

Monday, 16 July 2018

Rates: Risk sentiment, Powell's testimony and US eco data to colour trading week

The US S&P 500 tested final resistance before the all-time high on Friday, but a break didn't occur. Are earnings this week strong enough to clear the hurdle? Apart from risk sentiment, bond traders eye US eco data, Fed Powell's testimony before US Congress and heavy EMU bond supply this week. US Treasuries could outperform German Bunds.

Currencies: Dollar momentum eases. EUR/USD tries to go higher in established range

On Friday, the dollar momentum turned a bit softer. The move was probably mainly technical in nature. Today, the US retail sales might be ok, but maybe not strong enough to sustain further USD gains. Fed's Powell

Calendar

Headlines

- **US equity markets** closed on Friday with limited gains, ranging from 0.03% (Nasdaq) to 0.38% (Dow Jones). **Asian equities** are trading in red with China underperforming (-0.7%). Japanese markets are closed for Marine Day.
- **Chinese Q2 GDP increased** 1.8% QoQ and 6.7% YoY, down from 6.8% last quarter. Chinese retail sales in June rose to 9.0% YoY (vs. 8.5% in May) while its industrial production growth slowed to 6.0% YoY (coming from 6.8% in May).
- **U. of Michigan consumer sentiment declined from 98.2 to 97.1**, due to rising concerns about the negative effects of the trade policy on growth, according to the survey's chief economist.
- **Oil retreated below \$71 (WTI) and \$75 (Brent)** after Saudi Arabia was said to offer extra crude supplies to some customers whereas the US considers tapping into its strategic oil reserves in an attempt to keep oil prices in check.
- **Fitch downgraded Turkey to BB (neg outlook)** citing the widening current account deficit, a steep rise of inflation (+15%) and the negative effects of the plunge in the exchange rate on the private's sector foreign-denominated debt
- **Stakes for the Helsinki summit between US President Trump and his Russian counterpart Putin have risen** as 12 Russian intelligence officers were indicted on Friday for their alleged role in the email hack during the US elections.
- **Today's eco calendar** contains US retail sales (June) and the NY Empire Manufacturing index (July). Blackrock (12:00), Bank of America (12:45) and Netflix (22:05) are releasing Q2 earnings.

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	→

Rates

Risk sentiment, US eco data and Powell's testimony

	US yield	-1d
2	2,58	-0,01
5	2,73	-0,02
10	2,83	-0,02
30	2,94	-0,01

	DE yield	-1d
2	-0,63	0,00
5	-0,31	-0,01
10	0,34	-0,02
30	1,01	-0,01

Global core bonds eked out gains on Friday. The German Bund outperformed the US Note future in the European session and vice versa during US dealings. Some safe haven flows ahead of the weekend, related to today's Trump/Putin Summit might have been at play, but that wasn't visible on other markets. **Fed Chair's Powell warning that stagflation would be the worst case scenario of the trade war echoed.** Stock markets managed to eke out more (small) gains amid mixed-to-better Q2 earnings for big US banks. **The S&P 500 tested 2800 resistance, the final hurdle before the all-time high (2872), but a break didn't occur (yet).** US yields eventually declined by 0.8 bps (2-yr) to 2.2 bps (5-yr) on a daily basis. Changes on the German yield curve ranged between +0.4 bps (2-yr) and -1.7 bps (10-yr). 10-yr yield spread changes vs Germany ended narrowly mixed with Italy outperforming (-6 bps). A follow-through effect after Thursday's well received BTP auction?

Asian stock markets lose ground overnight with China underperforming (-0.5%). Chinese eco data (Q2 GDP, retail sales, industrial production, investments) printed mixed. The US Note future stabilizes near Friday's highs. We expect a neutral to slightly stronger opening for the Bund.

