Sunset

Monday, 24 July 2017

Headlines

- **European equities traded initially lower on euro strength. Later in the session, a fall in euro strength reversed the decline.** The German Dax underperformed (around -0.35%) on the back of weak carmakers. US equities open with modest losses.

- The **Eurozone PMI fell to 55.8 in July from 56.3 in June**. The **consensus expected a minor decline to 56.2.** Increases in manufacturing costs are starting to slow, with the rise in input costs the lowest since November. Meanwhile, growth in new orders and employment is still strong.

- The **Saudi Energy and Industry minister pushed to improve implementation of the production cuts** from the nations participating **in the deal as compliance dropped from 110% in May to 92% in June**. He also said Nigeria and Libya -- both exempt from cutting -- will be allowed to increase output to their targeted levels.

- **Poland's president Duda vetoed part of a controversial overhaul of the judiciary** that's brought national protest and pitted the nation's government against its partners in the EU and the US. **Duda ordered a rewrite of the two bills** he rejected **and said he'd approve a final piece of legislation giving politicians more control of lower courts**.

- According to the Athens Stock exchange filing, **Greece is looking to sell five-year bonds on Tuesday.** This marks the first return to the debt market since 2014. With the sale, the government of Prime Minister Tsipras is seeking to test the market appetite as the exit from the current bailout program in August 2018 draws nearer.

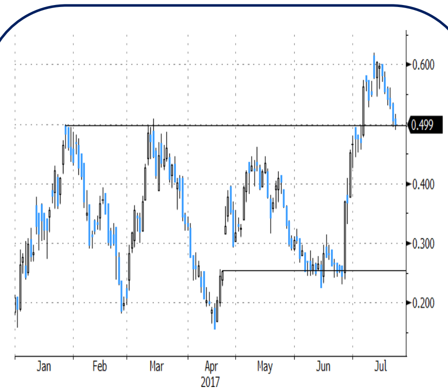
- In an **update to its World Economic Outlook, the IMF changed its annual GDP forecast for the UK to 1.7% this year, compared to a forecast of 2% growth made in April**. The 2018 forecast was unchanged at 1.5%. Reasons for the decline are rising inflation, resulting from the weaker pound, which pressures household spending.

- The **Republican effort to repeal and replace Obamacare faces a major test this week as the US Senate will decide whether to move forward and vote on a bill** whose details and prospects are still uncertain. President Trump, after initially suggesting that he was fine with letting Obamacare collapse, has urged the senators to hash out a deal.

Rates

German 10-yr yield tests key support in dull session

Global core bonds traded mixed today. German Bunds outperformed US Treasuries. This week's US supply operation might be at play. Volumes remained very low though and daily changes small. The Bund gained some ground in European dealings, around the time of comments by ECB governor Nowotny. The Austrian normally has a more hawkish profile, but he said that advances in IT and growing flexibility in the labour market could naturally cap inflation and potentially affect monetary policy. EMU eco data included the important PMI's. National data (France, Germany) pointed at some **disappointment for the EMU readings, which eventually manifested in a larger than forecast decline for the EMU manufacturing PMI, while the services PMI**



German 10-yr yield tests key support

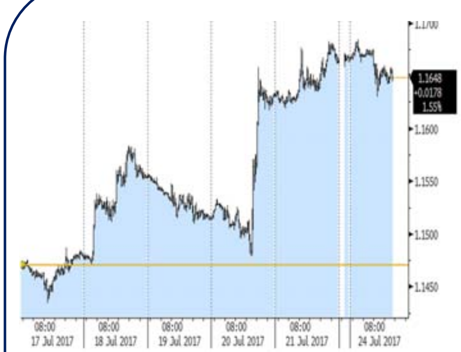
stabilized. Both are still at lofty levels. Oil prices recovered somewhat from Friday's weakness as Saudi Arabia and Russia called on smaller oil producers to comply with supply curbs. Most European equity markets stabilized after the sell-off at the end of last week with Germany (car makers) underperforming. The Bund didn't react on the evolution of commodity and stock markets.

At the time of writing, German yield changes range between -0.8 bps (10-yr) and -1.8 bps (2-yr). The German 10-yr yield is still testing key support (0.5%). US yields gain around 1.5 bps across the curve. **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany are virtually unchanged with Greece underperforming following a supply announcement. Greece has mandated six banks today for its return to the debt market with a new 5-yr bond. It would be the first international transaction since 2014.

