



Sunrise

Friday, 22 September 2017

Rates: Profit taking on short positions ahead of the weekend?

North Korea threatened to detonate an H-bomb in the Pacific. Risk aversion reigns in Asia and will dominate at the start of European trading, offering investors the opportunity to take some profit on short positions in the German Bund and US Note future. Central bank speakers (both ECB and Fed) are wildcards.

Currencies: Risk-off blocks post-Fed USD comeback

Yesterday, the dollar failed to extend the gains recorded after the Fed decision on Wednesday. Overnight, sentiment turned risk-off on North Korea, weighing on the dollar. The dollar currently suffers more from a decline in core yields than the yen and even the euro. Sterling traders look out for the Brexit speech of UK PM May.

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	→

- **A slight risk-off tone swept through markets**, with the yen and gold drifting higher, and Treasury yields nudging down. **Asian equities and US equity futures are all in the red**. Tensions on North Korea are the main reason.
- US president **Trump ramps up pressure on North Korea. He ordered fresh sanctions** on individuals, companies and banks doing business with the country. Kim Jong Un may consider testing a hydrogen bomb, Yonhap reported.
- **Brent's premium to WTI** hit the widest since August 2015 as **OPEC meets in Vienna**. There's mixed signals on whether they'll discuss deeper or longer cuts. Russia said it's too early to talk specifics. Brent trades close to \$57.30 key level.
- **The UK will pay into the EU** until 2020 (€20B or more), Theresa May will say in a landmark speech in Florence, a person familiar said. The BBC reported May will seek a transition of 2 years and go for a bespoke trade arrangement.
- **Mario Draghi said the ECB isn't in the business of raising rates** just to tame local bubbles. If financial and business cycles diverge, imbalances can arise even when inflation is muted, but "monetary policy is not the right instrument" to correct the situation, he said
- Poland's central bank may consider a **"small hike"** in early 2018 to offset inflationary and wage pressures, MPC Gatnar told Reuters. MPC Minutes showed a **majority expects stable interest rates in the coming quarters**.
- **Today**, beside the increased geopolitical tensions with **North-Korea**, attention goes to the **US & EMU PMI business confidence** and to **Fed & ECB speakers**. OPEC meets in Vienna.

Rates

Lack of follow-through action after FOMC

Small increases in US & German yields

US 30-yr still outperforms (FOMC)

Small spread widening periphery

	US yield	-1d
2	1,44	0,00
5	1,86	0,01
10	2,28	0,01
30	2,78	0,00

	DE yield	-1d
2	-0,68	0,01
5	-0,26	0,02
10	0,46	0,01
30	1,28	0,05

US & EMU PMI business confidence expected little changed in Sept.

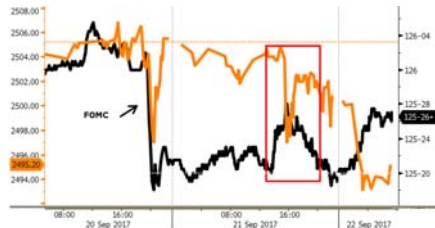
Many Fed & ECB speakers

Lack of sustained follow-through selling characterized yesterday's trading session, even as an attempt of US Treasuries to rally in mid US session was aborted too. Market participants aren't convinced yet to buy into Wednesday's hawkish FOMC message. They probably want evidence from the inflation front first before taking up additional bets on higher rates. Technical considerations could have been at play as well given the US Note future's 9 straight day decline. Weekly jobless claims and Philly Fed Business outlook both printed on the positive side of expectations while EMU confidence set a cyclical high. They couldn't give sustainable direction either.

In a daily perspective, US yields were flat (2-yr) to 1.2 bps higher (5-yr) in the 2-to-10-yr sector of the curve. The very long end bucked again the trend and fell 0.4 bps, flattening the very long end (FOMC inspired). German yields rose up to 1.9 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended unchanged with a peripheral underperformance (+2/3 bps).

