Sunset

Thursday, 10 November 2016

Headlines

- **European equity markets** faced difficulties to hang on to opening gains in a rising interest rate environment, but regain momentum as **US stock markets opened around 0.75% higher.**
- **European banks will see the amount they provision for bad loans rise by as much as 30% once new accounting rules take effect,** an official impact assessment has shown, giving the gloomiest picture yet of how an already beleaguered sector may be affected by the rule change. **However, banks may profit from higher rates and from less stringent financial regulation. Insurance, financial services and banks are outperforming the overall market with increases between 2.45% and 3.15%.**
- **Industrial metal prices and shares in the companies that mine them are surging**, as investors bet on a big boost to US infrastructure and construction spending under a Donald Trump presidency. Rising inflation expectations **propel rates higher in a high-volume trading session.**
- **Britain's Office for National Statistics (ONS) said it intends to begin using CPIH as its preferred gauge of British inflation from March 2017.** CPIH does not measure house prices or mortgage payments, but instead estimates how much a home-owner would pay to rent their own home. It will also include council tax, a local property levy.
- **The oil market surplus may run into a third year in 2017 without an output cut from OPEC,** while escalating production from exporters around the globe could lead to relentless supply growth, the IEA said. **Brent crude trades currently back below $46/barrel** after an initial attempt higher failed.
- Filings for U.S. unemployment benefits declined from an almost three-month high ahead of the presidential election, indicating the job market remains competitive for employers. **Jobless claims fell by 11,000 to 254,000** in the week ended Nov. 5, a Labour Department report showed.

Rates

German 10-yr yield tests technical important resistance

US yields storm ahead

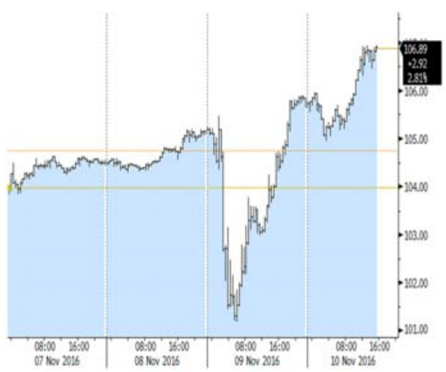
US President-elect Trump's induced reflation trade dominates markets a second straight session. The US 5y5y forward inflation swap increased from 2.2% to 2.43% since his election. Core bonds lost more ground in a high-volume trading session which lacked news value apart from lower than expected US jobless claims and comments by St. Louis Fed Bullard. The odd man out in the Fed repeated his extremely dovish view that low interest rates are likely to continue to be the norm over the next two or three years. **At the time of writing,** the US yield curve bear steepens with yields 1.3 bps (2-yr) to 5.3 bps (30-yr) higher. From a technical point of view, breaks of important resistance levels are confirmed at the 10-yr tenor (2%) and 30-yr tenor (2.75%), suggesting more upward potential. The US 5-yr yield tests resistance around 1.5%. The German yield curve moves in similar fashion with yields 2.3 bps (2-yr) to 12.1

bps (30-yr) higher. **The European underperformance is partly due because of a catch-up move** from yesterday evening's action in the US. **The German 10-yr yield tests 0.30/0.33% resistance (March/April 2016 highs) and is above the key 38% Fibonacci retracement** (this means that the up-move can no longer be considered as a simple correction on the June 2015 1.05% high to the -0.20% June 2016 low downleg). If the resistances are neatly broken, technically, next resistance stands only at 0.70/72% with intermediate resistance (50% retracement) at 0.43%. **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany widened up to 7 bps (Italy).

Tonight, the US Treasury ends its refinancing operation with a $15B 30-yr Bond auction. Currently, the WI trades around 2.88%. Given the timing of the auction, just after the US elections and a huge sell-off at the very long end of the curve, we fear that investors aren't willing yet to already pick up long US Treasury bonds.

Currencies

Dollar continues to shine. Yen underperforms



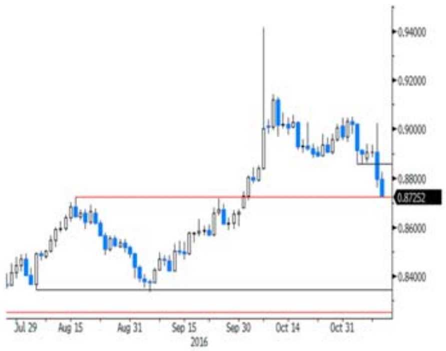
USD/JPY (this week): dollar shines, yen suffers as reflation trade is extended.

