

Friday, 23 February 2018

Rates: Consolidation ahead of the weekend?

Core bonds corrected somewhat higher yesterday. A thin eco calendar, the end of the US's supply operation and the weekend ahead suggest more consolidation today. The very long end of the US yield curve underperforms. The US 30-yr yield is testing 3.22% resistance, the neckline of a huge triple bottom.

Currencies: USD rebound slows amid lack of data

The USD rebound slowed yesterday in line with US yields. The eco calendar is thin today, but several Fed members speak. The dollar nears first intermediate resistance. It needs some high profile news to trigger a test, but this news probably won't be available today. EUR/GBP is holding a sideways range as the UK government tries to bridge division on Brexit.

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 markets ended close to unchanged** with the Dow Jones outperforming (+0.66%). **Risk sentiment turned positive overnight** with China (flat) underperforming.
- **China's insurance regulatory agency took control of hard-charging, acquisitive Anbang Insurance Group**, saying it is needed to avoid a collapse of the firm following suspected illegal activity and the downfall of its chairman.
- **The Trump administration's policies will raise US wages without causing broader inflation**, Treasury Secretary **Mnuchin** said in an interview, brushing aside signs that investors are growing nervous about rising prices.
- **Theresa May's senior ministry agreed their demands for a trade deal but the EC pre-empted their decision** by deriding what had already leaked out as "not compatible" with European Council guidelines.
- **Technical work has begun to determine if Greece requires debt relief** after its expected exit from a bailout programme later this year, ESM Regling said.
- **Japan's core consumer inflation was steady in January (0.9% Y/Y)** in a sign a strengthening economy has yet to prompt companies to raise prices, a challenge policy makers have yet to overcome despite years of massive stimulus.
- **Today's eco calendar** contains final EMU inflation data. ECB Coeuré, Fed Mester and Fed Dudley are scheduled to speak. The Riksbank releases Minutes of the previous meeting.

Rates

Consolidation ahead of weekend?

Global core bonds trade with an upward intraday bias, but gains remain limited.

The Bund opened significantly below Wednesday's official close in a catch-up move with the US Treasuries' sell-off after hawkish FOMC Minutes. The Bund caught a better intraday momentum after a bigger-than-expected setback in the German **Ifo-indicator**. **It was the third such negative surprise this week after German ZEW and German/EMU PMI**. ECB Minutes highlighted the possibility of changes to the ECB's communication at the March meeting, but markets didn't react. **Brent crude surged from \$65/b to \$66.5/b** as US oil inventories dropped unexpectedly. Voting Fed governor Bostic was positive on the economy, but didn't comment on a specific amount of rate hikes this year. Changes on the German yield curve ranged between -1 bps and 1.5 bps across the curve. US yields declined by 1.5 bps (30-y) to 3.1 bps (7-y). Peripheral bonds underperformed, with Portuguese and Italian spreads adding 5 bps.

The US Note future gives no indication for the start of Bund trading. Asian risk sentiment is more bullish than Europe and the US yesterday with China underperforming.

Today's eco calendar is thin with only final EMU CPI data. Consensus expects a small downward revision in the headline number from 1.4% Y/Y to 1.3% Y/Y.

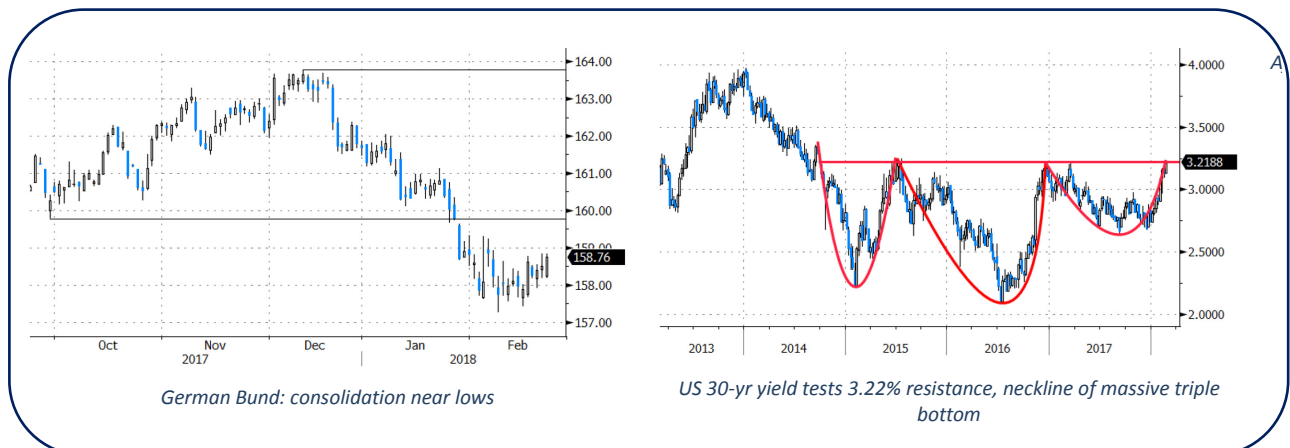
We don't expect it to impact trading. A speech by voting Fed-governor Williams has most market-moving potential. He is in favour of 3 rate hikes this year, but might be tempted to argue in favour for more. Overall, we expect **some consolidation today**. **The US's heavy supply operation is behind us and went without real trouble**. **The empty calendar and the weekend ahead are neutral trading conditions**.

