



## Sunrise

Thursday, 23 November 2017

### Rates: Solely EMU to watch out for

Today's eco calendar focuses on EMU with US markets closed for Thanksgiving. EMU PMI's are expected to remain at very strong levels, which should be sufficient to inflict some losses on the Bund. Minutes of the ECB meeting will reveal more about the October decision to extend APP.

### Currencies: Dollar nears/tests important support levels

A decline in US yields hammered the dollar yesterday. EUR/USD 1.1880 resistance is again on the radar. USD/JPY dropped below the 111.65 neckline. Today, the focus is on the EMU PMI's and on the German coalition talks. Trading will develop in thin market conditions. Still we look out whether EUR/USD 1.1880 holds.

### 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 traded uneventful yesterday**, closing flat with a slight underperformance of the Dow (-0.27%). **Asian risk sentiment is positive overnight with China underperforming (-1%) and Japan closed.**
- **FOMC Minutes showed that the Fed would likely raise interest rates "in the near term"** because of a strengthening economy, although several said their support for the move would hinge on whether they see inflation picking up.
- **EMU consumer confidence improved more than forecast** in November, from -1.1 to +0.1 (vs -0.8 forecast), hitting its strongest level since January 2001.
- **Martin Schulz**, the head of Germany's Social Democratic party, said he is **sure a "good solution" can be found in the coming days and weeks** following chancellor Merkel's failure to form a coalition government.
- **New Zealand's retail sales growth slowed sharply in the Q3 (0.2% Q/Q)** amid signs that a slowing housing market has dented consumer confidence, pointing to slower spending in the year ahead. One-off factors, including an inconclusive election and a recoil from an earlier sports tourism boom, played as well.
- **Philip Hammond promised to fix Britain's housing market** with a package of investment, planning reform and tax cuts for first-time buyers in a Budget overshadowed by a huge downgrade in the UK's economic prospects.
- **Today's eco calendar** contains EMU PMI's and the 2<sup>nd</sup> reading of UK Q3 GDP. The ECB publishes Minutes of its October meeting and governors Villeroy and Coeuré speak. US markets are closed for Thanksgiving.

# Rates

## Central bank info and technicals trigger re-positioning

Attention turned to the shape of the curve lately, convincing traders to re-position. Technical considerations (US) and central bank info (ECB/Fed) also go some way to explain the moves. The German curve flattened with yields at the short end modestly higher and those at the longer end modestly lower. ECB Coeuré said that he expects “interest rate guidance to gain importance over time, up to a point where it would be possible to delink it from the end of net asset purchases”. This suggests that the first rate hike might come faster than hitherto expected by many market participants. Both the short end and long end of the curve dipped lower, but only the short end stabilized near the lows. **All in all, the move was technically insignificant.**

*US yields drop moderately*

*Short end US curve outperforms on profit taking*

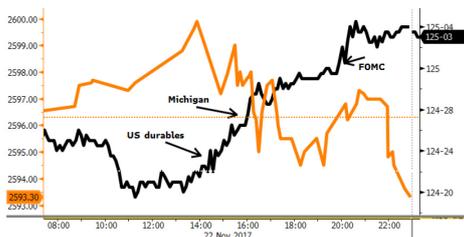
*German curve flattens in bearish fashion*

	US yield	-1d
2	1,73	-0,04
5	2,04	-0,06
10	2,32	-0,04
30	2,74	-0,02

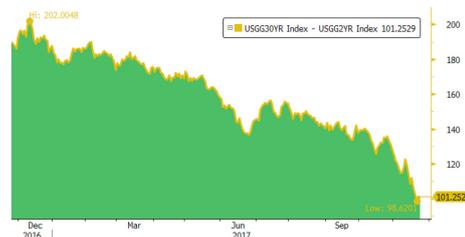
	DE yield	-1d
2	-0,70	0,02
5	-0,33	0,01
10	0,35	0,00
30	1,18	-0,02

**US Treasuries showed a different and more outspoken intraday profile.** US Treasuries slid marginally lower in response to the sharp drop of German bonds in the European morning session. However, US Treasuries caught a bid when US traders entered the fray. The move developed very gradually. Mixed **US durable orders** didn’t really affect trading. **Michigan consumer sentiment was strong**, topping expectations, but inflation expectations sub-indices were a tad weaker. Finally the **FOMC Minutes did little to dispel expectations for a Dec rate hike, but there were multiple, upped concerns about too low inflation, which might affect the Fed’s policy in 2018.** Treasuries extended gains after the release with the very long end lagging. **We think that yesterday’s price action was mainly driven by some profit taking on the breath-taking curve flattening and the considerable rise of US short term yields since early September.**

