



## Sunrise

Thursday, 12 October 2017

### Rates: Consolidation phase to continue

The eco calendar remains rather dull today. The Spanish matter remains a factor of uncertainty. JP Morgan and Citigroup are the first big companies to report Q3 earnings and can influence intraday sentiment via stock markets. Central bank speakers are wildcards. We expect the consolidation/correction higher in core bonds to continue.

### Currencies: EUR/USD extends comeback

EUR/USD continued the rebound from earlier this week. The move was due to overall dollar softness. Catalan developments hardly affect the single currency. US PPI data are expected to rise today. However, USD investors probably want a clear signal from tomorrow's key US data before changing tactics on the dollar.

### 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 up to 0.25% higher with main indices putting another record closing high in place.** Risk sentiment in Asia remains positive overnight with indices 0.25%-0.5% higher.
- **Most Federal Reserve officials believed at their September meeting that they would likely raise short-term interest rates again this year,** but some cautioned the decision would hinge on whether inflation picks up.
- **Spanish PM Rajoy gave the Catalan government eight days to drop an independence bid,** failing which he would suspend the Catalonia's political autonomy and rule the region directly.
- **A longer extension of the ECB's bond-buying programme may be more beneficial during periods of calm, chief economist Praet** said, just weeks before the bank decides whether to extend stimulus.
- **The Italian government won two confidence votes on a fiercely contested electoral law** that is likely to penalise the anti-establishment 5-Star Movement in next year's national election.
- **President Trump** plans to sign an executive order to start the **unwinding of the Affordable Care Act,** paving the way for changes to health-insurance regulations by allowing the sale of less-comprehensive agencies health plans to expand.
- **Today's eco calendar** contains US PPI data, weekly jobless claims and EMU industrial production data. Italy and the US sell bonds and plenty of central bankers are scheduled to speak.

# Rates

*Slight underperformance German bonds on Spanish-induced risk-on*

*Spain & Portugal outperform*

	US yield	-1d
2	1,52	0,01
5	1,94	0,00
10	2,35	-0,01
30	2,87	-0,01

	DE yield	-1d
2	-0,69	0,01
5	-0,26	0,02
10	0,46	0,02
30	1,31	0,03

*US PPI main eco release*

*IMF/World Bank meetings in focus*

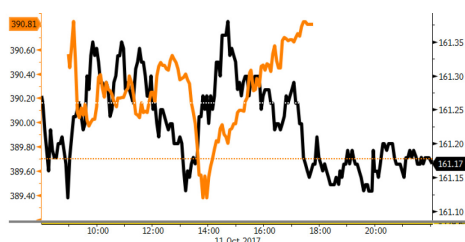
## Still fairly quiet, sideways trading

**Global core bonds parted ways yesterday with US Treasuries (slightly higher) outperforming German Bunds (flat).** Trump’s administration made specific proposals to weaken NAFTA while two voting FOMC governors (Chicago Fed Evans and Dallas Fed Kaplan) sounded dovish on inflation, questioning a December rate hike. The Bund initially lost some ground as Spanish assets opened strong following Catalan President Puidgemont’s speech, but the move never went far. **PM Rajoy issued a formal request to the Catalan government in Barcelona for confirmation of whether it has declared independence, amid “confusion created deliberately.”** A confirmation from Catalunya could cause Madrid to trigger article 155, stripping the region from its autonomy. During the US session, neither the strong 3- and 10-yr US auctions nor the FOMC Minutes were able to give further US Treasuries direction.

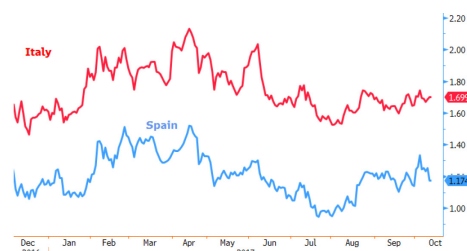
**In a daily perspective, the German yield curve bear steepened with yields 0.6 bps (2-yr) to 2.7 bps (30-yr) higher, largely due to a weaker opening, catching up with Tuesday’s eve after cash market trading.** The US yield curve flattened with yields 0.6 bps (2-yr) higher to 1.2 bps (30-yr) lower. **On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 8 bps (Spain/Portugal; the latter profiting from successful auction), while Italy underperformed (-2 bps).** Upcoming supply weighted on Italy, as was the commotion about the new electoral law.

