



Sunrise

Friday, 08 November 2019

Rates: US 10-yr yield tests 1.94% resistance

Core bonds slid from start to finish yesterday as China and the US agree to rollback tariffs if a phase one trade deal is signed. Yields added up to 10 bps at the long end of the curves. The US 10-yr yield tested 1.94% resistance. Ahead of the long weekend, some investors might take some chips off the table, but we wouldn't buy into any ST core bond comeback.

Currencies: USD profits from rising interest rate support

Over the previous days the dollar outperformed supported by a further rise in US yields. The reflation trade might slow going into the weekend and that might also be the case for the dollar. Even so, the ST picture in the EUR/USD cross rate turned again more neutral as the pair dropped below the 1.1073 neckline. EUR/GBP remains in wait-and-see modus.

Calendar

Headlines



- **WS** hit fresh records on trade hopes and gained up to 0.66% although the risk-on mode abated later in the trading session. **Asian markets** are trading mixed, with Singapore underperforming (-0.92%).
- **US and Chinese trade negotiators have agreed to roll back tariffs on each other's goods in phases as key part of any deal.** However, the pact faces resistance from some White House hard-liners, Reuters reported.
- **US jobless claims fell more than expected in October to 211k** (consensus at 215k) from 218k in September. The positive surprise provides another sign that the **resilient labour market continues to underpin the US economy.**
- **Chinese exports fell less than expected (by 0.9%) in October. Imports evidenced weak domestic demand** and contracted for a sixth month straight by 6.4% while **trade with the US frayed and fell 21.5%.**
- **President Trump decided not to impose tariffs on EU cars and auto parts** next week, despite previous threats to do so, according to European Commission President Juncker.
- **Japanese prime minister Abe asked his cabinet to step up fiscal support** and compile a package of stimulus measures to underpin the economy and build infrastructure to cope with large natural disasters.
- In **today's economic calendar** focus will shift to preliminary US consumer sentiment data as investors will gauge whether Americans' spending will continue to support the economy. Canada publishes employment data.

Rates

US 10-yr yield tests 1.94% resistance



Core bonds lost tremendous ground yesterday. Both the German Bund and US Note future slid from start to finish. **Yesterday's main and only story featured a tariff rollback between the US and China if the phase one trade deal is completed.** The first comments came from a Chinese ministry of Commerce spokesman, but White House economic advisor Kudlow later confirmed the advance: *"If there's a phase one trade deal, there are going to be tariff agreements and concessions"*. The more hawkish trade officials in Washington still sound more guarded, but they seem to be a minority. Investors embrace the progress and expect the deal to be signed upon before the end of the year. **US stock markets rallied to fresh all-time records, with European indices also recording multiyear highs.** The German yield curve bear steepened with yields rising by 2.6 bps (2-yr) to 10.8 bps (30-yr). Changes on the US yield curve ranged between +6 bps (2-yr) and +9.9 bps (5-yr). The US 10-yr yield tested 1.94% resistance, but a break higher didn't occur. The US \$19bn 30-yr Bond auction tailed somewhat, but overall demand was in line with average. 10-yr yield spread changes vs Germany ended close to unchanged with Greece (-5 bps) outperforming and Italy (+6 bps) underperforming. Asian stock markets cede slightly ground this morning with Japan outperforming (+0.25%). Core bonds trade slightly off yesterday's intraday sell-off lows. Overnight news flow remains extremely thin. Today's eco calendar remains confined to November University of Michigan consumer confidence. Consensus expects a stabilization at 95.5, but we don't expect the outcome to be crucial for trading. **Risk sentiment on stock markets remains key.** Main US/European indices since mid-October started frontrunning on less geopolitical uncertainty (Brexit & US-Chinese trade talks). On the one hand, quite some good news is already discounted. On the other hand, **we don't see big reasons to be overly cautious.** The US and China can still bring additional good news, by means of a date and location for signing off on their phase 1 trade deal. **The long weekend ahead in the US (Veterans' Day) might cause some to take chips off the table, but we wouldn't buy into any core bond comeback at this stage.**

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, 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. The upper bound is within reach**



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



US 10-yr yield: rising towards upper bound of sideways trading range between 1.43% and 1.94%.