**In a daily perspective,** the US yield curve bull steepened. US 2- and 5-yr yields dropped by 4.4 and 5.7 bps, while 10- and 30-yr yields fell 3.7 and 1.8 bps. The German curve flattened with yield changes ranging between +1.7 bps (2-yr) and -1.6 bps (30-yr).



T-Note future (black) & S&P (orange) (intraday): Strong run US bonds including short end of the curve without a very obvious driver



US 2-to-30 yr spread rerwidened a couple of basis points after collapse since early September.

## US Thanksgiving and EMU PMI business sentiment

*EMU PMI strong, but in line with expectations?*

*Will the account of the ECB meeting unveil new info?*

November EMU PMI business sentiment index is expected unchanged at 56, a level suggesting solid growth in activity. The manufacturing PMI is expected a tad weaker and services a tad stronger. Similarly, geographically, German PMI sentiment is expected marginally stronger and French PMI sentiment marginally weaker. An outcome in line with expectations suggests that Q4 growth evolves in line with Q3's 0.6% Q/Q, which would keep the Y/Y growth rate around 2.5%, well above potential. We prefer to side with consensus. **The ECB account of the 26 October ECB meeting** is interesting as the ECB took important decisions about the outlook for the APP bond buying programme. Since, indiscretions and speeches told us that opinions diverged inside the council. ECB board members Lautenschlaeger, Coeuré, Weidmann and Villeroy opposed the open-ended character of the prolongation. We hope to get more details about the debate inside the ECB .

R2	165,18	-1d
R1	163,43	
<b>BUND</b>	<b>163,06</b>	<b>-0,10</b>
S1	161,91	
S2	160,24	

## Solely EMU to watch out for

**Asian stock markets eke out small gains this morning with China underperforming (-1.5%) and Japan closed.**

The US Note future is slightly lower overnight. FOMC Minutes confirmed that the Fed will most likely raise rates in December, but that's already discounted. Brent crude is stable and we expect a neutral opening for the Bund.

**Today's eco calendar focuses on EMU with US markets closed for Thanksgiving.**

EMU PMI's are expected to remain at very strong levels, which should be sufficient to inflict some losses on the Bund. Minutes of the ECB meeting will reveal more about the October decision to extend APP. Recently, several governors spread different opinions on their personal preference. Minutes might show how big the dispersion actually was. Correlations between bond markets and equity or oil markets was very loose of late, making it hard to predict the Bund's performance based on those markets. **The German SPD seems to make an opening to extend Germany's grand coalition. If so, it could inflict more losses on the Bund.**

**Technically, US Treasuries will probably trade in the 124-06 to 125-25 range going forward.** This corresponds with a 2.3%-2.47% band in yield terms. The trading range for the Bund going forward is between 160.24 and 163.43. Any moves towards the topsides of the ranges could be used to put up short positions.



German Bund: sideways trading range between 160.24 and 163.63. Sell around upper bound



US Note future: trading band between 124-06 and 125-25?

# Currencies

## USD losing more interest rate support

*Dollar hammered as interest rate support declines*

Yesterday, USD selling pressure intensified throughout the day. Different curve moves in Europe and the US were to blame. The EMU yield curve bear flattened with higher ST yields. The US curve later bull steepened, with lower ST yields reducing interest rate support for the dollar. The US eco data were not to blame (mixed/close to expectations). Most of the curve moves and of the USD decline took place before the Fed Minute, but the move continued after the publication as several members were worried about the ongoing low level of inflation. EUR/USD closed at 1.1822 (from 1.1738). USD/JPY decline quite sharply closed the session at 111.22 (from 112.45).

*Dollar holds near recent lows in thin trading conditions*

Overnight, Asian markets are trading mixed to lower. Japanese markets are closed. Chinese markets underperform (fear from more credit regulation?). USD weakness propels the likes of the Korean won. USD/KRW dropped well below 1100, the strongest level for the won in two and a half years. EUR/USD holds in the 1.1830 area. Speculation on a new Grand coalition in Germany might be an additional euro support.

