



## Sunrise



Wednesday, 18 October 2017

### Rates: No strong take on today's trading

Today's eco calendar contains US housing data and speeches by central bankers. The Bund's outperformance vs the US Note future is expected to last given dovish ECB rumours and European political risk, but we have no strong directional take for today's trading session.

### Currencies: Dollar holds cautiously positive bias

The dollar slightly outperformed the euro and, to a lesser extent, the yen yesterday. Today's eco data are of second tier importance. Catalan uncertainty might remain a negative for the euro. Sterling didn't profit after UK inflation hit the 3%-mark as the Brexit stalemate weighs. Sterling traders look out for the UK labour market data today.

### Calendar

## Headlines

|              |   |
|--------------|---|
| S&P          | ↗ |
| Eurostoxx 50 | ↗ |
| Nikkei       | ↗ |
| Oil          | ↗ |
| CRB          | ↗ |
| Gold         | ⬇ |
| 2 yr US      | ↗ |
| 10 yr US     | ↗ |
| 2yr DE       | ↗ |
| 10 yr DE     | ↗ |
| EUR/USD      | ↗ |
| USD/JPY      | ↗ |
| EUR/GBP      | ↗ |

- **US stock markets ended near opening levels** with the Dow slightly outperforming and crossing the 23k mark intraday for the first time in its history. **Asian bourses trade mixed overnight** with China slightly outperforming.
- **President Xi Jinping declared that China has "entered a new era" as he opened a landmark Communist party congress** that will cement his status as a transformative leader alongside Deng Xiaoping and Mao Zedong.
- **Philly Fed President Harker** said the US labor market has "very little slack left." **He sees one more rate increase in 2017** but the forecast could change if inflation doesn't pick up. **He also expects three rate increases in 2018.**
- **Nafta talks are switching gears and slowing down** as key obstacles emerge, with Canada and Mexico rejecting what they see as hard-line US proposals and negotiators exchanging their strongest public barbs yet.
- **Oil prices extended gains with Brent crude above \$58/barrel**, lifted by a fall in US crude inventories and concerns that tensions in the Middle East could disrupt supplies.
- **Two US senators reached a bipartisan agreement to shore up Obamacare for two years** by reviving federal subsidies for health insurers that President Trump planned to scrap, and the president indicated his support for the plan.
- **Today's eco calendar** contains US Housing data and the UK labour market report. Several central bankers speak, including ECB Draghi. The US releases its Beige Book and Germany holds a 30-yr Bund auction

# Rates

## Slight outperformance German Bund

|    | US yield | -1d   |
|----|----------|-------|
| 2  | 1,55     | 0,01  |
| 5  | 1,96     | 0,01  |
| 10 | 2,30     | 0,00  |
| 30 | 2,81     | -0,02 |

|    | DE yield | -1d   |
|----|----------|-------|
| 2  | -0,73    | 0,01  |
| 5  | -0,33    | 0,01  |
| 10 | 0,37     | -0,01 |
| 30 | 1,22     | -0,01 |

## US housing data probably distorted

## ECB speakers to remain muted on future APP

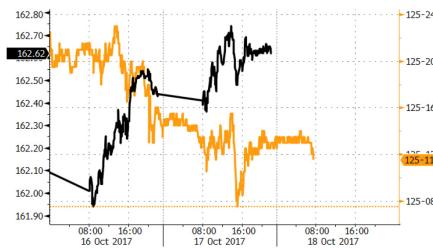
## Small outperformance Bund, but changes limited

Global core bonds eventually ended close to unchanged yesterday with the Bund slightly outperforming the US Note future. Developments on the European political scene and dovish rumours about next week's ECB meeting play in the back of investors' minds and give Bunds the advantage. **US Treasuries lost some ground intraday after higher-than-expected US import prices, but the move never went far and was almost completely undone by the closing bell.** US industrial production data were too close to consensus to influence dealings.

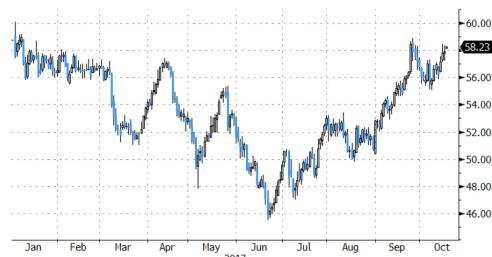
**At the end of the day**, changes on the German yield curve ranged between +0.9 bps (2-yr) and -1 bp (30-yr), flattening the curve. The US yield curve moved in a similar way with yield changes varying between +0.8 bps (2-yr) and -2.1 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged with Spain and Italy outperforming (-3 bps).

