



Sunrise

Friday, 21 February 2020

Rates: German 10-yr yield support will be challenged by PMI's

The German 10-yr yield is at risk of breaking -0.41%/-0.44% with the US 10-yr yield heading to last Summer's low. Markets are anticipating a grim picture from global (mainly EMU) February PMI's. Asian indices spell the worst this morning. A high level Fed event on monetary policy in the next downturn is a wildcard.

Currencies: EMU PMI to decide on EUR/USD break below 1.0778 support?

Dollar strength was still the main theme for global FX trading as the US currency is considered the best haven to look for cover from fall-out of corona. Today, the EMU PMI's will get ample attention. A poor reading should reinforce the case for euro underperformance against the dollar. Or are USD bulls getting some vertigo after the recent rally?

Calendar

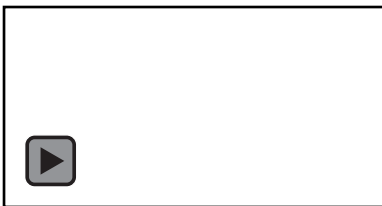
Headlines



- **WS** recovered gradually but only partly from a sudden sell-off yesterday. The Nasdaq (-0.67%) underperformed. **Asian markets** are headed for a weekly close in risk-off. South Korea underperforms amid lingering corona concerns (-2%).
- **South Korean president Moon said he will outline an economic stimulus package** by the end of this month to counter the impact of corona. Evidence is mounting the virus is gaining traction outside China, in particular South Korea.
- **Japanese February PMI's tumbled in the wake of the corona outbreak** with readings raising prospects of a recession. The manufacturing gauge slipped to the lowest level in 7 years (47.6). The service PMI fell off a cliff, from 51 to 46.7.
- **The IMF** said the Belgian economy did relatively well in 2019 but **is concerned about the political stalemate and deteriorating public finances**. It projects a 2.25% deficit this year if policy is left unchanged, up from 1.7% last year.
- **EU discussions over the bloc's 2021-27 budget** and how to fund the €75bn gap with the UK leaving, **yielded no significant progress**. Germany and other northern countries oppose plans to slash rebates on their contributions.
- **Investor flows into socially-responsible investment funds almost quadrupled in 2019** to a record of \$21bn according to Morningstar, prompting some to warn for a bubble in the making.
- **Today's economic calendar** is all about PMI business confidence: from the EMU over the UK to the US. Also in the US the annual monetary policy in NY takes place. G20 finance ministers and central bank chiefs meet through Feb 23.

Rates

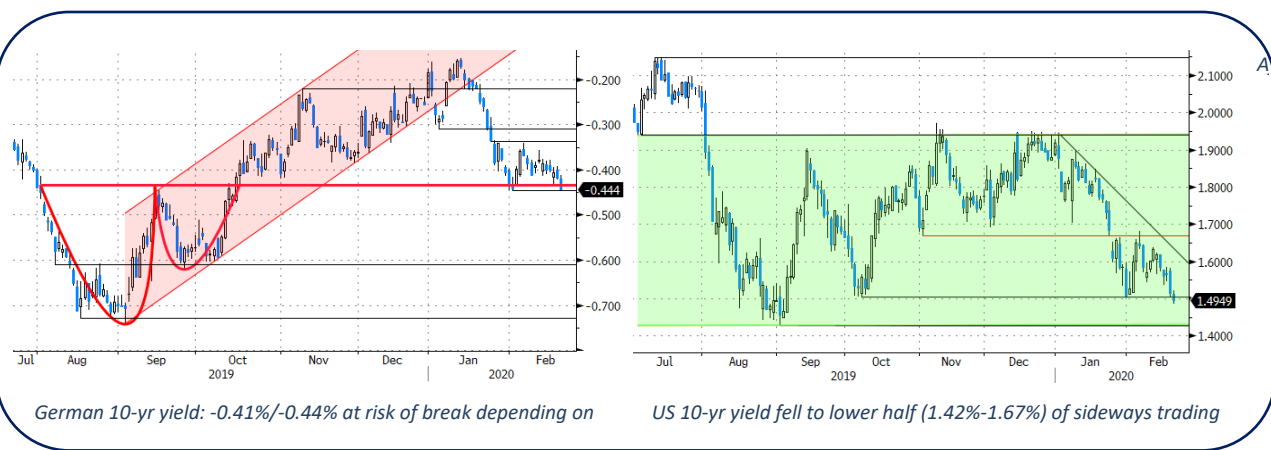
German 10-yr yield support will be challenged by PMI's



Global core bonds eked out gains yesterday. **US Treasuries outperformed German Bunds despite a very strong Philly Fed Business survey.** The headline index beat all forecasts and rose to its highest level since February 2017. It followed on the heels of an impressive Empire manufacturing survey earlier this week. **Fed vice-chair Clarida** sounded upbeat on the US economy as well, questioning current market positioning (1 rate cut before the end of the year). Core bonds already had a minor upward bias intraday, but the move accelerated intraday when **US stock markets corrected 0.5% lower** on reports of increased corona cases in Beijing. The US yield curve eventually bull flattened with yields declining by 3.3 bps (2-yr) to 5.3 bps (30-yr). The German yield curve moved in similar fashion with yields dropping 0.2 bps (2-yr) to 4.9 bps (30-yr). 10-yr yield spreads vs Germany ended near unchanged with Greece (+3 bps) underperforming.

