



## Sunset

Wednesday, 20 September 2017

### Headlines

- **European equity indices lose some ground with Spain (-1%) a notable underperformer on increased tensions in Catalunya (see below). US stock markets open nearly unchanged** with investors waiting for the outcome of tonight's FOMC meeting.
- **UK retail sales rose in August at their fastest pace in four months (1% M/M)**, providing further evidence of a tentative pickup in consumer spending. The July figure was upwardly revised from 0.5% M/M to 0.7%M/M. EUR/GBP temporary dropped from 0.888 to 0.883, but sterling couldn't hold on to gains.
- **Spain's paramilitary national police have raided the headquarters of the Catalan government in Barcelona** in the latest offensive against the proposed referendum on independence, set to be held in less than two weeks' time. They arrested 13 people for their alleged involvement in planning the secession vote.
- **NZD/USD jumped towards 0.74 following the release of a new poll** showing the governing National Party could rule alone after the country's general election on September 23.
- **Greek banks are set to float revised plans to reduce their non-performing loans to their boards** early next month, bank sources said, in news that drove down shares in the country's lenders.

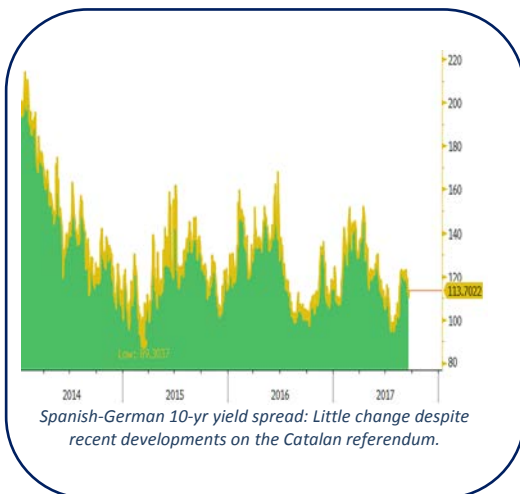
### Rates

#### Core bonds modestly higher ahead of FOMC decision

Core bonds fared reasonably well today amid low volumes though as the **hyped FOMC meeting is drawing to an end (decision at 20:00 CET)**. The gains remained modest though (see lower) and were technically irrelevant. **ECB Knot, a hawk, said that a recalibration of the policy was overdue as the main rationale for ECB asset purchases has vanished**. He is confident inflation will return to target. However, his comments had **no traction** in the bond market, as the Bund safeguarded its morning gains. We didn't see a strong trigger for the Bund morning gains. **UK retail sales** were much stronger than expected, but Gilts only made a knee jerk reaction. **The modest gains might have been technically inspired, coming after last week's sharp declines**. Some traders are looking for a technical bottom formation.

#### The German Finanzagentur launched a new 30-yr Bund (€2B 1.25% Aug2048).

Total bids amounted to €2.93B, remarkably stronger than the €1.5B average at the previous 4 long term Bund auctions, and resulting in an official bid cover of 1.8. The auction tailed 1 cent and the Bundesbank set aside €0.37B for secondary market operations (real bid cover 1.5).



**At the time of writing**, US yields declined by 1.1 bp (2-yr) to 1.3 bps (5-yr). German yields dropped more, notably between 0.3 bps (2-yr) and 2.8 bps (30-yr).

**On intra-EMU bond markets**, 10-yr yield spread changes versus Germany widened modestly. **Spain and Italy underperformed** with 10-yr yield spreads up 3 bps. In the case of Spain that's a surprisingly good performance as nervousness on the Catalan referendum increases. The National police raided the headquarters of the Catalan government and detained senior Catalan officials. Ballot boxes were seized too in an attempt to prevent the referendum from taking place. **Spanish bond holders were not overly concerned.**