Strong growth momentum, rising inflation (expectations), higher real (US) rates and the global turn towards monetary policy normalization are structurally negative factors for core bonds medium term.

US and German yields cleared resistance levels earlier this year and are moving towards next targets. The trading band for the US 10-yr yield is 2.64%-3.05%. The German 10-yr yield's trading band is 0.62%-1.06%. The US 30-yr yield is testing 3.22% resistance.

	US yield	-1d
2	2,25	-0,02
5	2,66	-0,03
10	2,92	-0,03
30	3,22	-0,01

	DE yield	-1d
2	-0,52	-0,01
5	0,07	-0,01
10	0,71	-0,02
30	1,37	-0,01



Currencies

USD rebound slows amid lack of data

The recent rise of US yields and of the dollar petered out yesterday. Ifo Business Climate eased more than expected, but still indicated strong growth at the start of 2018. German yields declined after the release, but so did US ones. The reaction of the euro was negligible. US jobless claims printed near the cycle low, but didn't help the dollar. US equities also failed to provide a clear guide for USD trading. **Some dollar caution returned to the market.** EUR/USD rebounded above 1.23 and finished at 1.2330. USD/JPY dropped back below 107 (close at 106.75).

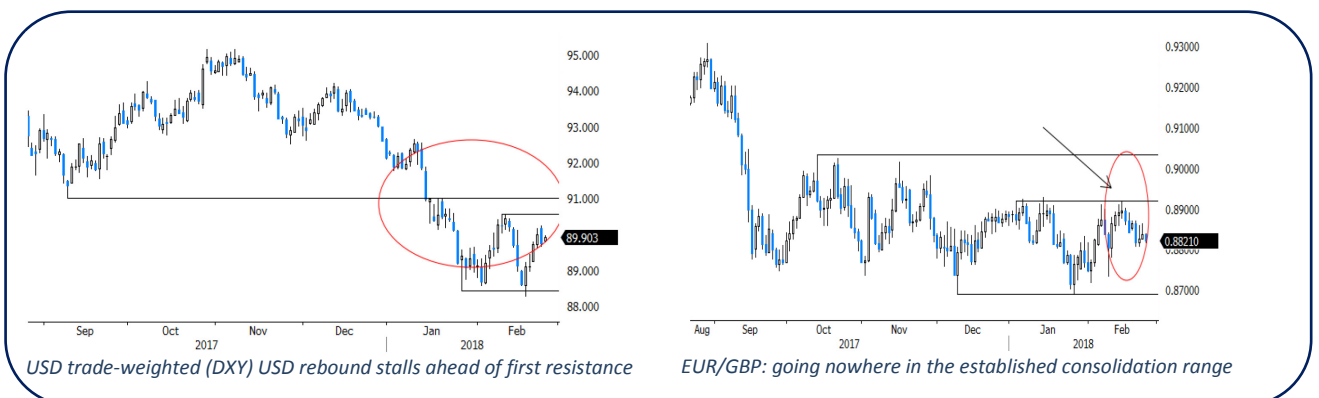
R2	1,2598	-1d
R1	1,2555	
EUR/USD	1,2330	0,0046
S1	1,2206	
S2	1,2165	

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8836	0,0010
S1	0,8690	
S2	0,8657	

Asian indices are showing gains of up to 1.0% overnight with mainland China underperforming. Japan January CPI (1.4% Y/Y) printed slightly higher than expected, but the measure ex fresh food and energy stayed very low (0.4% Y/Y). **The yen lost a few ticks after the release, but this was probably due to an overall bid for the USD.** US Treasury secretary Mnuchin tried to ease markets' inflation fears. In an interview, he said that the Trump policy will be able to raise wages without inflation. USD/JPY nears the 107 level. EUR/USD returns to the 1.23 area.