Today's eco calendar contains June US retail sales and July Empire Manufacturing survey. Retail sales are expected again strong at 0.5% M/M with US consumers still profiting from tax reforms. A small setback in the empire manufacturing, from 25 to 21 which remains high, is forecast. **We expect near consensus outcomes for both gauges, but are wary of negative impacts from the escalation of the US's trade crusade.** Q2 earnings will be important for risk sentiment, especially given the crucial technical hurdle in the S&P 500. We have a small positive bias for core bonds at the start of the new trading week.

Focus turns to Fed Chair Powell's semi-annual testimony before US Congress later this week. He recently raised more question marks about the impact of the trade conflict on business investments. This could draw investors' attention even if Powell won't derail from the Fed's gradual rate hike intentions. The EMU eco calendar is uneventful, but supply rather high in thin holiday trading. **The combination could cause an outperformance of US Treasuries vs German Bunds this week.** Technically, the German 10-yr yield tested support just below 0.3%. A break didn't occur, suggesting room to move higher in the 0.3%-0.5% range. **The US 10-yr yield hovers near the middle of the sideways range between 2.71% and 3.12%.**



US Note future: focus turns to eco data, Powell testimony and risk sentiment this week



US S&P 500 tests final resistance before returning to all-time high

Currencies

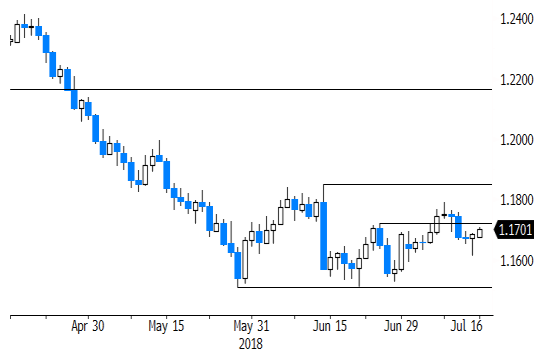
EUR/USD to drift higher in established range?

R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1685	0,0013
S1	1,1510	
S2	1,1448	

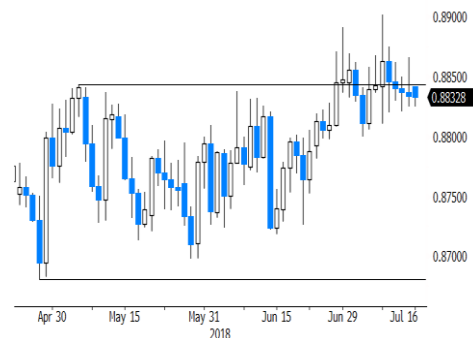
R2	0,9033	-1d
R1	0,8968	
EUR/GBP	0,8834	-0,0003
S1	0,8628	
S2	0,8548	

On Friday, Investors were looking for a new story as the trade war moved to the background. European equities traded modestly positive, but move wasn't really convincing. Initially, the dollar maintained the benefit of the doubt. EUR/USD dropped to the 1.1615 area. Later, the USD momentum eased, maybe as a first set of US bank earnings were mixed. Consumer confidence was also softer than expected. EUR/USD reversed its initial decline and finished at 1.1685. The USD/JPY rally also stalled. **This morning,** Asian equities mostly trade with modest losses. Japanese markets are closed. China Q2 GDP printed at 1.8% Q/Q and 6.7% Y/Y, marginally stronger than expected. Still, the data weren't able to remove uncertainty the trade war. The yuan holds near its recent bottom against the dollar. At the same time, the dollar trades slightly in defensive against the euro (EUR/USD high 1.16 area) and even the Aussie dollar. The positive USD momentum from mid last week eased. **Today,** US retail sales and the Empire manufacturing are interesting. Retail sales are expected to hold a positive momentum. We don't have strong reasons to take a different view from the consensus. **Question is whether an in-line report will be enough to support further USD gains.** Later this week, Fed's Powell will hold its semi-annual testimony before Congress and the (US) earnings season will come in full swing. Uncertainty on the trade war might make Powell's message less hawkish than would otherwise have been the case. Mid last week, the dollar got the benefit of the doubt, but USD momentum eased end last week. **EUR/USD still hovers in the 1.15/1.1850 trading range.** As the downside looks blocked for now, maybe there is some room for EUR/USD to go back higher in the range, if US data/news is not really strong.

