

**Wednesday, 04 September 2019**

### Rates: US Treasuries profit from sub-50 ISM

US Treasuries significantly outperformed German Bunds in the wake of a very weak US manufacturing ISM. The German 10-yr yield tested the all-time low, but a break didn't occur. The eco calendar is thin, but ECB/Fed speakers are queuing up. The Beige Book will be scrutinized for more signs of (manufacturing) weakness. US Treasuries have more room to outperform.

### Currencies: Dollar rally blocked as trade war also hurts US production sector

The dollar initially continued to profit from global uncertainty yesterday, but the US currency lost its shine as the manufacturing ISM indicated that the trade war is reaching the US production sector, too. Interest rate differentials narrowed in the disadvantage of the dollar, but a sustained EUR/USD comeback remains difficult ahead of the ECB.

### 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	→

- **US equities** lost around 1% (DJI, Nasdaq) after the manufacturing ISM fell below 50 in August. **Asian markets** are performing well with better than expected Chinese PMI's softening the US fallout.
- **US manufacturing ISM slipped below the 50 boom/bust mark in August** (49.1), the lowest since January '16. New (export, 43.3) orders (47.2) slumped at the fastest rate since April '09. Employment (47.4) declined to March '16 levels.
- **British MP's with support of Tory rebels voted yesterday to seize control of the legislative agenda today.** They will try to push through legislation to block a no-deal. Johnson threatened to call for immediate elections if MP's persisted.
- **Australia grew 0.5% QoQ in Q2**, matching an upwardly revised Q1. The data comes after the RBA left rates unchanged yesterday and turned more optimistic about future growth. The Aussie dollar gains (AUD/USD 0.678).
- **Italy is set to form its next government** after 80% of 5SM supporters backed Conte as PM. Conte will bring a list of ministers and the government program to president Mattarella today. The government could be sworn in later this week.
- **The Argentine peso surged over the past two days.** The government imposed currency controls and authorized the central bank to restrict dollar purchases to halt the currency slide. USD/ARS is trading at 55.35 vs. 59.5 last Friday.
- **Today's economic calendar** doesn't contain a lot of data but an avalanche of ECB, Fed and BoE speeches is bound to trigger some volatility. The US Fed also releases its Beige Book. Germany taps the bond market.

# Rates

## US Treasuries gain on weak manufacturing ISM

	US yield	-1d
2	1.45	-0.05
5	1.34	-0.06
10	1.46	0.02
30	1.97	-0.01

	DE yield	-1d
2	-0.91	0.02
5	-0.92	0.02
10	-0.71	0.00
30	-0.19	-0.03

**US Treasuries outperformed German Bunds yesterday. Both initially enjoyed support from a rally in UK Gilts.** An increased probability of snap elections in the UK generated the safe haven flows. **The Bund topped off after a test of the record high (-0.73% low for the German 10-yr yield)** and returned towards opening levels. US Treasuries received an additional push in the back from a **weak August Manufacturing ISM** which dropped below the 50 boom/bust mark for the first time since February 2016. US yields fell by 5.7 bps (5-yr) to 1.1 bp (30-yr) in a daily perspective. The German yield curve flattened with yield changes ranging between +1.5 bps (2-yr) and -2.9 bps (30-yr). 10-yr yield spreads changes vs Germany were very small with **Italy (-9 bps) outperforming** as more progress was made for setting up the PD-5SM coalition led by PM Conte. 5SM members eventually ratified the proposal in an online poll. Conte will today report back to President Mattarella. At current levels, we believe that quite some positive Italian news is already discounted in BTP's.

Most Asian stock markets record gains this morning despite weakness on WS (-1%) yesterday. **The Chinese Caixin services PMI (52.1 from 51.6) rose more than expected in August. Developments in the UK (see below) also benefit risk sentiment.** Core bonds trade a tad softer. Two voting Fed members reiterated their, opposite, calls for the September FOMC meeting. **Boston Fed Rosengren** thinks that there is no need for immediate action while **St. Louis Fed Bullard** prefers to proceed with a 50 bps rate cut.

Today's eco calendar contains final EMU services PMI's and EMU retail sales. They won't impact trading. **An avalanche of Fed and ECB members** is scheduled to speak. Some Fed governors recently argued against cutting policy rates further, but we think they're still a minority. **ECB members seem to rule out additional asset purchases in September.** Cutting deposit rates further (in a tiered system) seems to be the more likely option. **The Fed's Beige Book**, preparatory document for the September meeting will be interesting after yesterday's weak ISM. Will Fed districts give more details about a US slowdown? **US Treasuries have more room to outperform German Bunds.**

**We hold our view that one of two things is necessary to end the upleg in core bonds: a sustained improvement in eco data and/or clarity on future EMU/US monetary policy.** September ECB (12) and Fed (18) meetings will probably lock/shape policy for several months ahead. **Markets expect (at least) rate cuts from both.** The German 10-yr yield last & this week tested the all-time low (-0.73%). A return above first minor resistance (-0.61%) is necessary to call off the downside alert. Similar resistance for the US 10-yr yield kicks in around 1.6%. On the downside, key levels are 1.44% (2019 low) and 1.32% (all-time low).



