Sunset

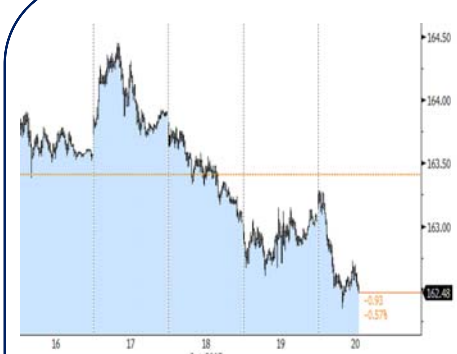
Friday, 20 January 2017

Headlines

- **European equity recovered opening losses** and trade up to 0.5% higher. **US equity markets also opened strong,** ahead of the inauguration of US president-elect Trump.
- **British retail sales suffered their biggest slump in more than 4 years** in December (-2% M/M excl. auto fuel), denting what had been a promising fourth quarter. Consumer spending has been the main driver of Britain's economy since June's Brexit-referendum decision, with other sources of growth like investment and trade lagging.
- **Economic growth and inflation is expected to rise faster than previously expected** in the EMU this year, according to the ECB’s latest **quarterly survey of professional economists.** The ECB’s private sector forecasts revised up GDP estimates to 1.5% from 1.4% while inflation is expected to average 1.4% from an earlier estimate of 1.2% in 2017.
- **BoJ Governor Kuroda** said the country's economy is likely **to head toward a sustainable growth path** as global trade and manufacturing activity pick up. But he added that Japan had yet to address major challenges, which were to heighten inflation expectations and firms to raise wages.
- **Belgium’s consumer confidence index advances to zero in January, the highest level since 2011,** from minus 5 in December as unemployment concerns recede to levels last seen in early 2008, according to the National Bank of Belgium.
- **Schlumberger,** the world’s largest oilfield services group, **reported a year-over-year decline in revenue,** as it eyes a slight uptick in capex spending for the coming year thanks to rebounding oil prices.
- **Philly Fed Harker, who votes on policy this year, repeated that he expects three interest rate increases in 2017** if the labor market improves further and inflation moves to the Federal Reserve's 2% goal.

Rates

Core bonds under mild pressure as sentiment soured



German Bund (intraday 5 days): Sentiment deteriorated throughout the week

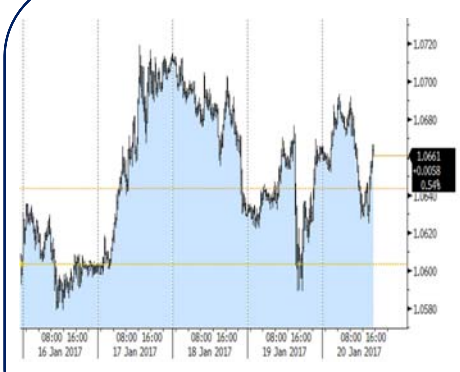
Global core bond stayed under downward pressure. German bonds underperformed US Treasuries. Eco data were few and didn’t impact trading. Technically, the Bund tested first support (neckline double top) at 162.47, but it failed and stopped the slide. Fed Harker repeated that 3 hikes this year were appropriate as the Fed would soon reach its targets. It had no trading impact though. At the time of writing, the German yield curve bear steepens again with yields 2.5 bps (2-yr) to 4.5 bps (30-yr) higher. Changes on the US yield curve are limited to slightly more than 1 bp, with a marginal steepening. **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany are nearly unchanged.

Intra-day, global core bonds opened little changed, but as bond sentiment deteriorated in recent days, the selling continued during the morning session. **German PPI** was perfectly in line with expectations while **UK retail sales** were much weaker than expected, but it had no positive effect on overall bond trading. The selling stopped shortly after noon, when the first Bund support at 162.47 was tested, but failed. The Bund moved listless further, just above the support level till the closure of our report. US Treasuries showed a similar pattern, but they rebounded slightly off the lows. **Philly Fed Harker** repeated that the Fed would meet soon its targets and that three hikes this year make sense. However, he already gave that view previously. Volumes were low as the unattractive calendar and the inauguration of Donald Trump kept investors side-lined.