The Belgian debt agency tapped three on the run OLO's: 7-yr OLO 79 (€1B 0.2% Oct2023), 10-yr OLO 81 (€1.12B 0.8% Jun2027) and 30-yr OLO 78 (€0.68B 1.6% Jun2047) for a combined €2.8B, the maximum targeted amount. Demand was in line with average with an auction bid cover of 1.6. Belgium already completed 81.4% of this year's stated OLO funding need (€35B).

Currencies

Dollar rally/euro decline slows



EUR/USD (1-w) rally slows, awaiting 'new news'

Today, the dominant FX trends that ruled trading halted. The decline of the dollar slowed and so did the rise of the euro. The pause in the euro rally was 'justified' by softer than expected EMU PMI's. There was no high profile news to inspire a directional USD move. EUR/USD stabilizes in the mid 1.16 area. USD/JPY failed to sustain north of 111 (currently 110.80).

This morning, the dollar remained in the defensive. EUR/USD held near the recent top in the high 1.16 area, but there were no further follow-through losses. USD/JPY drifted south early in the session but tried to regain the 111 barrier going into the start of the European session.

The euro fell prey to modest profit taking at the start of European dealings. The move gained some traction as the EMU PMI's came out softer than expected. EUR/USD dropped to the 1.1630/40 area. The decline also spilled over into the EUR/JPY and USD/JPY cross rates. **It was primarily a technical setback after the recent rally.** The "poor" PMI's were nothing more than a good excuse. Interest rate differentials also re-widened marginally in favour of the dollar. Whatever the reason, it all didn't go far. Dollar weakness already resurfaced toward the end of the European morning session.

There was also no high profile news in the US to inspire trading. **The dollar continued to trade off the intraday lows, but there is no sign of any significant USD rebound.** EUR/USD trades currently in the 1.1640 area. USD/JPY hovers near 111. **Conclusion, the dollar decline slowed and the euro rally shifted into a lower gear, but the trends remain in place.**

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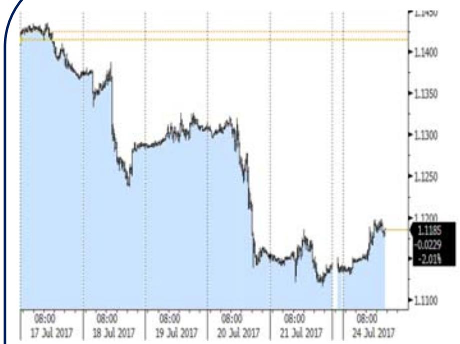

GBP/EUR (1-w): looking for a bottom?

GBP succeeds insignificant comeback

Sterling staged a technical rebound against the dollar and the euro. At the end of last week, the poor results of the first round of negotiations between the UK and the EU weighed on the UK currency. Today's rebound of sterling was primarily technical in nature. The eco news was intrinsically negative for sterling. The IMF downwardly revised the UK 2017 growth forecast to 1.7% Y/Y (from 2.0% in April). IHS markit also reported that its household financial index dropped to the lowest since July 2014 due to rising costs of living. **However, all this didn't prevent a modest technical rebound of the sterling.** EUR/GBP trades currently in the 0.8945 area. Cable returned north of 1.30. The first estimate of the UK Q2 GDP, to be published on Wednesday, will be the next key factor for sterling trading.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,19%			0,50%			1,27%		
Greece (2-10-20)	3,32%	351	-14,6	5,28%	479	2,9	6,51%	525	3,3
Portugal	1,16%	135	-4,0	2,89%	240	-0,5	3,82%	255	-0,2
Italy	0,78%	97	0,3	2,04%	155	-1,8	3,18%	192	0,1
Spain	0,30%	49	1,2	1,46%	97	2,3	2,74%	148	1,7
Ireland (4-10-30)	-0,28%	-9	-1,3	0,80%	30	-1,3	1,87%	61	0,1
Belgium	-0,10%	9	-0,4	0,76%	27	-0,7	1,78%	52	0,3
France	-0,09%	11	-0,2	0,74%	24	-0,5	1,80%	54	0,6
Austria	-0,19%	0	-0,6	0,66%	16	-0,7	1,60%	33	0,4
Netherlands	-0,25%	-6	-0,6	0,62%	12	-0,3	1,33%	6	-0,1
Finland	-0,16%	3	0,7	0,49%	-1	-0,2	1,40%	13	0,7
US	1,81%	200	2,5	2,25%	175	1,9	2,82%	156	2,5
UK	0,56%	75	1,2	1,18%	69	1,6	1,82%	56	1,9

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