Today, the dollar enjoyed further follow-through buying as the Trump-driven reflation trade continued. The rise in core bond yields favoured the dollar most. The yen suffered. USD/JPY (currently 106.90 area), but also EUR/JPY (116.40 area) try to extend gains beyond technical resistance. The gains of the dollar against the euro were more modest today. Even so, the pair trades below 1.09. EUR/USD 1.0851 support is within reach.

Overnight, Asian markets caught up with WS and gained 1% to 3%. Japan even outperformed (6%). Markets joined the US-driven reflation trade. Yesterday, this reflation trade propelled US bond yields and the dollar. However, there were no additional USD gains in Asia this morning. EUR/USD traded in the 1.0945 area at the start of the US session. USD/JPY changed hands in the mid-105.area. The reflation trade also propelled commodities and commodity assets. Even so, the gains of the Aussie dollar remained modest.

There was very little hard news to guide trading in Europe and also later in the US. **USD trading was mostly order driven as investors adapted positions further in line with the US, Trump-driven reflation trade.** This trade was in the first place visible in a further sell-off of core bonds. Contrary to what was the case yesterday, LT European bonds today slightly underperformed their US counterparts. However, after yesterday's sharp spread widening, this move didn't really hurt USD sentiment. 2-yr interest rate differentials between the US and Germany were basically stable in the 150 bps area. **EUR/USD trended gradually further south and touched an intraday low in the 1.0870 area. However, a test of the correction low/support of 1.0851 didn't occur yet.** The pair trades currently in the 1.0875 area. USD/JPY was better inspired. **The reflation trade, including higher yields in the US and Europe, weakened the yen further. USD/JPY trades currently in the high 106 area. EUR/JPY also tries to break out of a sideways consolidation pattern with top in the 116.25/37 area.** The pair trades currently around 116.40.

EUR/GBP: 0.8725 support under test



EUR/GBP tests 0.8725 support as cable outperforms EUR/USD in global USD rally

Sterling trading initially developed in a relatively calm way today in cable and in EUR/GBP. The price action in sterling was again driven by the global market developments, in particular the rise of the dollar. **As was the case yesterday, sterling outperformed the euro in the global rise of the dollar.** Cable hovered in a sideways range mostly in the lower half of the 1.24 big figure, but finally trended higher during the US session (currently 1.2480 area). However, with EUR/USD still losing some further ground, **EUR/GBP traded with a negative bias intraday and this trade accelerated during the US session.** The pair is currently testing **the 0.8725 support (previous top)**. The outperformance of sterling can't be explained by interest rate differentials. If anything, the yield spread between sterling and the euro narrowed. The ongoing risk-on sentiment might be slightly sterling supporting. **A sustained decline below 0.8725 would improve the short-term technical picture of sterling against the euro.**

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,34%			0,31%			0,95%		
Greece	#VALUE!	#VALUE!	#VALUE!	7,30%	699	-15,7	#VALUE!	#VALUE!	#VALUE!
Portugal	1,97%	232	4,1	3,43%	312	4,4	4,44%	348	2,0
Italy	0,78%	112	4,4	1,92%	162	6,5	3,04%	209	6,1
Spain	0,31%	65	2,6	1,41%	110	2,7	2,61%	166	4,0
Ireland	#VALUE!	#VALUE!	#VALUE!	0,88%	57	4,1	1,76%	81	5,4
Belgium	-0,21%	14	2,9	0,63%	32	4,6	1,58%	63	4,9
France	-0,19%	15	3,0	0,70%	39	5,0	1,51%	55	4,7
Austria	-0,24%	11	-0,8	0,53%	22	1,3	1,32%	36	0,5
Netherlands	-0,22%	13	2,1	0,46%	15	1,5	1,03%	8	0,3
Finland	-0,30%	4	-0,7	0,49%	18	1,1	1,04%	8	0,4
US	1,52%	187	-1,1	2,11%	180	-5,0	2,91%	196	-6,4
UK	0,64%	99	-0,4	1,36%	105	-0,2	2,04%	108	-2,5

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