



Sunrise

Monday, 17 July 2017

Rates: Wait-and-see ahead of Thursday's ECB?

Today's thin eco calendar probably won't impact trading. Q2 earnings reports could influence markets via risk sentiment. Overall, we expect trading to remain confined to tight ranges ahead of Thursday's ECB meeting. Rumours could cause some volatility, but shouldn't have a lasting impact.

Currencies: Dollar struggles, but EUR/USD doesn't set new correction top

Soft US data kept the dollar in the defensive on Friday, but EUR/USD wasn't able to overcome the 1.1489/1.15 resistance area. Are investors turning a bit more cautious on additional euro longs going into Thursday's ECB policy meeting?

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	▲

- **WS closed with gains as Fed hike expectations were lowered (S&P500 +0.47%). Asian trading opened with an uptick on this positive sentiment. Chinese equities initially sold off but recovered, together with the other Asian markets, after the better than expected China data.** Japan has an official holiday today.
- **China's GDP increased 6.9% in Q2 Y/Y (1.7% Q/Q), higher than the 6.8% estimate** and matching the Q1 growth pace, thanks to robust industrial output, retail sales and exports. A slowdown is expected in the next quarters.
- **Brexit Secretary David Davis and EU's Michel Barnier** are set to launch a **first round of negotiations on Britain's withdrawal from the EU today**. Three more weeks of talks will follow from late August until early October.
- The **US senate majority leader announced that he's postponing the debate on the controversial Republican health care bill** as one of the potential Senate backers, John McCain, will be recovering from unexpected surgery this week.
- The **eco-calendar is wafer-thin today with the only data of note being the EMU final June CPI and the US July Empire manufacturing**. There will be **no Fedspeak this week** as the blackout period kicks off today.

Rates

US Treasuries erase most of intraday gains, but outperform Bunds

	US yield	-1d
2	1,36	-0,01
5	1,86	-0,02
10	2,33	-0,01
30	2,91	0,00

	DE yield	-1d
2	-0,61	0,00
5	-0,10	0,01
10	0,60	-0,01
30	1,32	-0,01

Weak US eco data have no lasting impact

Global core bond markets ended last week's final trading session mixed. The US Note future managed to cling on to some of the intraday gains, while the Bund returned them all and even closed with small losses. **The US Note future's outperformance was related to the release of mostly disappointing US eco data (CPI inflation, retail sales, Michigan consumer confidence).** A Reuters article citing sources that the ECB "is keen to keep its asset purchases open-ended" in order to remain flexible, didn't draw much attention. **US equities** gradually rose into the US close (+0.5%; new record closing high S&P 500) and contributed to the intraday reversal on core bond markets. **Chicago Fed Evans** (voter) said that the current environment supports very gradual rate hikes ("2, 3 or even 4 rate hikes this year") and slow predetermined reduction in the balance sheet.

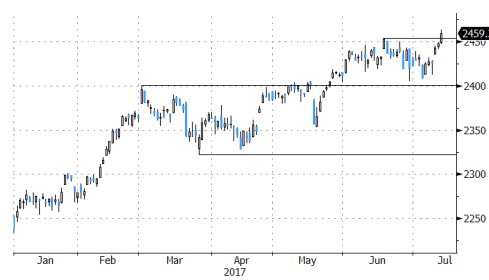
At the end of the session, changes on the German yield curve ranged between +0.7 bps (5-yr) and -1.2 bps (30-yr). The US yield curve dropped up to 2.5 bps lower (5-yr) with an underperformance of the 30-yr yield (+0.3 bps). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged with Portugal, Spain and Italy outperforming (-4/5 bps).

Thin eco calendar

Today's eco calendar is uneventful with only final EMU CPI data and July US empire manufacturing. EMU inflation is expected to be confirmed at 1.3% Y/Y for the headline reading and 1.1% Y/Y for the core measure. We side with consensus after confirmations of national readings in Germany, France, Italy and Spain. The July US empire manufacturing is expected to decline from a near 3-yr high (19.8) to 15.0.



US Note future (orange) and S&P 500 (black) (intraday): US Note can't cling on to weak eco data related gains



S&P 500 (YTD): new record closing high

R2	164,13	-1d
R1	161,68	
BUND	161,19	-0,01
S1	160,17	
S2	159,1	

EMU bond supply rather low this week

This week's scheduled EMU bond supply is rather thin with only Germany, France and Spain tapping the market. The German Finanzagentur kicks off on Wednesday with a €1B 30-yr Bund auction (2.5% Aug2046). The French Treasury auctions three OAT's on Thursday (0% Feb2020, 0% May2022 and 2.25% Oct2022) for a combined €6.5-7.5B. Additionally, they aim to raise €1.25-1.75B via three inflation-linked OATi's. The Spanish debt agency sells three on the run bonds: 3-yr Bono (0.05% Jan2021), 5-yr Bono (0.4% Apr2022) and 10-yr Obligacion (1.45% Oct2027). The amount on offer still needs to be announced.