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

Italian/German 10-yr yield spread: sufficient positive Italian political news discounted?

# Currencies

R2	1.1533	-1d
R1	1.1448	
<b>EUR/USD</b>	1.0974	0.0004
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
<b>EUR/GBP</b>	0.9082	-0.0010
S1	0.8500	
S2	0.8314	

## Dollar rally blocked by poor US ISM

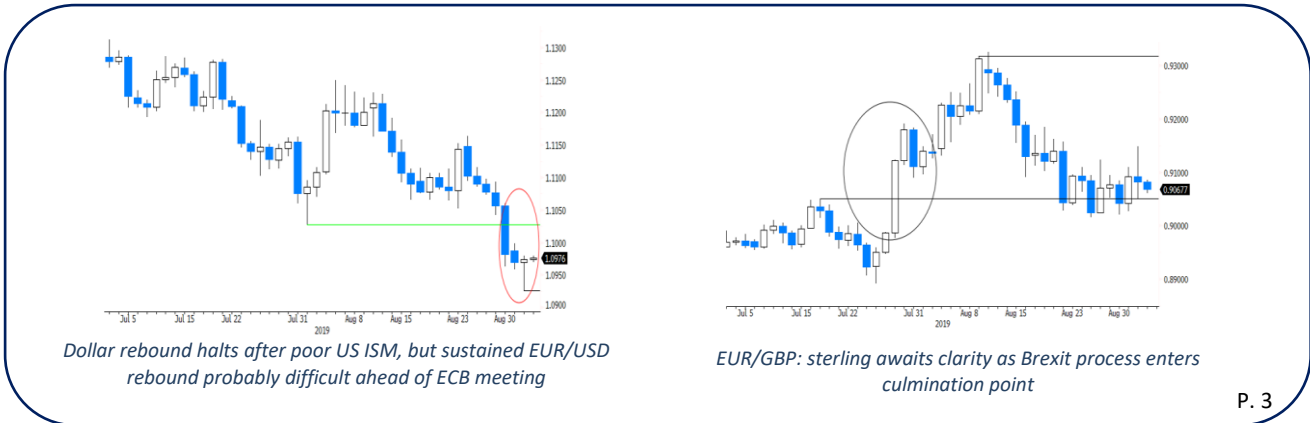
'By default USD strength' initially prevailed yesterday. Persistent uncertainty on the US-China trade conflict and the Brexit crisis coming to a culmination point pushed UK and EMU yields to new lows. EUR/USD dropped further in the 1.09 big figure. **The US manufacturing ISM changed fortunes for the dollar.** The headline figure dropped below the 50 boom-or-bust level. Details also showed that the trade war is hurting US production. US yields and the dollar declined. EUR/USD finished at 1.0974 (from 1.0970). USD/JPY closed below the 106 handle.

**Asian equities** are trading mixed to slightly higher, despite a poor performance in the US yesterday. The China Caixin services PMI printed better than expected. The yuan regains some ground (USD/CNY 7.1650 area). EUR/USD stabilizes in the 1.0975 area. **Australian Q2 GDP** printed as expected (0.4% Q/Q). The report eased fears of a sharper slowdown. The Aussie dollar extends yesterday's rebound (AUD/USD 0.6775).

The final EMU PMI's and the US trade balance will be published today. Several Fed policy makers are scheduled to speak. We don't expect them to overthrow expectations for a 25 bp September rate cut. Brexit remains a source of volatility for the euro.

The USD rally was blocked yesterday after a poor US ISM. EUR/USD rebounded, but is still holding below 1.1027 previous support. US yields recently declined more on bad news than German/EMU ones. We look out whether this continues and whether it slows the USD's rise. That said, **the technical EUR/USD picture stays fragile** and a real euro comeback is not evident before next week's ECB decision. EUR/USD 1.0821/1.0778 (gap April 2017) remains next technical support.