Business confidence and central bank speakers

The September US & EMU PMI business confidence data are highlights today. Both are expected to show only minor changes compared to August. US manufacturing PMI confidence is expected slightly higher (53), erasing part of August decline, but in fact close to the levels of the past six months. The weaker dollar hadn't yet a substantial impact. The services confidence has gone steadily up in the past months to 56 and for December some consolidation is expected (55.7). In EMU, manufacturing PMI reached a cyclical high in August at 57.4 despite a stronger euro. Consensus expects a minor decline to 57.2. Given the high level we are inclined to follow the consensus, even if we haven't noticed any sign of slowing activity. The EMU services PMI is expected marginally higher at 54.8 (from 54.7). While the level is still okay, we are well below April's peak of 56.4. We see risks on the upside of consensus.



T-Note future (black) & S&P future (orange) (intraday, 3 days): Yesterday no follow through selling bonds, but attempt to rally aborted too. Overnight, renewed rally attempt on risk off.



Brent approaches upper boundary broad sideways channel as OPEC meets in Vienna. Chances on a decision regarding the prolongation or deepening of production cuts are minor

The event calendar is crammed by ECB members Draghi, Coeuré and Constancio, all three Executive Board members. We know that the discussions on the fate of the APP programme in 2018 are ongoing. We got already hawkish comments of the usual (hawkish) suspects Weidmann, Knot and Lautenschlager, but the influential Executive board members have kept their lips sealed.

Friday, 22 September 2017

Decisions will be taken at the October meetings. **Markets will closely listen to see in which way the debate turns.** Following Wednesday's **FOMC meeting**, the comments of the regional Fed governors **George (hawk)**, **Williams (centre)** and **Kaplan (slightly dovish)** might give markets maybe more guidance about the outlook for a December rate hike. We suspect George was the author of the highest dot (2 rate increases this year). Williams should have been in the majority camp (1 rate hike), while Kaplan might have been in the majority group (1) or one of the four governors who projected no rate hike anymore in 2017.

Profit taking on short positions ahead of the weekend?

R2	163,43	-1d
R1	161,66	
BUND	161,2	-0,18
S1	160,49	
S2	160,5	

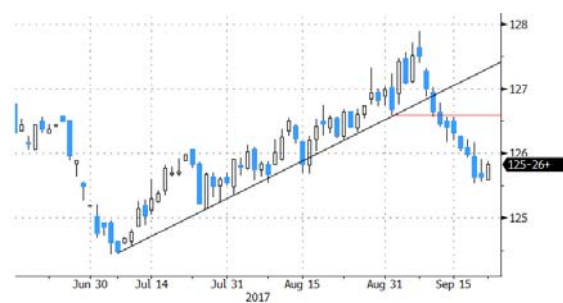
Risk aversion reigns overnight after North Korea threatened to detonate an H-bomb in the Pacific. The threat is a reaction to extra economic sanctions and to US President Trump's speech before the UN where he warned that the US would totally destroy North Korea if America was forced to defend itself and its allies. **Asian stock markets trade in red and the US Note future and Japanese yen gain ground. We expect a stronger opening for the Bund as well.**

Today's eco calendar contains some EMU/US PMI's. We expect near consensus outcomes, suggesting that they won't be the main impetus for trading. **Risk aversion will dominate trading, offering investors the opportunity to take some profit on short positions in the German Bund and US Note future.** Central bank speakers (both ECB and Fed) are wildcards for trading. The front end of the US yield curve can underperform if Fed governors stress their willingness to hike rates in December (especially non-hawks Kaplan/Williams). ECB heavyweights can touch on the future of APP. Sunday's German election outcome, even if near certain, **could still trigger some safe haven flows.**

After the FOMC meeting, we concluded that US Treasuries re-entered a sell-on-upticks phase after the Fed confirmed his view on 2017/2018 interest rate policy. A December rate hike isn't fully discounted yet. **Short term though, we expect some correction higher.** We hold a sell-on-upticks view in the Bund as well as the ECB's normalisation process slowly takes off. **From a technical point of view, both the Bund and the US Note future fell below uptrend lines (early September) since the start of summer, making the picture neutral from bullish.**



German Bund: Draghi delays key decisions to October. Speculation on APP announcement could inflict more losses, especially with Fed also staying on normalization course



US Note future: Hawkish Fed inflicts more losses on US Treasuries. Correction higher possible on stretched move, but sell-on-upticks

Currencies

Risk-off to block any post Fed-USD comeback

Dollar failed to build out post-Fed gains

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1941	0,0049
S1	1,1662	
S2	1,1311	