Wait-and-see ahead of Thursday's ECB?

Overnight, Asian stock markets eke out small gains with Japan closed (Marine Day) and Chinese equities underperforming despite better-than-expected eco data (Q2 GDP, retail sales, industrial production). The US Note future and Brent crude trade flat, suggesting a neutral opening for the Bund.

Today's eco calendar only contains final EMU CPI data and US Empire Manufacturing sentiment. We don't expect the data to impact trading. Q2 earnings reports could influence markets via risk sentiment. **Overall, we expect trading to remain confined to tight ranges ahead of Thursday's ECB meeting. Rumours could cause some volatility, but shouldn't have a lasting impact.** We don't expect the ECB to change the wording of the statement while Draghi will have to explain his (hawkishly interpreted) Sintra comments in more detail. We think that an announcement on winding down asset purchases will only come in September, when a new inflation report is available.

From a technical point of view, the T-Note remained above the key 124-12/01+ support area while the German Bund fell below similar support at 161.68/58. Next support stands at 160.17. If broken, this could point to a full retracement towards 158.89. **We hold our longer term sell-on-upticks strategy in both the Bund and US Note future as markets reposition for a new stage in the global monetary cycle: policy normalisation. The peak of central bank dovishness is behind us.**



German Bund: Sell-off pushed the Bund below the 161.68/58 support, making the technical picture bearish



US Note future: Some cracks in technical picture, but the 124/12/01+ key support remained out of sight

Currencies

Dollar remains in the defensive after sluggish US CPI and retail sales data

R2	1,1616	-1d
R1	1,15	
EUR/USD	1,1470	0,0072
S1	1,1119	
S2	1,0839	

Second tier eco data probably won't change fortunes for the dollar.

Will markets turn less positive on the euro ahead of the ECB meeting?

Dollar holds near the recent lows

US CPI was marginally softer than expected last Friday. Retail sales showed quite a substantial miss. US yields and the dollar declined as markets positioned for slower Fed-policy normalisation. EUR/USD rebounded, but a but a real test of the recent top (1.1489) didn't occur. The pair closed the day at 1.1470. USD/JPY was hit harder, even as US equities reacted in a positive way. The pair finished the day at 112.53.

China Q2 GDP printed stronger than expected at 6.9 Y/Y (6.8% was expected) this morning. June retail sales and industrial production also beat consensus by a substantial margin. Mainland Chinese stock markets were under pressure though on concerns of more financial regulation, but sentiment improved after the publication of the data. USD/JPY (112.60 area) tries to find a bottom after Friday's losses. AUD/USD is holding stable in the low 0.78 area after last week's impressive gains. The kiwi dollar (NZD/USD 0.7330) lost slightly ground on RBNZ comments that a lower NZD would help rebalancing growth. EUR/USD (1.1460) is holding within reach of the recent top, but no test had occurred yet.

EMU June final CPI is expected to be confirmed at 1.3%Y/Y today. This should have little impact on markets even if ongoing soft inflation might ease markets' expectations that the ECB will already give concrete hints on a scaling back of policy stimulation at this week's policy meeting. The prospect for a cautious ECB might slow further euro gains after the recent rally. In the US, the Empire manufacturing survey is expected to ease from a strong 19.8 to a still solid 15.0 in July. **The focus for (FX) trading is on price data rather than on activity data.** So, even a good report probably won't help the dollar much. This week, the US earnings season will come in full swing. Of late, the dollar, including USD/JPY was more sensitive to price data/yields than to the US equity performance. So, it's not evident that good US earnings will be a big help for the dollar.



EUR/USD: soft US data keep pair well supported, but no sustained break higher yet



USD/JPY: test of 114.37 correction top rejected. Dollar struggles to regain ground

The dollar remained in the defensive last week. Mediocre US wage growth in the payrolls, Yellen's focus on the recent setback in inflation and soft eco data made markets doubting the pace of future Fed normalisation and weighed on the dollar. Especially USD/JPY looks quite vulnerable. On the other hand, EUR/USD didn't set a new short-term top after Friday's disappointing US data. We don't draw any firm conclusions yet. **Is this an indication that already quite some bad news for the**

dollar/good news for the euro is discounted at current levels. We don't row against the tide yet, but look out whether the 1.1489/1.15 resistance holds.

Technical picture: USD looking for a bottom

A combination of hawkish ECB comments and soft US data pushed EUR/USD above the 1.1300/66 resistance area end June. The payrolls were not good enough to trigger a sustained USD rebound. Next resistance in the 1.15 area is looming. LT-correction tops stand at 1.1616/1.1714. A break would end the long consolidation period that followed the sharp decline of EUR/USD in 2014/early 2015. Such a key area will be difficult to break for now. A return below the 1.13 area would be a first indication of a loss in upside momentum. EUR/USD 1.1119/10 is the next important support.