Currencies

Dollar enjoys additional interest rate support



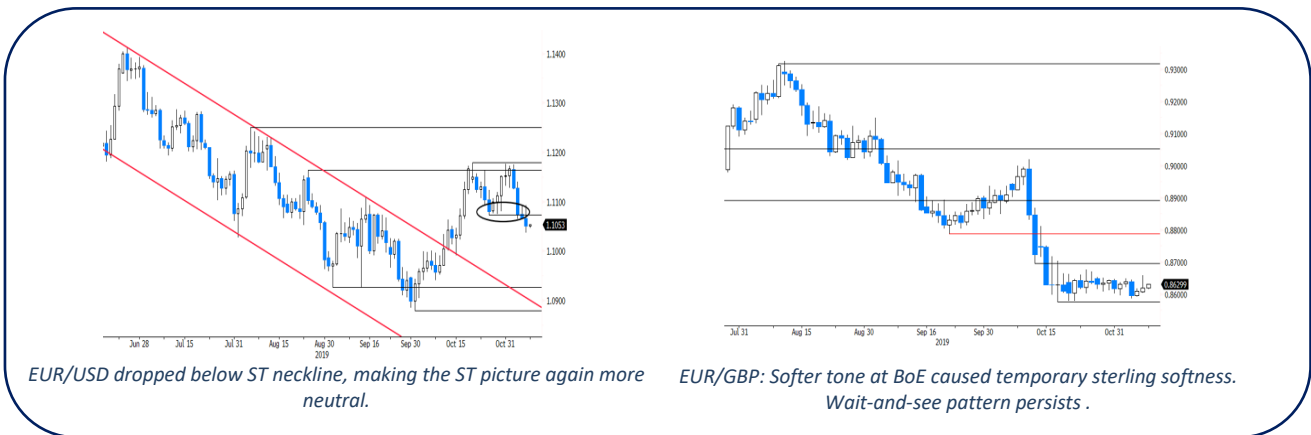
EUR/USD hovered up and down yesterday, but **USD strength finally prevailed**. After some caution in Asia, the risk rally continued as officials confirmed the US and China intended rolling back tariffs in case a partial agreement. EUR/USD initially gained on the optimism, but the rebound stalled soon. The EC further downgrading its EMU outlook was a potential euro negative. US and European yields both rallied further, but **the short-term interest rate differential still widened in favour of the dollar**. EUR/USD dropped from the 1.1090 area to close at 1.1050. USD/JPY rebounded north of 109 to close at 109.28.



This morning, the risk rally looks like running into resistance after substantial gains earlier this week. The rise in global yields at least takes a pause and so does the dollar (trade-weighted dollar DXY at 98.12). USD/JPY stabilizes in the 109.25 area. **The yen hardly reacted to PM Abe calling for fiscal stimulus**. The RBA in the quarterly policy statement sounded quite dovish on wage growth and inflation over the policy horizon. The Aussie dollar dropped back below the AUD/USD 0.69 level.

There are only second tier data in Europe today. In the US, the University of Michigan consumer confidence is expected little changed (95.5) after a decent rebound over the previous two months. Any impact on the dollar should be limited. After the recent rally, quite some good news should be discounted, also in the interest rate markets. **At least this week, the dollar profited from positive trade headlines and the rise in yields. This USD rebound might slow going into the weekend**. This especially applies to USD/JPY. At same time, **recent EUR/USD price action was a bit disappointing**. The October rebound has stalled, and the pair dropped below the 1.1073 neckline, making the picture gain more neutral short term. The 1.10 area markets the next ST support.

