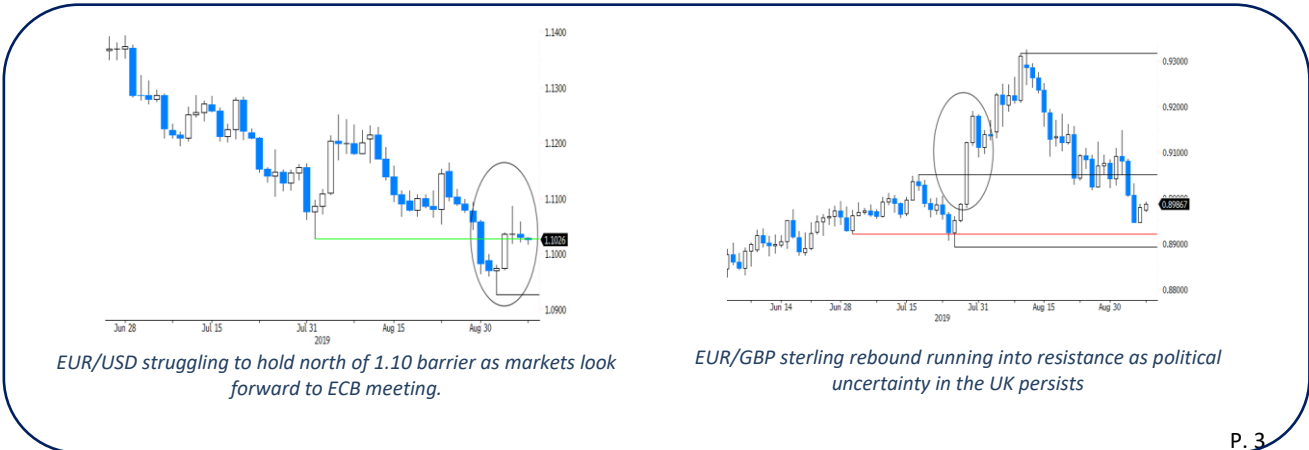
Overnight, Asian equity markets mostly trade in positive territory as the PBOC reduced the RRR last week. At the same time, China August trade data disappointed (both imports and exports). Still the yuan is trading off its recent lows (USD/CNY 7.1240). USD/JPY hovers near/just below 107. EUR/USD is going nowhere 1.1025/30 area.

There are few important data in the US and Europe **today**. The eco calendar is **mostly backloaded this week** with the US CPI and the **ECB policy decision** on Thursday. US retail sales and consumer confidence will be published on Friday. The market expects substantial ECB easing (at least rate cut). **The euro will probably stay in the defensive going into Thursday's ECB decision**. However, we are not convinced that Draghi will be able to provide the high amount stimulus some in the market are hoping for.

The August USD rally halted early last week on poor US manufacturing data. EUR/USD regained the 1.10 mark. We expect technical, euro cautious trading ahead of the ECB meeting. The euro might regain some further ground if the ECB doesn't deliver on high expectations and/or if the market feels that the bank has only limited ammunition left. From a technical point of view, EUR/USD **shows tentative signs of bottoming**. A return north of 1.11 would call off the ST negative alert for EUR/USD.

The recent sterling rebound halted last Friday. The UK Parliament last week blocked a no deal Brexit. However, the next steps in the political (Brexit) process remain highly uncertain (elections? When?). Ongoing talks with the EU apparently also don't yield much progress.

Last week, sterling rebounded to the EUR/GBP mid 0.89 area. **This sterling rebound might slow if/as long the political chaos in the UK persists**. Some return action back higher north of EUR/GBP 0.90 might be on the cards short-term.



EUR/USD struggling to hold north of 1.10 barrier as markets look forward to ECB meeting.

EUR/GBP sterling rebound running into resistance as political uncertainty in the UK persists

Calendar

Monday, 9 September		Consensus	Previous
Japan			
01:50	BoP Current Account Adjusted (Jul)	¥1647.1bA	¥1941.9b
01:50	GDP SA QoQ (2Q F)	0.30%A	0.40%
01:50	GDP Annualized SA QoQ (2Q F)	1.30%A	1.80%
07:00	Eco Watchers Survey Current/Outlook SA (Aug)	41.3/43.6	41.2
UK			
10:30	Monthly GDP (3M/3M) (Jul)	-0.10%	-0.20%
10:30	Monthly GDP (MoM) (Jul)	0.10%	0.00%
10:30	Industrial Production MoM/YoY (Jul)	-0.30%/-1.10%	-0.10%/-0.60%
10:30	Manufacturing Production MoM/YoY (Jul)	-0.30%/-1.20%	-0.20%/-1.40%
10:30	Construction Output MoM/YoY (Jul)	0.20%/0.10%	-0.70%/-0.20%
10:30	Index of Services MoM/3M-3M (Jul)	0.10%/0.10%	0.00%/0.10%
EMU			
10:30	Sentix Investor Confidence (Sep)	-13.4	-13.7
Germany			
08:00	Trade Balance (Jul)	17.4bR	16.6bR
08:00	Current Account Balance (Jul)	16.4b	20.6b
08:00	Exports/Imports SA MoM (Jul)	-0.50%/-0.30%	-0.10%/0.70%R
France			
08:30	Bank of France Ind. Sentiment (Aug)	96	95
Belgium			
06SEP-20SEP	Budget Balance YTD (Aug)	--	-3.635b
China			
09SEP-15SEP	Money Supply M2 YoY (Aug)	8.20%	8.10%
Norway			
08:00	GDP (MoM) (Jul)	--	-0.20%
08:00	GDP Mainland (MoM) (Jul)	0.30%	0.20%
Events			
10:00	BOE's Vlieghe Speaks in London		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.56	0.00		US	1.54	0.01		DOW	26797.46	69.31
DE	-0.64	-0.04		DE	-0.87	0.00		NASDAQ	8103.074	-13.75
BE	-0.29	-0.05		BE	-0.77	0.00		NIKKEI	21318.42	118.85
UK	0.51	-0.09		UK	0.39	-0.05		DAX	12191.73	64.95
JP	-0.26	-0.02		JP	-0.31	-0.02		DJ euro-50	3495.19	10.49
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.53	1.42	0.65	Eonia	-0.3620	-0.0020				
5y	-0.49	1.37	0.62	Euribor-1	-0.4520	-0.0090		Libor-1	2.0490	0.0069
10y	-0.21	1.45	0.64	Euribor-3	-0.4370	0.0040		Libor-3	2.1341	0.0320
				Euribor-6	-0.4230	0.0080		Libor-6	2.0341	0.0456
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1029	-0.0006		EUR/JPY	117.89	-0.12		CRB	172.62	0.28
USD/JPY	106.92	-0.02		EUR/GBP	0.8979	0.0032		Gold	1515.50	-10.00
GBP/USD	1.2283	-0.0051		EUR/CHF	1.0892	0.0012		Brent	61.54	0.59
AUD/USD	0.6846	0.0031		EUR/SEK	10.6393	-0.0519				
USD/CAD	1.3173	-0.0057		EUR/NOK	9.8987	-0.0425				

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