## Currencies

### Yellen to help the dollar?

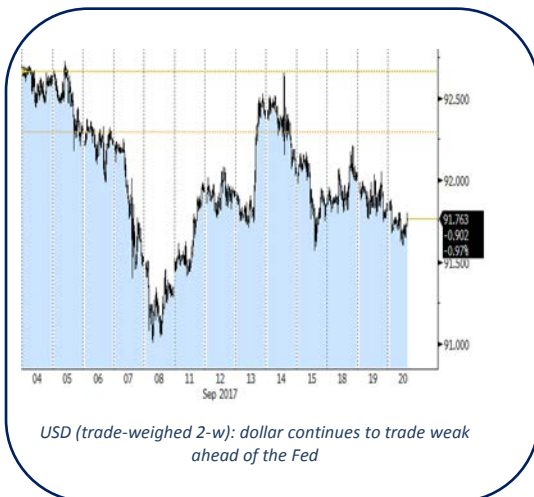
**USD investors basically stayed side-lined today, awaiting the Fed's policy assessment. Trading in EUR/USD and USD/JPY was confined to tight ranges. If anything, the dollar traded with a cautious bias.**

**Overnight**, Asian equities were narrowly mixed even as WS closed again at record levels. **Japan August trade data were strong, but don't change to broader picture for the BOJ's policy.** The BOJ is largely expected to keep course tomorrow, lagging the normalisation in other major economies. **The yen continued to trade weak.** The overall picture for the dollar was unchanged. USD/JPY holds in the mid 111 area, within reach of the ST correction top. At the same time, the dollar struggled against the euro. EUR/USD tried to regain the 1.20 barrier.

There were only second tier eco data in Europe. Equities showed no clear trend. Core bonds traded with a mild positive bias as traders counted down to tonight's Fed decision. The slight decline in core German & US yields was more negative for the dollar than for the euro, but the moves were very limited. USD/JPY drifted back lower in the 111 big figure. EUR/USD mostly traded just north of 1.20.

More wait-and-see action during the US session. Dollar sentiment was slightly more constructive as core yields reversed this morning's modest setback. EUR/USD trades at around 1.20. USD/JPY is changing hands in the 111.40 area. Negative headlines on Catalonia until now hardly impact the euro.

**The FOMC will most likely leave its policy rate unchanged, but announce the start of a gradual unwinding of its balance sheet.** Markets will keep a close eye at the 'dots' indicating the rate hike expectations of the individual Fed members. We expect the median dots for 2017 and 2018 to remain unchanged suggesting respectively one additional rate hike for 2017 and 3 hikes in 2018. This scenario shouldn't be too bad for the dollar, if markets give some more credence to the Fed compared to what they did of late...



## Sterling hardly profits from strong retail sales

UK August retail sales were stronger than expected at 1.0% M/M and 2.4% Y/Y. The July figure was also upward revised. The BoE recently indicated that it could raise rates over the coming months if the economy continues to perform as expected. Today's retail sales evidently leave this option perfectly open. EUR/GBP declined about half a big figure upon the publication of the report. **Even so, the gain was modest and evaporated quite soon.** Overall euro strength maybe played a minor role. **However, the price move might be another indication that the easiest part of the GBP comeback might be behind us.** The headlines from EU policy makers on Brexit were less constructive, too. EUR/GBP trades currently around 0.8860. Cable also couldn't maintain the intraday gains and trades in the 1.3540 area.



EUR/GBP (2w): sterling fails to extend gains despite strong retail sales

16:00 CET

**Daily EMU spread changes (bps)**

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.28%			0.44%			1.23%		
Greece (2-10-20)	2.96%	324	-1.6	5.57%	513	3.9	6.64%	541	5.5
Portugal	0.92%	120	-0.4	2.42%	198	1.0	3.59%	236	-1.8
Italy	0.70%	98	0.9	2.07%	163	3.3	3.26%	204	5.6
Spain	0.25%	53	1.8	1.58%	114	3.5	2.84%	161	5.8
Ireland (4-10-30)	-0.38%	-10	0.2	0.71%	28	0.5	1.84%	61	1.4
Belgium	-0.20%	8	0.1	0.72%	28	1.3	1.79%	56	2.5
France	-0.17%	11	0.4	0.72%	29	1.3	1.83%	60	1.9
Austria	-0.25%	3	-0.1	0.61%	18	0.1	1.58%	36	-0.4
Netherlands	-0.32%	-4	0.0	0.56%	12	0.0	1.29%	6	0.1
Finland	-0.16%	12	0.2	0.60%	17	0.3	1.39%	17	0.3
US	1.82%	210	-0.4	2.23%	180	0.4	2.81%	158	2.0
UK	0.73%	101	-0.6	1.32%	88	0.3	1.90%	68	0.6

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