



Sunset

Thursday, 28 July 2016

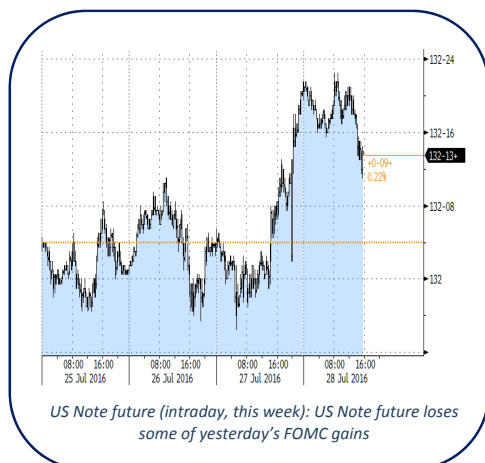
Headlines

- **European shares trade with small losses in an uneventful session, while US equities opened flat (NASDAQ) to slightly lower (Dow/S&P).**
- **German Chancellor Angela Merkel**, under pressure after two terror attacks by asylum seekers in the space of a week, said she was still convinced that Germany could handle the influx of migrants and refugees. Ms. Merkel repeated her **"Wir schaffen das!"** mantra that she first used last August as Germany was taking in thousands of asylum-seekers a day.
- **Oil prices are heading south** as concerns of a growing global over-supply come back to haunt traders, leading to a near 20% fall from its yearly highs reached mid-June. Brent crude currently trades around \$43.5/barrel, the lowest level since April.
- **German inflation accelerated** more than economists estimated in July, a positive signal for policy makers struggling to meet their goal for price growth in the 19-nation euro area. The inflation rate rose to 0.4% Y/Y from 0.2% Y/Y in June. Economists in a Bloomberg survey predicted a pickup to 0.3% Y/Y.
- **Euro-area economic confidence unexpectedly improved** from 104.4 to 104.6 in July in a sign that the immediate impact on growth of Britain's surprise vote to leave the European Union may be muted. Consensus expected a decline to 103.5.
- The **US trade deficit** widened more than expected in June, from -61.1B to -63.3B whereas a stabilization was expected. **Weekly jobless claims** remain very low but increased from 252k to 266k.

Rates

US Treasuries erase part of FOMC gains

Global core bonds lost some of the post-FOMC gains today with US Treasuries underperforming German Bunds. Most European equity markets trade near opening levels while Brent crude remains under downward pressure, sliding to a new three-month low (\$43/barrel). Yesterday's Fed statement was rapidly forgotten as it largely confirmed market expectations that the Fed is on a very, very, very, gradual tightening path. Trading probably also remained subdued in the run-up to the BoJ meeting (some sort of "helicopter money"?!). European eco data surprised on the upside of expectations, but again failed to inspire trading. EC economic confidence increased in post-Brexit era, confirming earlier signals from eg PMI's and IFO. German inflation accelerated more than expected (+0.4% Y/Y), but that's no issue for markets at this stage. US eco data disappointed with a wider trade deficit and slightly higher than forecast, but still very low, weekly claims.



At the time of writing, the US yield curve bear steepens with yields 1.2 bps (2-yr) to 4.1 bps (30-yr) higher. Changes on the German yield curve range between -0.9 bps (30-yr) and +1.2 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany are nearly unchanged.

The Italian debt agency tapped the on the run 5-yr BTP (€2B 0.45% Jun2021) and launched a new 10-yr BTP (€4.5B 1.25% Dec2026). The total amount sold was the maximum of the intended €5.5-6.5B range. The auction bid cover was solid for Italian standards at 1.39. Additionally, the Italian treasury sold a floating rate 7-yr CCTeu for €2B. **The Treasury ends its end-of-month refinancing operation with a \$28B 7-yr Note auction.** Currently, the WI trades around 1.36%.

Currencies

USD stabilizes at lower levels post-Fed

Today, the dollar initially traded with a slightly negative bias due to some follow-through losses in the wake of yesterday's soft Fed statement. However, the US currency soon found a bottom against the euro and the yen. The EMU and US data were ignored. The dollar is captured in technical trading as investors await tomorrow's BOJ decision. EUR/USD trades at 1.11. USD/JPY changes hands near 104.75.