North Korea again factor of geopolitical uncertainty

Yen outperforms

Dollar struggles

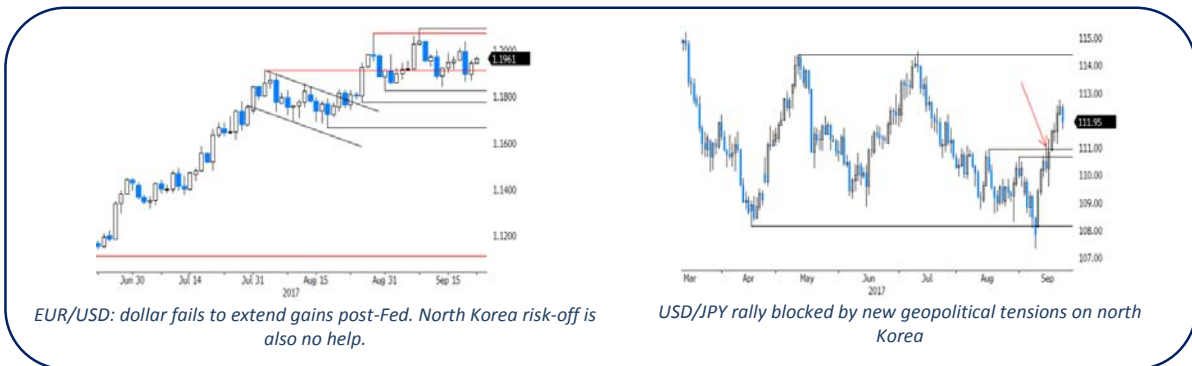
EMU and US data probably won't change fortunes for the dollar.

Lingering risk-off sentiment might further block post-Fed USD comeback

Yesterday, the dollar failed to build on Wednesday's post-Fed gains. This was a disappointment for USD bulls. Investors clearly didn't buy into the Fed's "hawkish" stance on policy normalisation. The US yield rally also fell apart. Strong US eco data didn't support further USD gains. EUR/USD finished the day at 1.1941 (from 1.1892). USD/JPY was more resilient. The pair hovered in a tight range close to the recent top and at 112.48.

Overnight, risk sentiment soured in Asia. Press reports said that North Korea might retaliate on Trump's speech and trade measures, testing a hydrogen bomb in the pacific (see headlines). The renewed geopolitical tensions caused a modest risk-off repositioning. Asian equity indices show losses, bonds gain and the Yen outperforms. USD/JPY declined from the mid 112 area to the 111.84 area. The dollar is also losing slightly against the euro (EUR/USD currently at 1.1960). Even post-Fed, the dollar remains most vulnerable to a decline in core yields.

Today, the US & EMU September PMI's will be published. Both are expected to show only minor changes compared to August. US manufacturing PMI is expected slightly higher (53). The weaker dollar hadn't yet a substantial impact. The US non-manufacturing PMI confidence has gone steadily up in the past months and consolidation is expected (55.7). The EMU manufacturing PMI reached a cyclical high in August at 57.4 despite a stronger euro. Consensus expect a minor decline to 57.2. The EMU Services PMI is expected marginal higher at 54.8 (from 54.7). We see risks on the upside of consensus for the latest measure. After the Fed meeting, any USD reaction to good US data would be interesting, but the US PMI is no strong market mover. There are also plenty of ECB members scheduled to speak, including Draghi, Coueré and Constancio. The discussions on the fate of the APP programme in 2018 are ongoing. However, tensions on North Korea probably will dominate trading. Of late, the risk-off reaction to geopolitical tensions was mostly modest and short-lived. However, investors will probably refrain from picking-up risky assets ahead of the weekend. This lingering risk-off feeling is mostly negative for the dollar; in the first place for USD/JPY, but to a lesser extend also for EUR/USD.



EUR/USD: dollar fails to extend gains post-Fed. North Korea risk-off is also no help.

USD/JPY rally blocked by new geopolitical tensions on north Korea

From a technical point of view EUR/USD hovers in a consolidation pattern between 1.1823 and 1.2070. It was disappointing for EUR/USD bears that last week's correction didn't reach the range bottom. More confirmation is needed

that the bottoming out process in US yields and in the dollar might be the start of more sustained USD gains (against the euro). In case of a break, next support in EUR/USD comes in at 1.1774 and 1.1662

The day-to-day momentum in USD/JPY is (was?) more constructive. The yen traded weak across the board and the dollar might be in better shape post-Fed. USD/JPY regained the 110.67/95 previous resistance. This a short-term positive. If current event risk on north Korea is again temporary in nature, the yen might remain in the defensive. The 114.49 correction top is the next important reference.

