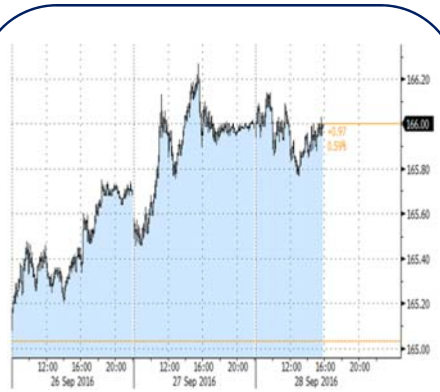
Sunset

Wednesday, 28 September 2016

Headlines

- **European shares rebound 1% today** led by the financial sector as Deutsche Bank rebounds after the German bank sold a UK insurance unit and CEO Cryan said that raising capital is currently not an issue. **US Equities opened with limited gains.**
- *"It seems likely to me that **further monetary stimulus will be required at some point** in order to help ensure that a slowdown in economic activity doesn't turn into something more pernicious",* **BoE's Shafik** said today, adding timing of any fresh easing would depend on the continued evolution of the data over the coming weeks and months.
- **US durable goods orders stabilized in August,** beating market expectations which were looking for a decline. An increase in transportation orders was offset by a limited drop in other sectors. **Shipments however continued to disappoint** with the core measure falling for a fourth straight month, a poor signs for business investments in Q3.
- **Rating agency Standard & Poor's predicts the process of exciting the EU will knock 2.1 percentage points off UK GDP growth between now and 2018** as it will have a drag on purchasing power and consumption
- Although remaining volatile, Brent **crude oil prices edged higher today, hovering around $46.50/barrel** on signs that differences are narrowing between Saudi Arabia and Iran and talks are still continuing.
- **Fed Chairwoman Yellen testifies to the House Panel on Banking Supervision** (16h CET) and also Fed's Bullard, Evans, Mester and George are scheduled to speak later today.

Rates



German Bund (intraday this week): loss of bullish momentum

Core bonds lose momentum as stocks rebound

Global core bonds lost their bullish momentum of the previous 2 trading sessions this week as tension on stock markets eased. At the time of writing, changes on the German yield curve are limited between -0.1 bp and +0.7 bps. Changes on the US yield curve range between -0.8 bps (2-yr) and +0.6 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrow up to 2 bps with Greece (-8 bps) and Portugal (-10 bps) profiting most of easing tensions. Greek lawmakers approved an omnibus bill with prior actions needed for the disbursement of the next tranche of the bailout.

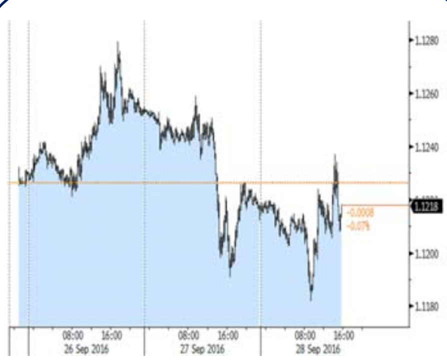
Intraday, core bonds traded rather listless during European dealings. **European stock markets rebounded driven by the tormented financial sector.** Brent crude also showed an upward bias, gaining from $46/barrel to $46.50 barrel. **Consumer confidence slightly disappointed in Italy and Germany while stabilizing in France.** The EMU eco data didn't impact trading though. During US dealings, US Treasuries somewhat underperformed after the release of **mixed durable goods orders.** The headline figure printed stronger than expected, but the subcomponent often used as a gauge for investments in GDP (capital goods shipments non-defensive ex-aircraft) disappointed (-0.4% M/M from downwardly revised -0.7% M/M vs 0.1% M/M expected). As we finish our report, ECB president Draghi's testimony in front of German parliament started. **The head of the ECB warned that the low rates for a long period might carry the risk of overvaluation in asset markets.** That's another sign the ECB isn't convinced to go the extra mile with more monetary stimulus in the future. The initial market reaction is muted.

The German Finanzagentur tapped the on the run 2-yr Schatz (€4B 0% Sep2018) without difficulties. Total bids amounted €6.2B, slightly below the €6.39B average at the previous 4 Schatz auctions despite the all-time low auction yield (-0.70%). The auction had a very small tail (0.3 cents). The Bundesbank set aside €0.81B of the amount on offer for secondary market operations, resulting in an official bid cover of 1.9. **Later today, the US treasury ends its refinancing operation with a $28B 7-yr Note auction and a $13B 2-yr FRN auction.** Currently, the WI of the former trades at 1.39%.