The focus for sterling trading turned temporarily from the elections/Brexit to the BoE monetary policy assessment yesterday. The BoE still indicates that rates will might have to be raised slightly over the policy horizon, but two MPC members voted for a rate cut. **Sterling spiked briefly lower, but the move was soon reversed. EUR/GBP closed marginally stronger at 0.8629**. For today, we expect more technical trading in the lower 0.86 area as the election campaign continues.



Calendar

Friday, 8 November		Consensus	Previous
US			
16:00	Wholesale Inventories MoM (Sep F)	-0.30%	-0.30%
16:00	Wholesale Trade Sales MoM (Sep)	0.20%	0.00%
16:00	U. of Mich. Sentiment (Nov P)	95.5	95.5
16:00	U. of Mich. Current Conditions (Nov P)	113.5	113.2
16:00	U. of Mich. Expectations (Nov P)	85.0	84.2
16:00	U. of Mich. 1 Yr Inflation (Nov P)	--	2.50%
16:00	U. of Mich. 5-10 Yr Inflation (Nov P)	--	2.30%
Canada			
14:30	Part Time Employment Change (Oct)	12.5	-16.3
14:30	Full Time Employment Change (Oct)	2.5	70
14:30	Net Change in Employment (Oct)	15.0k	53.7k
14:30	Unemployment Rate (Oct)	5.50%	5.50%
14:30	Hourly Wage Rate Permanent Employees YoY (Oct)	4.20%	4.30%
14:30	Participation Rate (Oct)	65.7	65.7
Japan			
00:30	Real/Labor Cash Earnings YoY (Sep)	0.60%A/0.80%A	-0.50%R/-0.10%R
00:30	Household Spending YoY (Sep)	9.50%A	1.00%
08NOV-15NOV	Bankruptcies YoY (Oct)	--	13.04%
Germany			
08:00	Trade Balance (Sep)	--	16.4bR
08:00	Imports/Exports SA MoM (Sep)	0.00%/0.30%	0.60%R/-1.50%R
France			
08:45	Trade Balance (Sep)	-4969m	-5019m
08:45	Private Sector Payrolls QoQ (3Q P)	0.30%	0.20%
08:45	Industrial Production MoM (Sep)	0.40%/0.30%	-0.90%/-1.40%
08:45	Manufacturing Production MoM/YoY (Sep)	0.20%/0.10%	-0.80%/-1.60%
China			
08NOV	Imports/Exports YoY (Oct)	-6.4%A/-0.9%A	-8.3%R/-3.20%
08NOV	Trade Balance (Oct)	\$42.81bA	\$39.19bR
Events			
01:10	Fed's Bostic Speaks in New York on Monetary Policy (non-voter)		
17:45	Fed's Daly Speaks at Conference on Economics of Climate Change (non-voter)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.92	0.09		US	1.67	0.06	DOW	27674.8	182.24
DE	-0.23	0.10		DE	-0.61	0.03	NASDAQ	8434.516	23.89
BE	0.05	0.10		BE	-0.58	0.03	NIKKEI	23391.87	61.55
UK	0.79	0.08		UK	0.54	0.01	DAX	13289.46	109.57
JP	-0.06	0.01		JP	-0.18	0.00	DJ euro-50	3706.68	17.94
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.29	1.69	0.82	Eonia	-0.4540	0.0000			
5y	-0.17	1.71	0.87	Euribor-1	-0.4490	-0.0040	Libor-1	1.7550	0.0000
10y	0.16	1.83	0.99	Euribor-3	-0.4000	0.0060	Libor-3	1.9043	0.0000
				Euribor-6	-0.3340	0.0050	Libor-6	1.9239	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1050	-0.0016		EUR/JPY	120.75	0.15	CRB	180.98	0.47
USD/JPY	109.28	0.30		EUR/GBP	0.8619	0.0011	Gold	1466.40	-26.70
GBP/USD	1.2817	-0.0038		EUR/CHF	1.0996	0.0009	Brent	62.29	0.55
AUD/USD	0.6898	0.0014		EUR/SEK	10.6377	-0.0139			
USD/CAD	1.3174	-0.0007		EUR/NOK	10.0668	-0.0818			

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