Asian stock markets record losses this morning with South Korea underperforming on the back of a strong rise in infections. Regional PMI's (Japan, Australia) declined and disappointed in February. Core bonds remain upwardly oriented. **Today's eco calendar contains February PMI's.** Consensus forecasts small setbacks in both manufacturing (47.4 from 47.9) and services (52.3 from 52.5). **Risks are tilted to the downside with the corona-outbreak threatening supply chains especially in export-oriented Germany.** Markets the past two days seem to be frontrunning a disappointing outcome. Nevertheless, **core bonds could easily add gains in case of really weaker numbers. From a technical view, -0.41%/-0.44% support in the German 10-yr yield is under threat.** The 2020 US monetary policy forum in NY is a wildcard. This year's topic is "monetary policy in the next recession" with several high-level Fed/ECB/BoE members scheduled to speak.

Technically: core bond yields failed to take out resistance levels at the start of the year, at **-0.18% (July high)/-0.15% (38% retracement of Feb '18 – Sep '19 decline) for the German 10-yr yield and 1.94% for the US 10-yr yield.** The Chinese coronavirus took markets hostage via risk aversion, pulling core bond yields below first support. We hold our view that this won't be a lasting market theme. The Chinese return to trading after Lunar NY holidays proved to be a turning point, ending the decline since mid-January. Narrow sideways channels developed since. Downsidings could be under test today on PMI readings.

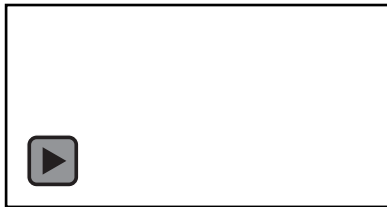


German 10-yr yield: -0.41%/-0.44% at risk of break depending on

US 10-yr yield fell to lower half (1.42%-1.67%) of sideways trading

Currencies

EMU PMI to force EUR/USD below 1.0778 support?

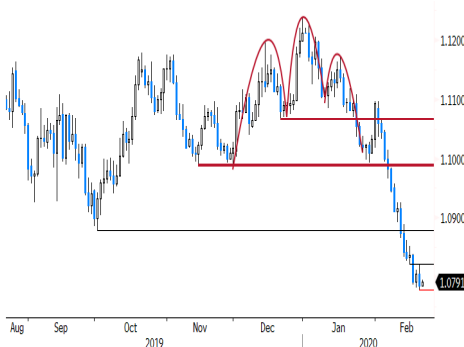


Almost all analyses on the corona looked to **support the case for a stronger dollar yesterday**. The US is better shielded from the fall-out of corona compared to Asia and Europe and the US economy was already in much better shape before the corona outbreak. Holders of 'safe haven' USD bonds are also additionally rewarded with a nice interest rate advantage and the hope on potential capital gains if the Fed would be forced to step in later. USD/JPY again took the lead in the USD ascent and closed the day at 112.10 (from 111.37). The decline of EUR/USD was more modest but except for some intraday volatility, the pair wasn't able to move away from the 1.0778/1.08 support area.

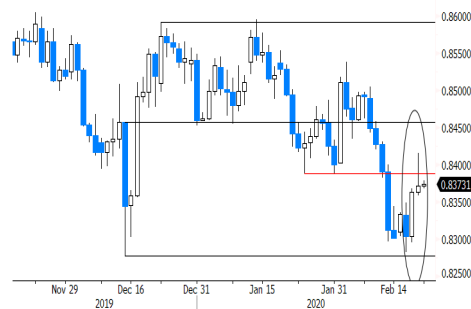
This morning, markets are focusing on the spreading of virus outside China, especially into Korea. Most Asian equities are declining further, with mainland China the exception to the rule and South Korea (-1.5% or more) underperforming. The yuan stays weak (USD/CNY 7.03). The USD/JPY rally (111.95) is taking a pause. AUD/USD continues to test the lowest levels since 2009 (0.66 area). EUR/USD is holding its tight range, close to, just below 1.08.

Today, corona will continue to dominate global sentiment, but the EMU PMI's will also attract ample attention. A modest decline is expected after the tentative rebound of the previous months (EMU composite expected at 47.4 from 47.9). **We see little reason for an upward surprise**. The market reaction will be interesting anyway. A further EUR/USD decline looks the more evident scenario. If EUR/USD shows unexpected resilience, it could be a first sign that USD bulls might get some vertigo. **However, for now, there is no strong case yet to row against the USD-positive tide**. The G20 meeting of finance Ministers is a wildcard, but we don't expect big guidance for USD trading. The **EUR/USD** technical picture **deteriorated substantially** after breaking subsequent supports, including the 1.0879 2019 low. 1.0778 is the next reference (2017 gap). The pair is moving into oversold territory, but this factor alone is unlikely to trigger a rebound.