On Friday, diffuse Brexit headlines continued to set the tone for sterling trading. Initially negative comments from US president Trump on US-UK trade deal in case of a soft Brexit weighed on sterling, but the UK currency regained some ground later in the session. **In a broader perspective, sterling held in the 0.88/0.89 consolidation pattern.** Today, May will face another Brexit test in Parliament. Her plans probably will survive, but the broader Brexit process remains highly uncertain. Especially with EUR/USD receiving a better bid, we assume that there is not much room for further sterling gains against the euro.



EUR/USD: downside test rejected for now. Pair to drift higher in the range?



EUR/GBP hovers in the 0.88 big figure as uncertainty on Brexit persists.

Calendar

Monday, 16 July		Consensus	Previous
US			
14:30	Empire Manufacturing (Jul)	21.0	25.0
14:30	Retail Sales Advance MoM (Jun)	0.5%	0.8%
14:30	Retail Sales Ex Auto MoM (Jun)	0.3%	0.9%
14:30	Retail Sales Ex Auto and Gas (Jun)	0.4%	0.8%
14:30	Retail Sales Control Group (Jun)	0.4%	0.5%
16:00	Business Inventories (May)	0.4%	0.3%
UK			
01:01	Rightmove House Prices MoM / YoY (Jul)	-0.1%/1.4% A	0.4%/1.7%
EMU			
11:00	Trade Balance SA (May)	18.6b	18.1b
China			
04:00	Surveyed Jobless Rate (Jun)	4.8% A	4.8%
04:00	GDP SA QoQ / YoY (2Q)	1.8%/6.7% A	1.4%/6.8%
04:00	GDP YTD YoY (2Q)	6.8% A	6.8%
04:00	Retail Sales YoY / YTD YoY (Jun)	9.0%/9.4% A	8.5%/9.5%
04:00	Industrial Production YoY / YTD YoY (Jun)	6.0%/6.7% A	6.8%/6.9%
04:00	Fixed Assets Ex Rural YTD YoY (Jun)	6.0% A	6.1%
Events			
Q2 earnings		Blackrock (12:00), Bank of America (12:45) and Netflix (22:05)	

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,83	-0,02	US	2,58	-0,01	DOW	25019,41	94,52	
DE	0,34	-0,02	DE	-0,63	0,00	NASDAQ	7825,976	2,06	
BE	0,63	-0,03	BE	-0,52	0,00	NIKKEI	22597,35	0,00	
UK	1,27	-0,01	UK	0,74	0,00	DAX	12540,73	47,76	
JP	0,04	0,00	JP	-0,13	0,00	DJ euro-50	3454,54	9,05	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,03	2,85	1,15	Eonia	-0,3620	0,0010	Libor-1	2,0733	0,0016
5y	0,26	2,87	1,31	Euribor-1	-0,3690	0,0010	Libor-3	2,3360	-0,0032
10y	0,87	2,90	1,52	Euribor-3	-0,3210	0,0000	Libor-6	2,5209	0,0012
				Euribor-6	-0,2680	0,0030			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1685	0,0013	EUR/JPY	131,3	-0,04	CRB	193,73	-0,28	
USD/JPY	112,38	-0,17	EUR/GBP	0,8834	-0,0003	Gold	1241,20	-5,40	
GBP/USD	1,3222	0,0016	EUR/CHF	1,1706	0,0009	Brent	75,33	0,88	
AUD/USD	0,7424	0,0016	EUR/SEK	10,3812	0,0245				
USD/CAD	1,316	0,0006	EUR/NOK	9,4838	0,0162				

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