## US housing data and central bank speakers

Today's eco calendar contains US housing starts (1175k; -0.4% M/M expected) and building permits (1245k; -2.1% M/M forecast) for September. **US housing data recently showed signs of peaking.** It will be interesting whether this will be confirmed or even suggest that a downward trend might have started. It's hard to judge the September data because they will probably be distorted by the impact from Hurricanes Harvey and Irma. **ECB Draghi, Praet and Coeure are scheduled to speak at the "Structural Reforms in the Euro Area" conference in Frankfurt.** They will probably stay short on commenting on next week's policy meeting. Recent rumours all suggest that APP will be extended for at least 9 months, while halving the current pace of purchases to €30 bn. With the significant extension, the ECB wants to strengthen its forward guidance on rates and prevent unwarranted speculation on an early rate hike. Policy rates are expected to remain at current low levels well beyond the ending of asset purchases. An important side-effect is that it keeps a lid on euro strength, in theory at least. **US Fed Dudley (centrist) and Kaplan (centrist, but soft on inflation) discuss economic developments.** Their views are well-known and won't impact trading. Tonight, the Fed releases its Beige Book, a preparatory document for the next FOMC meeting.



T-note future (orange) & German Bund (black)(intraday, this week): outperformance Bund



Brent crude approaches highest level YTD

## No strong take on today's trading

|             |               |             |
|-------------|---------------|-------------|
| R2          | 163,43        | -1d         |
| R1          | 162,19        |             |
| <b>BUND</b> | <b>162,64</b> | <b>0,16</b> |
| S1          | 160,49        |             |
| S2          | 159,80        |             |

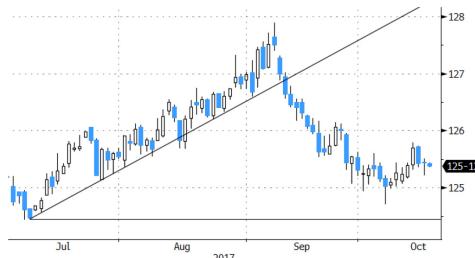
Most Asian stock markets trade mixed overnight with China slightly outperforming. The US Note future flat lines, suggesting a neutral opening for the Bund.

**Today's eco calendar contains US housing data and speeches by central bankers.** Data are probably distorted, while ECB members will probably refrain from giving policy-sensitive comments with next week's meeting looming. Markets reacted in dovish way to recent rumours (see above) as they suggest that a first rate hike is still far away. **The Bund's outperformance vs the US Note future is expected to last, but we have no strong directional take for today's trading session.** The German Finanzagentur holds a 30-yr Bund auction (€1bn 1.25% 2048) today. Total bids averaged €1.98B at the previous 4 30-yr Bund auctions. We don't expect much improvement. Q3 earnings are a wildcard for trading via stock markets. US and German indices are at all-time highs, suggesting they are prone for a correction.

**Technically**, the German Bund broke above the 162 mark, implying a full retracement towards the contract high. European election outcomes (Germany, Austria, Catalonia) and ECB rumours caused outperformance vs the US Note future. **We hold a sell-on-upticks strategy both in the US Note future (entry around 126), but put it on hold for the Bund.**



German Bund: Break above 162 suggests retracement towards September high



US Note future: underperformance vs Bund. Consolidation pattern still in place

# Currencies

## USD extends cautious rebound

**Dollar extends cautious uptrend, in particular against the euro**

The dollar continued the cautious uptrend that started Monday evening on headlines that chances of John Taylor becoming Fed chairman were rising. Catalonia moved temporary to the background as a driver for trading, but probably kept euro buyers on the side-lines. Higher than expected US import prices caused some further USD gains in the afternoon, but the rally petered out later. EUR/USD closed the session at 1.1766 (from 1.1796). USD/JPY finished almost unchanged at 112.20.

**Dollar going nowhere this morning**

|                |               |                |
|----------------|---------------|----------------|
| R2             | 1,2225        | -1d            |
| R1             | 1,2167        |                |
| <b>EUR/USD</b> | <b>1,1766</b> | <b>-0,0030</b> |
| S1             | 1,1662        |                |
| S2             | 1,1311        |                |

**Overnight**, the focus in Asia is on the opening speech of Chinese President Xi Jinping at the Communist Party congress. However, there is no direct link to markets. Most Asian equity indices are trading marginally lower, with China outperforming. According to the foreign currency report of the US Treasury, no major trading partner is manipulating its currency. The assessment on the yuan was quite constructive. The US Treasury said that the yuan has recently moved in a direction that would help correct the bilateral trade imbalance with the US. USD/JPY is holding a very tight range in the 112.20/25 area. EUR/USD hovers around 1.1765.