The USD/JPY rally ran into resistance in early May and the pair returned lower in the 108.13/114.37 range. The post-Fed USD rebound pushed the pair above the 112.13 correction top, but follow-through gains remain modest. USD/JPY 114.37 resistance was tested, but for now the test is rejected. This at least suggests a pause in the recent USD/JPY uptrend. We stay cautious on USD/JPY long positions despite the recent decent performance.

Cable breaks above 1.3000/50 resistance

There was hardly any UK specific news to guide sterling trading today. There were plenty of press articles on the UK accepting the principle of a financial settlement, but the debate had no impact on sterling trading. EUR/GBP initially held an extremely tight sideways range around the 0.88 pivot. Late in the session, cable clearly outperformed EUR/USD after disappointing US eco data. EUR/GBP closed the session at 0.8754. Cable finished the week strong and closed above the 1.3050 resistance.

Overnight, Righthmove House prices rose 0.1% M/M and 2.8% Y/Y. There are no other important UK eco data today. The focus will therefore be on the next episode in the Brexit negotiations that will start today. Of late Brexit wasn't a big issue for sterling trading. If there is no substantial progress in the Brexit-talks and if more division occurs within the UK conservative party, the recent sterling rebound could slow.

From a technical point of view, EUR/GBP recently set a minor top north of 0.8854/66 resistance (2017 top) and temporary broke below the 0.89 barrier but the move finally fell prey to profit taking (sterling short squeeze). A break below 0.8720 would suggest that upside momentum is easing. For now, we see the current sterling rebound as technical in nature and we don't expect a sustained rebound. Even so, we look to how the technical break in cable turns out. We don't row against the ST positive sterling tide yet.

R2	0,9142	-1d
R1	0,9049	
EUR/GBP	0,8754	-0,0055
S1	0,8757	
S2	0,8652	



EUR/GBP topside test rejected, for now



GBP/USD: cable outperforms weak dollar and breaks above 1.3000/50 resistance. More to come?

Calendar

Monday, 17 July		Consensus	Previous
US			
-14:30	Empire-Manufacturing-(Jul)	15.0	19.8
UK			
-01:01	Rightmove-House-Prices-MoM-/YoY-(Jul)	A:-0.1%/2.8	-0.4%/1.8
EMU			
-11:00	CPI-MoM-/YoY-(Jun-F)	0.0%/1.3	-0.1%/1.4
-11:00	CPI-Core-YoY-(Jun-F)	1.1	1.1
China			
-04:00	Retail-Sales-YoY-/YTD-YoY-(Jun)	A:11%/10.4	10.7%/10.3
-04:00	Fixed-Assets-Ex-Rural-YTD-YoY-(Jun)	A:-8.6	8.6
-04:00	Industrial-Production-YoY-/YTD-YoY-(Jun)	A:-7.6%/6.9	6.5%/6.7
-04:00	GDP-YoY-/YTD-YoY-(2Q)	A:-6.9%/6.9	6.9%/6.9
-04:00	GDP-SA-QoQ-(2Q)	A:-1.7	1.3
Events			
Q2-earnings	Blackrock-(12:30),Netflix-(22:05),...		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,33	-0,01	US	1,36	-0,01	DOW	21637,74	84,65	
DE	0,60	-0,01	DE	-0,61	0,00	NASDAQ	6312,465	38,03	
BE	0,87	-0,01	BE	-0,46	0,02	NIKKEI	20118,86	0,00	
UK	1,31	0,01	UK	0,33	0,00	DAX	12631,72	-9,61	
JP	0,08	0,00	JP	-0,10	0,00	DJ euro-50	3525,94	-1,89	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,02	1,72	0,77	Eonia	-0,3610	-0,0010	Libor-1	1,2261	0,0006
5y	0,32	1,93	0,97	Euribor-1	-0,3730	0,0000	Libor-3	1,3036	0,0000
10y	0,96	2,28	1,35	Euribor-3	-0,3310	0,0000	Libor-6	1,4560	0,0000
				Euribor-6	-0,2730	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1470	0,0072	EUR/JPY	129,07	-0,06	CRB	176,28	1,94	
USD/JPY	112,53	-0,75	EUR/GBP	0,8754	-0,0055	Gold	1227,50	10,20	
GBP/USD	1,3098	0,0159	EUR/CHF	1,1051	0,0027	Brent	48,91	0,49	
AUD/USD	0,7832	0,0101	EUR/SEK	9,5282	0,0010				
USD/CAD	1,2644	-0,0078	EUR/NOK	9,383	-0,0306				

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