Friday, 15 November 2019

Rates: Solid US eco data to put and end to corrective bond gains?

The technical and sentiment-driven corrective action higher in core bond markets shows signs of ending this morning. Latest trade news is again more positive. Today's batch of US eco data is expected to solidify the hypothesis that US eco data won't deteriorate further and strengthen the Fed's case to stop cutting policy rates.

Currencies: EUR/USD shows tentative signs of bottoming

The EUR/USD decline finally halted yesterday. The move mainly occurred on a further decline in US yields rather than on 'positive' EMU eco news. Headlines on trade will remain an important factor for global FX trading. US eco data might come out rather positive, but we assume that a big positive surprise is needed to trigger sustained further USD gains.

Calendar

Headlines

- **WS** closed little changed yesterday (up to 0.08%) after a bag of mixed economic data left investors struggling for direction. **Asian markets** are benefiting from renewed trade truce optimism. Australia outperforms (+0.87%).
- **WH economic advisor Larry Kudlow said US-China negotiations over the first phase of a trade deal were coming down do the final stages** with the two sides in close touch, reviving hopes that the trade war may near an end.
- **The NY Fed announced plans to conduct longer-term repo operations** of 28 and 42 days in the coming month. The central bank thereby aims to mitigate year-end market risks.
- **China's central bank** caught markets off guard today by **injecting 200bn yuan through its medium-term lending facility.** The PBOC's liquidity boost is aimed at helping lenders through the tax season amid tighter money market conditions.
- **The intensifying violence in HK is seeping through its currency and money markets** as traders bet the currency's resilience won't last. Liquidity in the FX market is the tightest since the late 1990s and interbank rates are climbing.
- **BoC governor Poloz said yesterday he believed that technological advances are boosting productivity.** Signs are already emerging in labour market data with unemployment at record lows and wage inflation picking up nicely.
- In **today's economic calendar** all eyes will be on US eco data. Investors will gauge whether the consumers still manage to underpin what marks the longest expansion in US history. Final EMU inflation data will be published.

Rates

Solid US eco data to end corrective bond gains?

Yesterday's trading session on core bond markets resembled the one on Monday. **Risk sentiment on stock markets continues to be hesitant with main indices having trouble to reach fresh highs on a daily basis the way they did in October/early November. Add the fact that both the German (-0.25%) and US 10-yr yield (1.94%) failed to take out resistance levels and the two-day corrective bull steepening is a fact. There's nothing better-than-expected German Q3 GDP data (0.1% Q/Q; avoided technical recession) could do to change that.** German yields fell by 1.7 bps (2-yr) to 6.6 bps (30-yr) on a daily basis. Changes on the US yield curve varied between -4.5 bps (2-yr) and -6.7 bps (30-yr). Peripheral yield spreads vs Germany widened rather significantly for a second straight session: Italy (+13 bps), Greece (+11 bps), Portugal (+7 bps) and Spain (+6 bps). Asian stock markets gain up to 1% this morning with China (-0.5%) underperforming. **The German Bund and US Note future lose ground. Moves in Japanese government bonds also suggest an end to the correction of past days.** Most recent US-Sino trade comments were more upbeat with White House economic advisor Kudlow saying that negotiations were coming down to the final stages.

Today's eco calendar heats up in the US with October retail sales, October industrial production and the November Empire Manufacturing Survey. Retail sales will hijack most attention. Consensus expects 0.2% M/M growth in the headline number, which might be overrated because of dwindling car sales. However, the report should be able to pass the 0.3% M/M consensus bar for the core reading following flat growth in September. **Overall, we believe that US eco data should underpin the hypothesis that US economic data will start to recover and the Fed's case that three rate cuts are sufficient. It should help put and end to core bond's corrective rally.** Risk sentiment on stock markets remains a wildcard. Our base scenario still expects phase one of the US-Sino trade deal to be sealed before the end of the year.

Technically, the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. The German 10-yr yield broke above -0.41% resistance as geopolitical uncertainty diminished, improving the technical picture. **Targets of this double bottom formation are -0.25% and -0.13%.** The 38% retracement level of the Oct-Aug decline stands at -0.24%. **The US 10-yr yield trades in the 1.43%-1.94% sideways trading channel. Recent tests to take out 1.94% failed, causing corrective return action lower.**

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

US 10-yr yield: first tests of upper bound of sideways trading range between 1.43% and 1.94% failed.

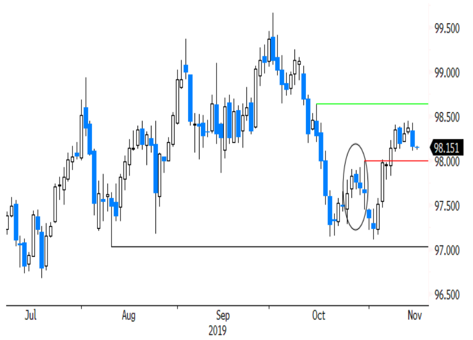
Currencies

Tentative signs of EUR/USD bottoming?