There are no important eco data in the EMU today. US housing starts (-0.4% M/M) and building permits (-2.1%) are both expected to decline slightly. The data might be distorted by the hurricanes. Recent data from the sector were a bit diffuse and could even raise the question whether it is heading for a cooling down. Even so, we expect little impact on the dollar. The Fed will release the Beige Book preparing the November 1 policy meeting after the European close. Markets will look out for indications on price developments. There are again plenty of CB speakers including ECB's Praet and Draghi and Fed's Dudley and Kaplan. Markets will continue to look for clues on the ECB's APP. Markets considered recent indications/rumours as dovish. However, we don't expect the ECB policy makers to reveal important details. Technical considerations and global factors will continue to set the tone for USD trading. Catalonia remains a factor of uncertainty for the euro as Spain and the region are heading for a political confrontation. Earlier this week, we kept a neutral-to-tentatively negative bias for EUR/USD. We maintain this call. We remain cautious on USD/JPY. Recent price action was not convincing and event risk from whatever source might weight on the pair.



From a technical point of view, EUR/USD dropped below the 1.1823/ 1.2070 consolidation pattern, but no real test of the **1.1662 support occurred**. Last week, the pair even returned (temporary?) above the 1.1823 previous range bottom, which was disappointing for EUR/USD bears. We maintain a cautious sell-on upticks bias. The pair needs to drop below 1.1670/62 support to really give comfort to EUR/USD bears. **The USD/JPY momentum was constructive in September**. The pair regained 110.67/95 (previous resistance), a short-term positive. The 114.49 correction top is the next important resistance. The rally clearly lost momentum last week. A break beyond 114.49 looks ever more difficult.

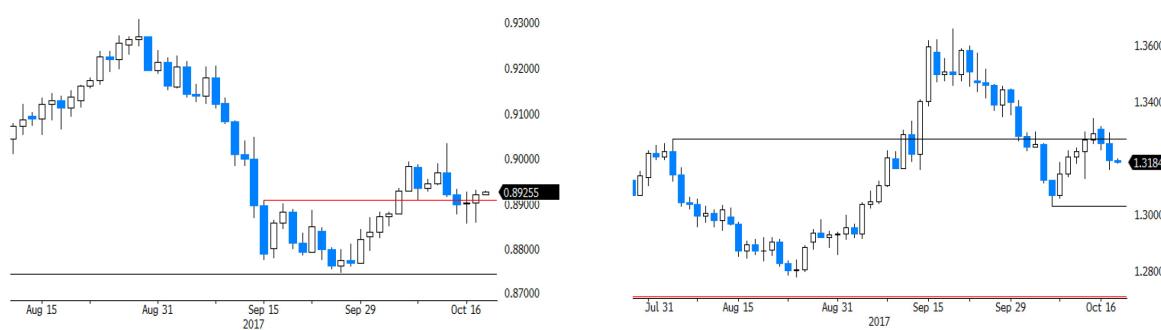
### Sterling rebound aborted

|         |        |        |
|---------|--------|--------|
| R2      | 0,9415 | -1d    |
| R1      | 0,9307 |        |
| EUR/GBP | 0,8921 | 0,0020 |
| S1      | 0,8743 |        |
| S2      | 0,8657 |        |

Sterling traded with a **cautiously positive bias yesterday morning, ahead of the inflation data** and the hearing of BoE governor Carney before Parliament. UK September inflation printed at 3.0% Y/Y, in line with expectations. Sterling reached an intraday high just after the inflation data. **BoE Carney supported a rate hike, but stressed that the BoE is still facing the difficult balance between supporting growth and having inflation above target**. His comments can be considered as an indication that any policy tightening will be limited. Sterling more than reversed the initial gains. Cable tumbled one big figure and closed the day at 1.3190. EUR/GBP rebounded well north of 0.89 and closed at 0.8921.

UK labour market data will be published today. Consensus expects solid job growth (148k in the 3 months to August). Wage growth is expected at a very modest 2.1% Y/Y. Usually this report has market moving potential. However, we have the impression that a big surprise is needed. A limited BoE rate hike is discounted and the report probably won't change this scenario. So, the focus for sterling trading might return to Brexit going into tomorrow's EU summit. **Recent price action suggests that sustained further sterling gains might face quite heavy headwinds as long as Brexit tensions remain as elevated as they are.**

EUR/GBP staged a strong uptrend from April till late August to set a top at 0.9307. Rising UK inflation data and hawkish BoE comments reinforced a sterling rebound, but **this rebound has run its course**. EUR/GBP supports at 0.8743 and 0.8657 proved difficult to break. **We look to buy EUR/GBP on dips. The recent rebound above 0.89 improved the ST technical picture of EUR/GBP, but for now there were no convincing follow-through gains. EUR/GBP 0.9026 is the 50% retracement of the recent countermove.**



EUR/GBP: sterling rebound runs into resistance even as UK inflation reaches 3%.