This morning, Asian equities initially traded with moderate losses, but recouped part of those losses toward the end of the session. The rise of the yen weighed on regional sentiment. USD/JPY extended the post-Fed slide and traded slightly below 105 at the start of the European session. Markets were still waiting for the amount of BOJ easing to finance the fiscal package. **So, nervousness in the run-up to tomorrow's BOJ decision persisted, keeping the yen well bid.** **Contrary to what was of the case of late, EUR/USD also followed the global USD move. EUR/USD rebounded higher in the 1.10 big figure.**

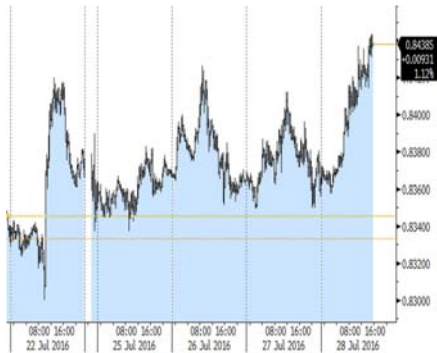


European equity investors didn't know which card to play. Indices hovered up and down after the open, just to stabilize near unchanged levels further out in the morning session. **The dollar initially faced some additional follow-through losses.** EUR/USD filled offers in the 1.1115/20 area, but the decline of the dollar stalled. **Economic confidence (EC)** surprisingly improved in July, despite Brexit uncertainty. At the same time, the **German July regional inflation data** indicated an **higher than expected national figure.** However, neither impacted EUR/USD. The pair settled close to the 1.11 level as the post-Fed repositioning had run its course. **USD/JPY** also held a tight sideways range in the upper half of the 104 big figure as equities hovered sideways.

In the US, jobless claims were marginally higher than expected. The June trade deficit printed at -\$63.3 (only \$61 bln was expected). Both data were intrinsically USD negative, but there was again no significant market reaction. USD investors apparently don't want to engage in directional USD exposure ahead of tomorrow's key BOJ policy decision. EUR/USD trades currently at 1.11. USD/JPY is changing hands at 104.75, both little changed from this morning.

Sterling in the defensive

This morning, July Nationwide house prices were fairly strong at 0.5% M/M and 5.2% Y/Y, but it didn't help sterling. The UK currency was in the defensive, both against the euro and the dollar. A YouGov poll suggests a sharp decline in consumer confidence post-Brexit. **The decline of oil and a less positive risk sentiment also weighed on sterling.** The sterling negative sentiment this time persisted throughout the day. Former BoE member Posen even advocated a 50 bp rate cut to smooth the negative effect of Brexit on the economy. The UK 10-year yield set a new all-time low at 0.70%. EUR/GBP trended gradually higher and trades currently in the 0.8440 area. Cable also declined off the intraday highs near 1.3250 in Asia this morning. However, the post-Fed decline of the dollar still keeps the pair well of the recent lows. Cable trades currently at 1.3150. .



EUR/GBP (1 wk): sterling losing ground as global sentiment turns less positive

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,49%			-0,07%			0,39%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,08%	815	-0,5	#VALUE!	#VALUE!	#VALUE!
Portugal	1,78%	227	-5,1	2,99%	305	-2,1	3,82%	343	-1,1
Italy	0,31%	80	-1,3	1,21%	128	-1,4	2,21%	182	-1,4
Spain	0,22%	71	-0,9	1,10%	117	-1,1	2,16%	177	0,3
Ireland	#VALUE!	#VALUE!	#VALUE!	0,47%	54	0,1	1,17%	77	1,4
Belgium	-0,43%	6	-0,6	0,17%	24	0,3	0,98%	59	0,7
France	-0,36%	13	0,0	0,15%	22	0,2	0,89%	50	0,8
Austria	-0,41%	9	-0,4	0,11%	18	-0,5	0,72%	33	0,3
Netherlands	-0,43%	7	-0,3	0,05%	11	-0,2	0,48%	8	0,5
Finland	-0,43%	6	-1,5	0,08%	15	-0,3	0,48%	9	-0,2
US	1,12%	161	1,1	1,53%	160	2,2	2,25%	186	4,5
UK	0,32%	81	-0,9	0,74%	80	-1,3	1,63%	123	0,9

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