Currencies

USD drifts sideways into the Trump era

Today, there were no important eco data in Europe and the US. The dollar traded slightly softer in Asia, but found a better bid in Europe as risk sentiment slightly improved. Investors keep an eye on the inauguration ceremony and, more important for markets, await Trump's first policy initiatives. EUR/USD hovers in the mid 1.06 area. USD/JPY holds near the 115 pivot.



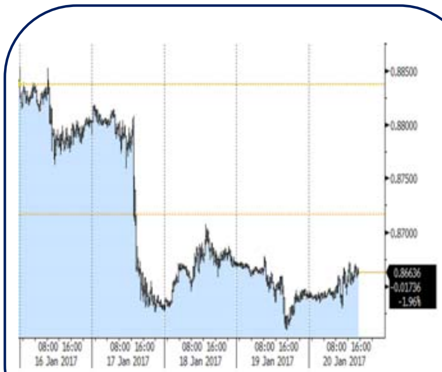
EUR/USD: USD awaits Trump's first policy initiatives

Overnight, Fed chairwoman Yellen kept a balanced approach indicating gradual policy adjustments. The dollar lost a few ticks upon the Yellen headlines, as she didn't give a specific hint on a March rate hike. USD/JPY struggled not the fall back, changing hands in the 114.60/70 area at the start in Europe. The dollar traded also marginally softer against the euro. (EUR/USD around 1.0680).

There were no market data with market moving potential in EMU. Risk sentiment was a bit hesitant at the start of trading. However, equities soon found a better bid. **Core bond yields also trended higher.** We didn't see any specific reason for this (albeit modest) improvement in risk sentiment. Whatever the reason, the cautions intraday risk-on bias was again slightly more supportive for the dollar than for the euro. EUR/USD drifted back south and settled in the 1.0625/50 area. USD/JPY regained the 115 mark.

There were also no data in the US. So, US citizens and investors could focus their attention on Trump's inauguration. **US equity markets also trade with a positive bias. For now there is no obvious directional impact on USD trading. USD/JPY hovers near the 115 pivot; EUR/USD nears the 1.0650/60 area.**

Sterling loses slightly ground on poor UK retail sales



EUR/GBP: sterling slightly softer after poor UK retail sales

Earlier this week, sterling held relatively strong even as UK PM May made clear that the UK will opt for a hard/clean Brexit. **This sterling positive bias eased slightly today and there was a good reason. The December UK retail sales were much weaker than expected at -1.9% M/M and 4.3% Y/Y** (-0.1% M/M and 7.2 Y/Y was expected). The November figure was also downwardly revised. EUR/GBP hovered in the mid 0.8640/50 area before the publication of the retail sales and trended cautiously higher later. The pair trades currently in the 0.8660/65 area. So, after all, the damage from the poor retail sales was limited. A cautiously negative sterling bias and a slightly stronger dollar also capped the topside of cable. The pair trades currently in the 1.23 area.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,42%			0,41%			1,19%		
Greece (3-10-20)	7,04%	747	-2,6	7,11%	670	1,5	7,63%	644	-4,3
Portugal	1,91%	233	-2,8	3,88%	347	-3,7	4,86%	367	-4,9
Italy	0,68%	111	-1,4	2,02%	161	-0,5	3,22%	203	-1,7
Spain	0,25%	67	-2,0	1,50%	109	-0,8	2,82%	163	-2,7
Ireland (4-10-30)	-0,23%	20	0,3	1,03%	62	2,1	2,13%	95	-1,0
Belgium	-0,27%	15	0,5	0,74%	33	0,5	1,89%	71	-0,2
France	0,00%	43	-0,1	0,90%	49	0,7	1,93%	75	0,1
Austria	-0,29%	13	-0,7	0,60%	19	0,0	1,56%	37	0,1
Netherlands	-0,25%	18	-0,7	0,52%	11	-0,3	1,28%	10	-0,4
Finland	-0,32%	10	-0,6	0,55%	14	1,1	1,29%	11	-0,2
US	1,97%	240	-1,4	2,49%	208	-1,2	3,07%	188	-3,2
UK	0,63%	105	-0,9	1,43%	102	-0,8	2,07%	88	-3,6

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