GBP/USD: Brexit uncertainty weighs on sterling. Dollar outperforms

# Calendar

| Wed., 18 October |  |  | Consensus   | Previous    |
|------------------|--|--|-------------|-------------|
| US               |  |  |             |             |
| 14:30            | Housing Starts / MoM (Sep)                               |  | 1175k/-0.4% | 1180k/-0.8% |
| 14:30            | Building Permits / MoM (Sep)                             |  | 1245k/-2.1% | 1300k/3.4%  |
| UK               |  |  |             |             |
| 10:30            | Claimant Count Rate (Sep)                                |  | --          | 2.3%        |
| 10:30            | Jobless Claims Change (Sep)                              |  | --          | -2.8k       |
| 10:30            | Average Weekly Earnings 3M/YoY (Aug)                     |  | 2.1%        | 2.1%        |
| 10:30            | Weekly Earnings ex Bonus 3M/YoY (Aug)                    |  | 2.0%        | 2.1%        |
| 10:30            | ILO Unemployment Rate 3Mths (Aug)                        |  | 4.3%        | 4.3%        |
| 10:30            | Employment Change 3M/3M (Aug)                            |  | 148k        | 181k        |
| EMU              |  |  |             |             |
| 11:00            | Construction Output MoM / YoY (Aug)                      |  | --/--       | 0.2%/3.4%   |
| Events           |  |  |             |             |
| Q4 earnings      | ASML (07:00), American Express (22:05), eBay (22:15),... |  |             |             |
| 10:10            | ECB President Draghi speaks in Frankfurt                 |  |             |             |
| 11:30            | Germany to Sell €1 bn 1.25% 2048 Bonds                   |  |             |             |
| 14:00            | Fed's Dudley and Kaplan Discuss Economic Development     |  |             |             |
| 13:45            | ECB's Praet is chairing a panel in Frankfurt             |  |             |             |
| 16:15            | ECB's Coeure is chairing a panel in Frankfurt            |  |             |             |
| 20:00            | U.S. Federal Reserve Releases Beige Book                 |  |             |             |

| 10-year    | Close  | -1d     | 2-year     | td        | -1d     | Stocks      | Close    | -1d    |        |
|------------|--------|---------|------------|-----------|---------|-------------|----------|--------|--------|
| US         | 2,30   | 0,00    | US         | 1,55      | 0,01    | DOW         | 22997,44 | 40,48  |        |
| DE         | 0,37   | -0,01   | DE         | -0,73     | 0,01    | NASDAQ      | 6623,657 | -0,35  |        |
| BE         | 0,63   | -0,02   | BE         | -0,57     | 0,01    | NIKKEI      | 21363,05 | 26,93  |        |
| UK         | 1,28   | -0,06   | UK         | 0,41      | -0,04   | DAX         | 12995,06 | -8,64  |        |
| JP         | 0,07   | 0,00    | JP         | -0,14     | 0,00    | DJ euro-50  | 3607,77  | 1,50   |        |
|            |        |         |            |           |         |             |          |        |        |
| IRS        | EUR    | USD     | GBP        | EUR       | -1d     | -2d         | USD      | -1d    | -2d    |
| 3y         | -0,07  | 1,91    | 0,91       | Eonia     | -0,3610 | -0,0020     |          |        |        |
| 5y         | 0,20   | 2,04    | 1,05       | Euribor-1 | -0,3730 | -0,0020     | Libor-1  | 1,2367 | 0,0000 |
| 10y        | 0,83   | 2,28    | 1,31       | Euribor-3 | -0,3290 | 0,0000      | Libor-3  | 1,3539 | 0,0000 |
|            |        |         |            | Euribor-6 | -0,2740 | 0,0000      | Libor-6  | 1,5332 | 0,0000 |
|            |        |         |            |           |         |             |          |        |        |
| Currencies | Close  | -1d     | Currencies | Close     | -1d     | Commodities | Close    | -1d    |        |
| EUR/USD    | 1,1766 | -0,0030 | EUR/JPY    | 132,02    | -0,33   | CRB         | 184,24   | -0,38  |        |
| USD/JPY    | 112,2  | 0,01    | EUR/GBP    | 0,8921    | 0,0020  | Gold        | 1286,20  | -16,80 |        |
| GBP/USD    | 1,319  | -0,0061 | EUR/CHF    | 1,1512    | 0,0005  | Brent       | 57,88    | 0,06   |        |
| AUD/USD    | 0,7846 | -0,0005 | EUR/SEK    | 9,5934    | 0,0321  |             |          |        |        |
| USD/CAD    | 1,2522 | 0,0004  | EUR/NOK    | 9,3479    | 0,0318  |             |          |        |        |

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