Currencies

Yesterday's 'mini euro-setback' calms down

Today, EUR/USD and USD/JPY turned again to the low volatility trading we were used to of late. Tension with respect the European financial sector and the perceived political uncertainty went again to the background. EUR/USD and USD/JPY drifted sideways, currently trading at 1.1225 and 100.65 respectively.



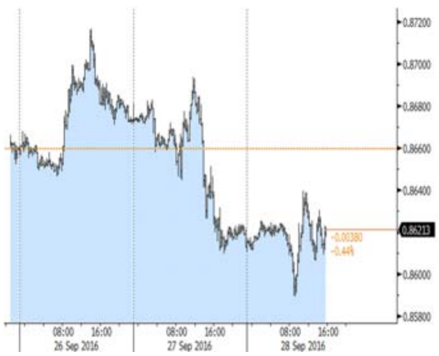
EUR/USD (this wk): calm returns

Overnight, Asian equities didn't join the positive momentum from the US yesterday evening. Oil remained a source of global uncertainty. The impact on other markets was diffuse, as OPEC continues to send conflicting signals about a potential supply cap. USD/JPY traded in the 100.60/65 area, off yesterday's lows. Even so, the yen remained strong and USD/JPY stayed within reach of the psychological 100 barrier. Markets still tried to asses where the BOJ might step in case of further yen strength. EUR/USD held in the low 1.12 area. Yesterday's decline was clearly euro weakness. This morning, the dollar performed better sentiment overall.

Sentiment on European (equity) markets was quite different from yesterday. Equities rebounded despite ongoing volatility in the oil price. Tensions in the financial sector eased as Deutsch Bank dismissed calls that it might consider raising capital anytime soon. There were also signs of easing tensions in intra-EMU spreads with Germany. Spreads eased slightly for the likes of Greece, Portugal and, to a lesser extent, Italy. **Contrary to what was the case yesterday, the impact on other markets (equities, spreads) as the euro or the dollar was far less straightforward.** The dollar gained a few ticks on the global positive sentiment early in Europe. USD/JPY rebounded to the 100.80 area. USD/JPY tried a test lower to the 1.1182 area. However, the USD gains were gradually reversed. EUR/USD returned to the 1.1200/20 area. USD/JPY settled in the 100.65/75 area.

Early in US dealings, headline durable goods orders looked OK, but the details were less convincing, especially as shipments disappointed. **The dollar lost a few ticks upon the publication, but the moves were limited and short-lived as it is not easy to draw firm conclusions from this data series.** Changes in US/German interest rate differentials were also too small to drive EUR/USD trading. EUR/USD trades currently again in the 1.1225 area. USD/JPY is little changed in the 100.65 area. In his statement before the German parliament Draghi defends the accommodative ECB policy but acknowledges the risk of overvaluation of some assets. For now, the impact on EUR/USD remains limited.

Sterling captured in order-driven sideways trading



EUR/GBP: sterling stays away from recent 'extremes'

Today, where again no UK eco data to guide sterling trading. Sterling opened strong against the euro and the dollar probably due to the improvement in global sentiment on risk. However, the bid for sterling eased early in European dealings. **In an interview, BoE's Shafik said more easing was probably needed at some point after the sizable economic shock of Brexit. The comments were no big surprise but ere maybe enough to cap further GBP gains.** Both cable and EUR/GBP were captured in technical, sideways trading. EUR/GBP trades currently in the 0.8620 area. Cable changes hands around 1.3010. So, the UK currency apparently entered calmer waters and stays away from the recent short-term 'extremes'.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,60%			-0,14%			0,43%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,30%	843	-12,1	#VALUE!	#VALUE!	#VALUE!
Portugal	1,90%	249	-10,0	3,32%	346	-9,0	4,25%	381	-7,6
Italy	0,24%	84	-1,5	1,19%	133	-2,2	2,24%	181	-3,8
Spain	0,03%	63	-1,6	0,89%	103	-1,0	2,00%	156	-3,0
Ireland	#VALUE!	#VALUE!	#VALUE!	0,34%	48	-1,2	1,18%	74	-1,0
Belgium	-0,50%	10	-0,5	0,10%	24	-0,1	1,05%	62	-0,5
France	-0,45%	14	-0,1	0,17%	31	0,2	0,96%	53	-0,3
Austria	-0,49%	10	0,6	0,08%	22	0,4	0,76%	33	0,1
Netherlands	-0,49%	11	-0,3	-0,02%	12	0,2	0,50%	7	0,1
Finland	-0,53%	7	0,6	0,00%	14	0,9	0,52%	9	0,0
US	1,11%	171	-0,3	1,55%	169	-0,3	2,28%	185	-0,2
UK	0,18%	77	-0,1	0,68%	82	0,6	1,37%	94	-0,5

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