## Calendar remains thin, but plenty central bankers

**EMU industrial production** is expected to have grown strongly in August (0.6% M/M & 2.6% Y/Y), following a weak 0.1% M/M in July. **Production is outdated and has little market moving potential.** Given the strength of the German and Italian production, risk are on the upside of consensus (even as French production disappointed). **US initial claims** are expected to unwind further (250K) the hurricane-related pop-up in early September, but consensus might have underestimated the rise in Puerto Rican claims (hurricane effect), which surprisingly weren’t visible last week. **US producer prices (PPI)** are expected to have increased by 0.4% M/M and 2.6% Y/Y in September, following a more modest 0.2% and 2.4% Y/Y in August. Core PPI inflation is expected unchanged at 2% Y/Y. The headline jump might have been due to **temporary disruptions** after the hurricanes passed. Markets are sensitive to all inflation readings, but price action may be less outspoken as the more important CPI inflation will be released tomorrow and figures may be distorted by the hurricane effects. There are lots of **central bank speakers** at the bi-annual IMF/Worldbank meetings. **Especially Draghi, Praet and Brainard are worth listening too.**



*Bund future (black) & EuroStoxx (orange)(intraday): Bund trades in 20 ticks range, closing near the lows.*



*Spanish and Italian 10-yr yield spread: Spanish spread narrows again, as Catalan government is expected to lose the stand-off with Madrid.*

R2	163,43	-1d
R1	161,98	
<b>BUND</b>	<b>161,27</b>	<b>-0,22</b>
S1	160,49	
S2	159,80	

### Italy and the US end this week's scheduled supply

The Italian debt agency issues a new 3-yr BTP (€3.5-4B 0.2% Oct2020) and taps the on the run 7-yr BTP (€1.5-2B 1.45% Nov2024) and 30-yr BTP (€1-1.5B 3.45% Mar2048). Grey trading suggests that the new 3-yr BTP will be priced with a 3.8 bps pick-up in ASW spread terms compared with the previous 3-yr benchmark (0.35% Jun2020). That corresponds with a 8 bps pick-up in yield terms. Other bonds on offer cheapened slightly in ASW spread terms going into the auction. We expect the auctions to go well.

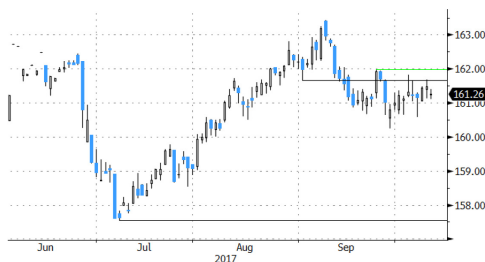
The US Treasury started its mid-month refinancing operation yesterday with strong \$24B 3-yr Note and \$20B 10-yr Note auctions. The 3-yr Note auction stopped a hair through the WI bid and the bid cover rose to 2.83 from 2.7 previously. Buy-side demand was about average overall, but the indirect bid stood out. The 10-yr Note auction also stopped a little through the 1:00 PM bid side with the best bid cover since June (2.54). The direct bid was just below average, but the indirect bid was the largest in more than a year. The Treasury ends its refinancing operation with a \$12B 30-yr Bond auction. The WI currently trades around 2.87%.

### Consolidation phase to continue

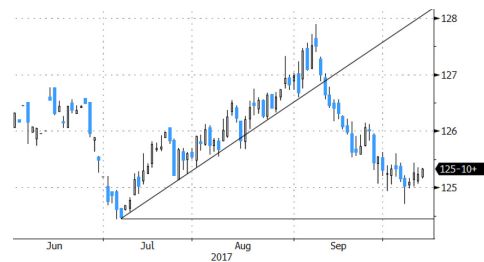
Most Asian stock markets trade positive overnight. The US Note future has an upward bias though while the dollar loses some ground. If any, we expect a slightly stronger opening for the Bund.

The eco calendar remains rather dull today. The Spanish matter remains a factor of uncertainty. Spanish PM Rajoy gave Catalonia an 8-day deadline to drop their independence bid at the cost of evoking article 155 and stripping the region from its autonomy. JP Morgan and Citigroup are the first big companies to report Q3 earnings and can influence intraday sentiment via stock markets. Central bank speakers are wildcards.

Technically, US yields ran into resistance after Friday's payrolls, initiating some short term consolidation. A December rate hike is now almost completely discounted and also suggests that the sell-off is ripe for a pause. Adding the geopolitical context and US/German stock markets at record levels (ready for some profit taking?) even suggest a small positive bias for core bonds in this back-loaded (key US eco data on Friday) week. Looking past this week, we hold a sell-on-upticks strategy both in the US Note future (entry around 126) and the Bund (entry levels around 162).



German Bund: Sell-on-upticks around 162, anticipating ECB announcement unless Catalan issue spirals out of control



US Note future: Almost completely retraced Summer rally. US 10y yield's failed test of 2.4% suggests some ST consolidation

# Currencies

## EUR/USD extends rebound

*Dollar slide continues.*

The developments on Catalonia dominated the news headlines, but had little impact on the markets outside Spain. EUR/USD extended its gradual rebound. This was mostly USD softness. The Fed Minutes confirmed that most Fed members envisage an additional rate hike this year, but low inflation remains a source of internal debate. The dollar lost marginal further ground after the report. USD/JPY closed the session little changed at 112.50. EUR/USD finished at 1.1859 (from 1.1808).