**Sterling and UK yields nosedived yesterday morning** as the Brexit crisis reached a culmination point with a first key vote to block Johnson's no-deal Brexit approach. However, sterling already reversed most of the intraday loss before the vote. Parliament is likely to formally block a no-deal Brexit today. **Will this result in fresh elections?** For sterling, we yesterday took the approach that **quite some bad news is already discounted.** For further sterling losses, we probably need a scenario in which the UK is heading to a chaotic Brexit. As long as this isn't 'sure', **we stay cautious to engage in 'last minute' sterling shorts.**



# Calendar

Wednesday, 4 September		Consensus	Previous
<b>US</b>			
	Wards Total Vehicle Sales (Aug)	16.80m	16.82m
13:00	MBA Mortgage Applications	--	-6.20%
14:30	Trade Balance (Jul)	-\$53.4b	-\$55.2b
<b>Canada</b>			
16:00	<b>Bank of Canada Rate Decision</b>	<b>1.75%</b>	<b>1.75%</b>
<b>UK</b>			
10:30	<b>Markit/CIPS UK Services PMI (Aug)</b>	<b>51</b>	<b>51.4</b>
10:30	Markit/CIPS UK Composite PMI (Aug)	50.5	50.7
<b>EMU</b>			
10:00	Markit Eurozone Services PMI (Aug F)	53.4	53.4
10:00	Markit Eurozone Composite PMI (Aug F)	51.8	51.8
11:00	Retail Sales MoM/YoY (Jul)	-0.60%/2.0%	1.10%/2.60%
<b>Italy</b>			
09:45	Markit Italy Services PMI (Aug)	51.6	51.7
09:45	Markit Italy Composite PMI (Aug)	50.6	51
<b>China</b>			
03:45	Caixin China PMI Composite (Aug)	51.9	50.9
03:45	<b>Caixin China PMI Services (Aug)</b>	<b>52.1</b>	<b>51.6</b>
<b>Spain</b>			
09:15	Markit Spain Services PMI (Aug)	53.0	52.9
09:15	Markit Spain Composite PMI (Aug)	52.0	51.7
<b>Sweden</b>			
08:30	Swedbank/Silf PMI Services (Aug)	--	52.3
08:30	Swedbank/Silf PMI Composite (Aug)	--	52.2
<b>Events</b>			
04SEP	US-China Economic and Security Review Commission to report on US/Sino relations		
11:30	Germany to Sell 3 Billion Euros of 0% 2024 Bonds		
09:00	SSM's Enria Attends Hearing at European Parliament in Brussels		
10:30	<b>ECB Presidential Nominee Lagarde Attends Hearing in Brussels</b>		
13:00	<b>ECB's Lane Speaks in London</b>		
15:15	<b>BoE's Carney, Haldane, Haskel and Vlieghe Speak in Parliament</b>		
15:25	<b>Fed's Williams Speaks in New York (voter)</b>		
16:00	<b>Fed's Kaplan Speaks at Economic Forum in Toronto (non-voter)</b>		
16:00	<b>ECB's Mersch Attends Hearing at European Parliament, Brussels</b>		
18:30	<b>ECB's Guindos Speaks in Frankfurt</b>		
18:30	Fed's Bowman, Bullard Address 'Fed Listens' Event in St. Louis (voters)		
19:00	Fed's Kashkari Speaks in Townhall Event in Minneapolis (non-voter)		
20:00	<b>U.S. Federal Reserve Releases Beige Book</b>		
21:15	<b>Fed's Evans Speaks at Event on North American Trade (voter)</b>		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.46	0.02		US	1.45	-0.05		DOW	26118.02	-285.26
DE	-0.71	0.00		DE	-0.91	0.02		NASDAQ	7874.159	-88.72
BE	-0.35	0.00		BE	-0.81	0.01		NIKKEI	20649.14	23.98
UK	0.41	-0.01		UK	0.33	0.00		DAX	11910.86	-42.92
JP	-0.29	0.00		JP	-0.30	-0.01		DJ euro-50	3420.74	-11.80
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.58	1.33	0.56	Eonia	-0.3630	-0.0010		Libor-1	2.0819	0.0000
5y	-0.53	1.26	0.53	Euribor-1	-0.4350	-0.0080		Libor-3	2.1328	0.0000
10y	-0.28	1.34	0.55	Euribor-3	-0.4480	-0.0120		Libor-6	2.0240	0.0000
				Euribor-6	-0.4480	-0.0090				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.0974	0.0004		EUR/JPY	116.26	-0.27		CRB	169.19	-1.17
USD/JPY	105.94	-0.30		EUR/GBP	0.9082	-0.0010		Gold	1555.90	26.50
GBP/USD	1.2081	0.0015		EUR/CHF	1.0830	-0.0036		Brent	58.26	-0.40
AUD/USD	0.676	0.0044		EUR/SEK	10.7779	-0.0034				
USD/CAD	1.3337	0.0011		EUR/NOK	9.9881	0.0034				

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