R2	1,2092	-1d
R1	1,188	
EUR/USD	1,1822	0,0084
S1	1,1554	
S2	1,1331	

**Today**, US markets are closed in observance of the Thanksgiving holiday. The focus will be on the EMU data and on the German coalition talks. **In EMU, the November PMI business sentiment is expected unchanged at 56**, a level suggesting solid growth.. An outcome in line with expectations would suggest Q4 growth in line with Q3's 0.6% Q/Q, We don't expect the PMI's to change to broader picture on the EMU economy or on monetary policy. The formation of a new coalition in Germany is a wildcard. Will the SPD return the table, raising the prospect for a Grand coalition? If so, it might be slightly positive for the euro. That said, the euro didn't lose much ground on the German political uncertainty, suggesting no big euro rise if uncertainty declines.

*Trading will continue to develop in thin market conditions*

*Dollar is in the defensive. Will the EUR/USD 1.1880 resistance hold?*

Yesterday, curve moves in the US were important for the decline of the dollar. This factor will be absent today, as US markets are closed. **The news flow from Europe might be neutral to slightly supportive for the euro.** Over the previous days, we kept the working hypothesis that the EUR/USD 1.1861/80 area would be difficult to break and that the high interest rate differential between the US and Europe would at least help to prevent further USD losses. The jury is still out, but this hypothesis is clearly under pressure.



EUR/USD rebounds. 1.1880 range top again within reach



USD/JPY: tests/drops below 111.65 neckline. Red alert!?

From a technical point of view, EUR/USD set a post-ECB low two weeks ago and regained since intermediate resistance at 1.1690/1.1837. The 1.1880 MT correction top was left intact. A break above the latter would suggest a full retracement to the 1.2092 correction top. **We don't preposition for such a scenario, but pressure is rising.** On the downside, the 1.1554 reaction low remains the first important reference, but it is far away. **We look for confirmation that the 1.1861/80 resistance will be able to do its job, before adding EUR/USD short exposure.** Partial stop-loss to defend a break higher might be considered.

The **USD/JPY momentum** was positive in October, but deteriorated this month. Last week's drop below the 112.96 support reinforces the downside pressure. Yesterday, USD/JPY dropped below the 111.65 neckline. IF confirmed, it would make the picture outright USD negative.

### Brexit (rather than data) remains key for sterling

The UK Chancellor of the exchequer proposed the UK Budget. **The UK government wants to use some of the fiscal room to invest, to support public services and keep taxes low.** However, Hammond didn't bring any prospect of a substantial fiscal stimulation. **The OBR also reduced the growth forecasts for the coming years, but this was no surprise. Sterling gyrated modestly during the statement and in the end the impact was limited. Sterling was driven by the broader USD moves. EUR/GBP mostly hovered sideways in the upper half of the 0.88 big figure and closed the session at 0.8871. Cable profit from overall USD weakness and closed at 1.3325.**

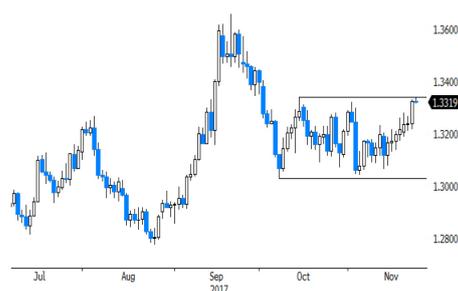
**Today,** the details of the UK Q3 GDP and the CBI retail data will be published. The composition of the UK Q3 growth is interesting, but a bit old news. The CBI sales are expected to rebound after a sharp setback last month. (3 from -36). **We expect it to be only of second tier significance.** Markets will continue to keep a close eye on progress in the Brexit talks as May visits Brussels. Probably there won't be official communication on the progress on specific items, but any comments from the parties involved might be important. Sterling might be sensitive to signs of progress. I

**MT technical: Recently, the BoE driven sterling rebound ran into resistance and sterling declined again as markets anticipated that the rate cycle would be very gradual and limited. EUR/GBP trades in a 0.8733/0.9033 consolidation range. Last week, the EUR/GBP rebound ran into resistance just ahead of the 0.9033 range top. We changed our ST bias on EUR/GBP from positive to neutral last week.** The 0.9015/33 area might be tough to break short-term.