*Asian equities extend rally*

*Dollar doesn't profit the global risk-on*

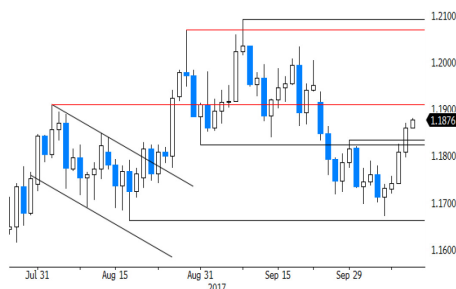
New record closing levels on WS also support equity gains in Asia overnight. However, the equity rally has no impact on core yields. **The dollar doesn't receive additional interest rate support.** USD/JPY even trades marginally softer at 112.34. EUR/USD regained the previous 1.1823 range bottom and trades around 1.1875. The Spanish/Catalan crisis entered a period of 'distress' as the Catalan leaders have five days to clarify whether they declared independence. For now the political uncertainty doesn't weigh on the euro.

*Market calendar modestly interesting*

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1859	0,0051
S1	1,1662	
S2	1,1311	

**Today**, EMU industrial production is expected to have grown strongly in August. Risks are on the upside, but the report is outdated. In the US, **the initial claims** are expected to decline further (to 252K) following the pop-up due to the hurricanes. **US Producer prices are expected to have increased by 0.4% M/M and 2.6% Y/Y in September, following a more modest 0.2% and 2.4% Y/Y in August.** Core PPI inflation is expected unchanged at 2% Y/Y. Markets are sensitive to inflation data, but price action may be modest as the more important CPI inflation will be released tomorrow. Global markets will also keep an eye at the first earnings reports from the first major US Banks (JP Morgan and Citigroup).

**After a cautious comeback, the dollar is again losing ground this week.** No news is apparently bad news for the dollar. USD investors want concrete news on the tax reform, on the economy and on the Fed's rate intentions. **The absence of progress on these issues causes some "by-default" USD selling.** A higher PPI might be slightly USD supportive, but it won't be a trigger for a U-turn. For that, we probably have to wait for tomorrow's US retail sales and/or CPI. There will still be plenty of headlines on Catalonia, but we don't expect negative impact on the euro. The next important steps will probably occur next week. We look for tentative signs of a USD bottoming out ahead of tomorrow's US data. **Even so, this week's price action is disappointing for USD bulls.**



EUR/USD returned north of the 1.1823 previous range bottom



Global risk-on doesn't help USD/JPY

From a technical point of view, EUR/USD dropped below the 1.1823/ 1.2070 consolidation pattern last week. The USD rebound developed very slowly. The 1.1662 support came on the radar, but no real test occurred. Yesterday, the pair even returned above the 1.1823 previous range bottom, which is disappointing for EUR/USD bears, but we wait for tomorrow's US data to amend our EUR/USD sell-on-upticks bias. The USD/JPY momentum was constructive of late, but for an important part due to yen weakness. USD sentiment recently improved though. USD/JPY regained 110.67/95 (previous resistance), a short-term positive. The 114.49 correction top is the next important resistance. The rally lost momentum last week. So a break beyond 114.49 is difficult.

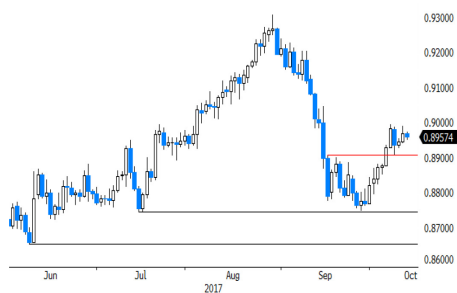
### Sterling remains in consolidation modus

There were no important eco data in the UK yesterday. Sterling initially traded with a modest negative bias, especially against the euro. UK Chancellor of the Exchequer Hammond said he is considering to release more money to prepare for a 'No deal Brexit' scenario if there aren't clear signs of progress by early 2018. There was no reaction of sterling to the Hammond comments. However, they illustrate that the clock is ticking against the UK and that UK companies desperately need progress and clarity on the Brexit process. EUR/GBP closed the session at 0.8970, nearing the recent correction top. Cable finally closed the session marginally higher at 1.322, but this was mostly due to USD weakness.

The RICS House price data were marginally stronger than expected this morning. There are no other important eco data in the UK today. BoE chief economist Haldane gives a speech in Washington late this evening. We don't expect him to bring high profile news on monetary policy. There's still no trigger for a clear directional move in EUR/GBP. The pair might continue to drift sideways in the 0.89 big figure, awaiting new eco or other news.