There are few important data today. The details of Q4 German growth are interesting, but a bit outdated and so is the final EMU CPI. Many Fed members will speak as markets are looking forward to the hearing of Fed Chairman Powell before Congress next week. Yesterday, we advocated some ST consolidation on the ST USD rebound. We hold on to that view. LT US yields are near (10y)/testing (30y) key resistance. It needs probably high profile news for a break. In this context, the recent USD rebound might slow. First resistance for the trade-weighted dollar comes in at 90.57. First support in EUR/USD is coming on the radar (1.2206/1.2165). However, **it might be too early for a test. US equities area a wildcard for USD trading. Of late there was a tentative inverse correlation between US equities and the dollar.**

Sterling declined temporary yesterday after the downward revision to UK Q4 GDP (0.4% Q/Q from 0.5%). However, the move didn't go far. EUR/GBP basically hovered in the mid 0.88 area as **recent BoE hints on a rate hike and political noise on Brexit kept each other in balance.** The meeting of UK PM May with her top Ministers resulted in a confirmation of the 'three basket approach' which the EU sees as cherry picking. So, for now the stalemate in the negotiations will probably persist. **We expect more range trading of EUR/GBP in the 0.88 big figure.**



Calendar

Friday, 23 February		Consensus	Previous
Canada			
14:30	CPI NSA MoM / YoY (Jan)	0.5%/1.5%	-0.4%/1.9%
Japan			
00:30	Natl CPI YoY (Jan)	A: 1.4%	1.0%
00:30	Natl CPI Ex Fresh Food YoY (Jan)	A: 0.9%	0.9%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Jan)	A: 0.4%	0.3%
00:50	PPI Services YoY (Jan)	A: 0.7%	0.8%
EMU			
11:00	CPI Core YoY (Jan F)	1.0%	1.0%
11:00	CPI MoM / YoY (Jan F)	-0.9%/1.3%	0.4%/1.4%
Germany			
08:00	Private Consumption QoQ (4Q)	0.1%	-0.1%
08:00	Government Spending QoQ (4Q)	0.4%	0.0%
08:00	Capital Investment QoQ (4Q)	0.4%	0.4%
08:00	Construction Investment QoQ (4Q)	-0.2%	-0.4%
08:00	Domestic Demand QoQ (4Q)	0.2%	0.4%
08:00	Exports QoQ / Imports QoQ (4Q)	2.2%/1.4%	1.7%/0.9%
08:00	GDP SA QoQ / WDA YoY (4Q F)	0.6%/2.9%	0.6%/2.9%
Spain			
09:00	PPI MoM / YoY (Jan)	--/--	0.2%/1.8%
Events			
09:30	Riksbank Minutes		
11:00	Italy to Sell Zero-Coupon and I/L bonds		
16:15	Fed Dudley and Rosengren Speak on Panel on Fed Balance Sheet		
17:00	Fed Releases February 2018 Monetary Policy Report to Congress		
19:30	ECB's Coeure, Fed's Mester Participate in Panel Discussion in New York		
21:40	Fed's Williams Speaks on Outlook for U.S. Economy		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,92	-0,03	US	2,25	-0,02	DOW	24962,48	164,70	
DE	0,71	-0,02	DE	-0,52	-0,01	NASDAQ	7210,085	-8,14	
BE	1,01	-0,02	BE	-0,49	-0,02	NIKKEI	21892,78	156,34	
UK	1,55	-0,01	UK	0,69	0,01	DAX	12461,91	-8,58	
JP	0,05	0,00	JP	-0,15	0,00	DJ euro-50	3431,99	1,83	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,09	2,64	1,18	Eonia	-0,3690	-0,0010	Libor-1	1,6025	0,0000
5y	0,49	2,77	1,38	Euribor-1	-0,3700	0,0000	Libor-3	1,9198	0,0000
10y	1,13	2,94	1,64	Euribor-3	-0,3280	0,0010	Libor-6	2,1455	0,0000
				Euribor-6	-0,2700	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2330	0,0046	EUR/JPY	131,64	-0,75	CRB	195,27	1,10	
USD/JPY	106,75	-1,03	EUR/GBP	0,8836	0,0010	Gold	1332,70	0,60	
GBP/USD	1,3956	0,0038	EUR/CHF	1,1502	-0,0032	Brent	66,39	0,97	
AUD/USD	0,7846	0,0042	EUR/SEK	10,0075	0,0344				
USD/CAD	1,2705	0,0002	EUR/NOK	9,6846	0,0193				

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