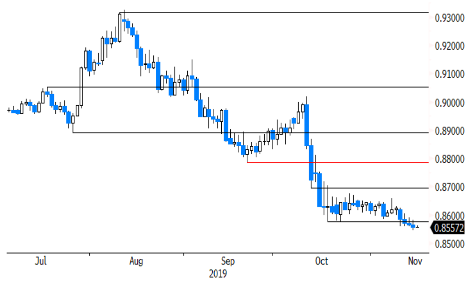
There was still no dominant theme to guide global (FX) trading yesterday. Uncertainty on the content and the timing of a US-China trade deal kept investors in a wait-and-see mode. Germany avoided a recession in Q3, but that wasn't enough to propel the euro. US data (PPI higher, jobless claims also higher) were mixed. **A further decline in US yields finally took some shine off the dollar.** EUR/USD bottomed and closed at 1.1022. USD/JPY also eased further to end the day at 108.42.

This morning, Asian equities are in better shape as White House advisor Larry Kudlow sounded optimistic on US-China trade talks. USD/JPY (108.60 area) is rebounding. EUR/USD (1.1020 area) tries to maintain yesterday's late session rebound. The yuan gains a few ticks (USD/CNY 7.0150 area). **The Canadian dollar** (USD/CAD 1.3225 area) also regains some ground after recent setback on comments by BoC governor Poloz that Canada wage inflation now exceeds 4%. **Today,** headlines on trade remain a source of potential volatility and might push global sentiment in either direction. Regarding the data, **the focus is on US retail sales** and, to a lesser extent, on the Empire manufacturing index and US production. We see expectations for (core) sales as reachable. However, a big surprise is probably needed for the US data to affect the dollar in a lasting way. **Recently, a correction on the global reflation trade supported the haven currencies like the yen, but also the dollar. At the same time, EMU data didn't convince euro bulls.** The October EUR/USD rally met resistance near 1.1175 and later dropped below the 1.1073 neckline. The EUR/USD picture remains unconvincing, but targets of the ST double top are nearby (1.0967). Yesterday, there were **first tentative signs of a bottoming out process.** However, further confirmation is needed. Even so, the broader USD rally also shows signs of topping out.

Yesterday, **UK retail sales disappointed,** but as was most often the case of late, the data had no lasting impact on sterling trading. Markets still assume a victory of Boris Johnson's Conservative party as the most likely outcome of next month's election. This is keeping the pound well supported. More EUR/GBP trading near current levels is likely as long as expectations on the election out persist. That being said, quite some good news is discounted already for sterling at current levels.



USD (trade-weighted -DXY) rebound running into resistance..



EUR/GBP: sterling stays well bid as Conservative party stays in pole position for election win

Calendar

Friday, 15 November		Consensus	Previous
US			
14:30	**Empire Manufacturing (Nov)**	**6**	**4**
14:30	Import Price Index MoM/YoY (Oct)	-0.20%/-2.20%	0.20%/-1.60%
14:30	Import Price Index ex Petroleum MoM (Oct)	0.00%	-0.10%
14:30	Export Price Index MoM/YoY (Oct)	-0.10%/--	-0.20%/-1.60%
14:30	Retail Sales Advance MoM (Oct)	0.20%	-0.30%
14:30	Retail Sales Ex Auto MoM (Oct)	0.40%	-0.10%
14:30	Retail Sales Ex Auto and Gas (Oct)	0.30%	0.00%
14:30	**Retail Sales Control Group (Oct)**	**0.30%**	**0.00%**
15:15	Industrial Production MoM (Oct)	-0.40%	-0.40%
15:15	Manufacturing (SIC) Production (Oct)	-0.70%	-0.50%
15:15	Capacity Utilization (Oct)	77.0%	77.50%
16:00	Business Inventories (Sep)	0.10%	0.00%
EMU			
11:00	CPI MoM/YoY (Oct F)	0.20%/0.70%	0.20%/0.70%
11:00	CPI Core YoY (Oct F)	1.10%	1.10%
Events			
09:00	ECB's Mersch Speaks at Event in Paris		
10:00	Bank of Portugal's Costa, Trichet, Praet Speak in Lisbon		
18:00	Bundesbank President Weidmann Speaks in Frankfurt		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.82	-0.07		US	1.59	-0.04	DOW	27781.96	-1.63
DE	-0.35	-0.05		DE	-0.64	-0.02	NASDAQ	8479.018	-3.08
BE	-0.03	-0.03		BE	-0.62	-0.01	NIKKEI	23303.32	161.77
UK	0.71	-0.05		UK	0.53	-0.03	DAX	13180.23	-49.84
JP	-0.07	0.00		JP	-0.19	0.01	DJ euro-50	3688.81	-10.69
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.32	1.59	0.77	Eonia	-0.4460	0.0000			
5y	-0.23	1.59	0.80	Euribor-1	-0.4550	0.0080	Libor-1	1.7654	0.0000
10y	0.06	1.72	0.90	Euribor-3	-0.3990	0.0030	Libor-3	1.9099	0.0000
				Euribor-6	-0.3300	0.0060	Libor-6	1.9223	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1022	0.0015		EUR/JPY	119.49	-0.29	CRB	180.09	-0.22
USD/JPY	108.42	-0.40		EUR/GBP	0.8556	-0.0009	Gold	1473.40	10.10
GBP/USD	1.2882	0.0031		EUR/CHF	1.0890	-0.0007	Brent	62.28	-0.09
AUD/USD	0.6786	-0.0052		EUR/SEK	10.672	-0.0380			
USD/CAD	1.3248	-0.0003		EUR/NOK	10.0999	-0.0097			

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