EUR/GBP staged a strong uptrend since April to set a top at 0.9307 late August. UK price data and hawkish BoE comments reinforced a sterling rebound. Medium term, we maintain a EUR/GBP buy-on-dips approach as we expect the mix of euro strength and sterling softness to persist. The prospect of (limited) withdrawal of BoE stimulus triggered a good sterling countermove, but this rebound has run its course. EUR/GBP supports at 0.8743 and 0.8652 are difficult to break. We look to buy EUR/GBP on dips. Last week's rebound above the 0.89 area improved the ST technical picture of EUR/GBP. EUR/GBP 0.9026 is the 50% retracement of the recent countermove.

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8969	0,0025
S1	0,8743	
S2	0,8657	



EUR/GBP rebound slows, but holds north of 0.89



GBP/USD rebounds, mostly on USD weakness

# Calendar

Thursday, 12 October		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM / YoY (Sep)	0.4%/2.6%	0.2%/2.4%
<b>14:30</b>	<b>PPI Ex Food and Energy MoM / YoY (Sep)</b>	<b>0.2%/2%</b>	<b>0.1%/2.0%</b>
14:30	Initial Jobless Claims	250K-	260k
14:30	Continuing Claims	1930K	1938k
<b>Japan</b>			
01:50	PPI MoM / YoY (Sep)	A 0.2%/3.0%	0.0%/2.9%
<b>UK</b>			
01:01	RICS House Price Balance (Sep)	A 6%	6%
<b>EMU</b>			
11:00	Industrial Production SA MoM / WDA YoY (Aug)	0.6%/2.6%	0.1%/3.2%
<b>Sweden</b>			
09:30	CPI CPIF MoM / YoY (Sep)	0.4%/2.5%	-0.1%/2.3%
<b>Events</b>			
11:00	Italy to Sell Bonds (€2B 1.45% 2024 BTP, €4B 0.2% 2020 BTP & €1.5B 3.45% 2048 BTP)		
<b>16:15</b>	<b>ECB's Draghi, Fed's Brainard Speak on Monetary Policy Panel</b>		
16:30	Fed's Powell Speaks at IIF Conference in Washington (Prospects for EM countries)		
<b>16:30</b>	<b>Fed Brainard on monetary policy in panel with ECB Draghi</b>		
<b>16:30</b>	<b>ECB Praet speaks at JPM seminar</b>		
22:00	ECB Coeure and ECB Lautenschlaeger speak at panel in Washington		
19:00	US to Sell \$12B 30-yr Bonds		

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>td</u>	<u>-1d</u>	<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
<b>US</b>	2,35	-0,01		<b>US</b>	1,52	0,01	<b>DOW</b>	22872,89	42,21
<b>DE</b>	0,46	0,02		<b>DE</b>	-0,69	0,01	<b>NASDAQ</b>	6603,548	16,30
<b>BE</b>	0,74	0,02		<b>BE</b>	-0,54	0,01	<b>NIKKEI</b>	20954,72	73,45
<b>UK</b>	1,38	0,02		<b>UK</b>	0,47	0,02	<b>DAX</b>	12970,68	21,43
<b>JP</b>	0,07	0,00		<b>JP</b>	-0,14	0,00	<b>DJ euro-50</b>	3607,39	8,60
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>	<b>USD</b>	<u>-1d</u>	<u>-2d</u>
<b>3y</b>	-0,04	1,89	0,92	<b>Eonia</b>	-0,3620	-0,0010			
<b>5y</b>	0,25	2,03	1,09	<b>Euribor-1</b>	-0,3720	-0,0010	<b>Libor-1</b>	1,2378	0,0000
<b>10y</b>	0,91	2,30	1,41	<b>Euribor-3</b>	-0,3290	0,0000	<b>Libor-3</b>	1,3567	0,0000
				<b>Euribor-6</b>	-0,2740	0,0000	<b>Libor-6</b>	1,5243	0,0000
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
<b>EUR/USD</b>	1,1859	0,0051		<b>EUR/JPY</b>	133,41	0,63	<b>CRB</b>	183,50	0,30
<b>USD/JPY</b>	112,5	0,05		<b>EUR/GBP</b>	0,8969	0,0025	<b>Gold</b>	1288,90	-4,90
<b>GBP/USD</b>	1,3223	0,0020		<b>EUR/CHF</b>	1,1543	0,0029	<b>Brent</b>	56,94	0,33
<b>AUD/USD</b>	0,7788	0,0010		<b>EUR/SEK</b>	9,545	0,0111			
<b>USD/CAD</b>	1,2458	-0,0057		<b>EUR/NOK</b>	9,3938	0,0040			

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