Sterling initially fell prey to further profited taking and the UK currency also didn't profit for solid UK retail sales. EUR/GBP even closed the day marginally higher at 0.8371. **Today, the UK composite PMI is expected to ease slightly after last month's sharp rebound**. Yesterday's price action suggests that a 'big' positive surprise is needed to revive the GBP-momentum. EUR/GBP 0.8276 has become a solid support.



EUR/USD: PMI's to decide on break below 1.0778 support?



EUR/GBP: 0.8276 proves to be tough resistance for sterling.

Calendar

Friday, 21 February		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Feb P)	51.5	51.9
15:45	Markit US Services PMI (Feb P)	53.4	53.4
15:45	Markit US Composite PMI (Feb P)	--	53.3
16:00	Existing Home Sales Total/MoM (Jan)	5.44m/-1.8%	5.54m/3.60%
Canada			
14:30	Retail Sales MoM (Dec)	0.10%	0.90%
14:30	Retail Sales Ex Auto MoM (Dec)	0.30%	0.20%
Japan			
00:30	Natl CPI YoY (Jan)	0.70%A	0.80%
00:30	Natl CPI Ex Fresh Food YoY (Jan)	0.80%A	0.70%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Jan)	0.80%A	0.90%
01:30	Jibun Bank Japan PMI Composite (Feb P)	46.7A	50.1
01:30	Jibun Bank Japan PMI Mfg (Feb P)	47.6A	48.8
01:30	Jibun Bank Japan PMI Services (Feb P)	46.7A	51
05:30	All Industry Activity Index MoM (Dec)	0.0%A	0.90%
UK			
10:30	Markit UK PMI Manufacturing SA (Feb P)	49.7	50
10:30	Markit/CIPS UK Services PMI (Feb P)	53.4	53.9
10:30	Markit/CIPS UK Composite PMI (Feb P)	52.8	53.3
10:30	Public Finances (PSNCR) (Jan)	--	16.6b
10:30	PSNB ex Banking Groups (Jan)	-11.4b	4.8b
EMU			
10:00	Markit Eurozone Manufacturing PMI (Feb P)	47.4	47.9
10:00	Markit Eurozone Services PMI (Feb P)	52.3	52.5
10:00	Markit Eurozone Composite PMI (Feb P)	51.0	51.3
11:00	CPI MoM/YoY (Jan)	-1.00%/1.40%	-1.00%/1.40%
11:00	CPI Core YoY (Jan F)	1.10%	1.10%
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Feb P)	44.8	45.3
09:30	Markit Germany Services PMI (Feb P)	53.8	54.2
09:30	Markit/BME Germany Composite PMI (Feb P)	50.7	51.2
France			
09:15	Markit France Manufacturing PMI (Feb P)	50.7	51.1
09:15	Markit France Services PMI (Feb P)	51.3	51
09:15	Markit France Composite PMI (Feb P)	51.0	51.1
Italy			
10:00	Industrial Orders MoM/NSA YoY (Dec)	--/--	-0.3%/-4.3%
Belgium			
15:00	Business Confidence (Feb)	-2.8	-2
Events			
21-23FEB	G20 finance ministers and central bank chiefs meet		
15:35	Fed's Kaplan Speaks in Dallas		
16:15	Fed's Brainard and Bostic Take Part on Panel Policy Forum		
18:00	ECB's Lane Gives Speech at Booth Policy Forum in New York		
19:30	BOE's Tenreyro Speaks on Panel in New York		
19:30	Fed's Clarida Takes Part in Panel at Booth Forum in New York		
19:30	Fed's Mester Discusses Monetary Policy on Panel with Clarida		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.52	-0.05		US	1.39	-0.03		DOW	29219.98	-128.05
DE	-0.44	-0.03		DE	-0.64	0.00		NASDAQ	9750.965	-66.22
BE	-0.22	-0.03		BE	-0.59	0.00		NIKKEI	23386.74	-92.41
UK	0.58	-0.02		UK	0.52	-0.01		DAX	13664	-125.00
JP	-0.05	-0.01		JP	-0.16	-0.01		DJ euro-50	3822.98	-42.20
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.37	1.36	0.70	Eonia	-0.4530	0.0000		Libor-1	1.6394	0.0000
5y	-0.32	1.35	0.70	Euribor-1	-0.4830	-0.0160		Libor-3	1.6960	0.0000
10y	-0.10	1.45	0.76	Euribor-3	-0.4100	-0.0080		Libor-6	1.6988	0.0000
				Euribor-6	-0.3580	-0.0050				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.0785	-0.0020		EUR/JPY	120.92	0.57		CRB	174.73	-0.77
USD/JPY	112.1	0.73		EUR/GBP	0.8371	0.0008		Gold	1620.50	8.70
GBP/USD	1.2882	-0.0038		EUR/CHF	1.0615	-0.0017		Brent	59.31	0.19
AUD/USD	0.6615	-0.0060		EUR/SEK	10.5863	0.0113				
USD/CAD	1.3259	0.0038		EUR/NOK	10.0502	0.0321				

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