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8871	0,0004
S1	0,8743	
S2	0,8657	



EUR/GBP: topside test rejected, but momentum of sterling rebound slows



GBP/USD: Cable rebounds, mostly on USD softness

# Calendar

Thursday, 23 November		Consensus	Previous
<b>UK</b>			
<b>10:30</b>	<b>GDP QoQ / YoY (3Q P)</b>	<b>0.4%/1.5%</b>	<b>0.4%/1.5%</b>
10:30	Private Consumption QoQ (3Q P)	0.4%	0.1%
10:30	Government Spending QoQ (3Q P)	0.3%	0.6%
10:30	Gross Fixed Capital Formation QoQ (3Q P)	0.4%-	0.7%
10:30	Exports QoQ / Imports QoQ (3Q P)	-0.8%/0.9%	0.7%/0.7%
10:30	Index of Services MoM & 3M/3M (Sep)	0.2%/0.4%--	0.2%/0.4%
10:30	Total Business Investment QoQ / YoY (3Q P)	0.3%/1.4%	0.5%/2.5%
12:00	CBI Retailing Reported Sales (Nov)	3	-36
12:00	CBI Total Dist. Reported Sales (Nov)	--	1
<b>EMU</b>			
<b>10:00</b>	<b>Markit Eurozone Manufacturing PMI (Nov P)</b>	<b>58.2</b>	<b>58.5</b>
<b>10:00</b>	<b>Markit Eurozone Services PMI (Nov P)</b>	<b>55.2</b>	<b>55.0</b>
<b>10:00</b>	<b>Markit Eurozone Composite PMI (Nov P)</b>	<b>56</b>	<b>56.0</b>
<b>Germany</b>			
08:00	GDP SA QoQ / WDA YoY (3Q F)	0.8%/2.8%	0.8%/2.8%
09:30	Markit/BME Germany Manufacturing PMI (Nov P)	60.4	60.6
09:30	Markit Germany Services PMI (Nov P)	55.0	54.7
09:30	Markit/BME Germany Composite PMI (Nov P)	56.7	56.6
<b>France</b>			
08:45	Business Confidence (Nov)	109	109
09:00	Markit France Manufacturing PMI (Nov P)	55.9	56.1
09:00	Markit France Services PMI (Nov P)	57	57.3
09:00	Markit France Composite PMI (Nov P)	57.2	57.4
<b>Belgium</b>			
15:00	Business Confidence (Nov)	0.8	0.5
<b>Events</b>			
<b>US markets closed for Thanksgiving</b>			
13:00 & 19:30	ECB's Villeroy Speaks at French Chamber of Commerce in London / London Bus. school		
<b>13:30</b>	<b>ECB account of the monetary policy meeting</b>		
19:15	ECB's Coeure Speaks at Conference in Paris		

10-year	Close	-1d		2-year	td	-1d	Stocks	Close	-1d
US	2,32	-0,04		US	1,73	-0,04	DOW	23526,18	-64,65
DE	0,35	0,00		DE	-0,70	0,02	NASDAQ	6867,361	4,88
BE	0,56	-0,01		BE	-0,60	0,01	NIKKEI	22523,15	0,00
UK	1,28	0,00		UK	0,47	-0,03	DAX	13015,04	-152,50
JP	0,03	0,00		JP	-0,18	0,00	DJ euro-50	3562,65	-16,67
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,00	0,92	Eonia	-0,3580	0,0010	Libor-1	1,3129	0,0000
5y	0,19	2,11	1,08	Euribor-1	-0,3710	0,0010	Libor-3	1,4540	0,0000
10y	0,81	2,32	1,34	Euribor-3	-0,3290	0,0000	Libor-6	1,6449	0,0000
				Euribor-6	-0,2720	0,0010			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1822	0,0084		EUR/JPY	131,51	-0,48	CRB	191,60	1,78
USD/JPY	111,22	-1,23		EUR/GBP	0,8871	0,0004	Gold	1296,80	10,60
GBP/USD	1,3325	0,0086		EUR/CHF	1,1609	-0,0028	Brent	63,32	0,75
AUD/USD	0,7617	0,0039		EUR/SEK	9,8575	-0,0374			
USD/CAD	1,2696	-0,0082		EUR/NOK	9,6388	-0,0012			

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