Sterling well bid going into May's Brexit speech

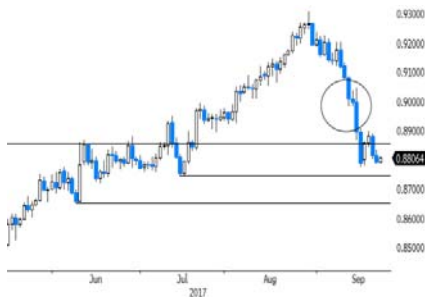
R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8792	-0,0021
S1	0,8743	
S2	0,8657	

Yesterday, sterling initially stabilized after Wednesday's strong performance.

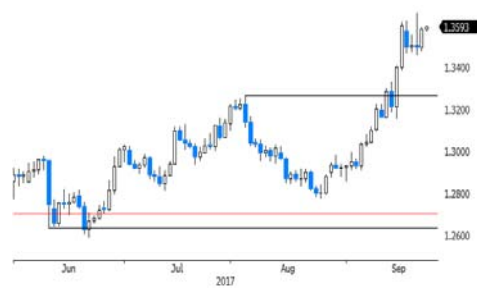
UK August public finance results were better than expected but played no role. Sterling found again a stronger bid late in Europe. We didn't see any specific reason. A further repositioning ahead of May's Brexit speech was probably in play. EUR/GBP finished the session at 0.8792. Cable closed the day at 1.3580. The recent highs against the euro and the dollar are again within reach

Today, the CBI trends orders will be published. However the focus will be on the Brexit speech of UK PM May. **PM May is expected to sound a bit more conciliatory on key issues as the Brexit bill and will aim for a transition period.** Question is whether these 'concessions' will be enough to unlock the stalemate at the next round of formal negotiations. A more constructive environment might be slightly sterling supportive. However, we don't expect today's speech to clear the horizon in a profound way. **EUR/GBP is again close to the recent lows. A break could cause some extension of the recent GBP-comeback.**

EUR/GBP made an impressive uptrend since April and set a MT top at 0.9307 late August. The euro was strong and UK price data were soft enough to keep the BoE side-lined. **Recent UK price data amended this story** and the reversal of sterling was reinforced by hawkish BoE comments. Medium term, we maintain a **EUR/GBP buy-on-dips approach as we expect the mix of relative euro strength and sterling softness to persist. However, the prospect of (limited) withdrawal of BOE stimulus put a solid floor for sterling ST term. We look how far the current correction has to go. EUR/GBP is nearing support at 0.8743 and 0.8652, which we consider difficult to break. We start looking to buy EUR/GBP on dips.**



EUR/GBP: near recent lows going into May's Brexit speech



GBP/USD: running into resistance?

Calendar

Friday, 22 September		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Sep P)	53	52.8
15:45	Markit US Services PMI (Sep P)	55.7	56.0
15:45	Markit US Composite PMI (Sep P)	--	55.3
Canada			
14:30	CPI NSA MoM / YoY (Aug)	0.2%/1.5%	0.0%/1.2%
14:30	Retail Sales MoM (Jul)	0.2%	0.1%
UK			
12:00	CBI Trends Total Orders (Sep)	13	13
12:00	CBI Trends Selling Prices (Sep)	--	19
EMU			
10:00	Markit Eurozone Manufacturing PMI (Sep P)	57.2	57.4
10:00	Markit Eurozone Services PMI (Sep P)	54.8	54.7
10:00	Markit Eurozone Composite PMI (Sep P)	55.6	55.7
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Sep P)	59	59.3
09:30	Markit Germany Services PMI (Sep P)	53.7	53.5
09:30	Markit/BME Germany Composite PMI (Sep P)	55.7	55.8
France			
08:45	Wages QoQ (2Q F)	0.4%-	0.4%
08:45	GDP QoQ / YoY (2Q F)	0.5%/1.7%	0.5%/1.7%
09:00	Markit France Manufacturing PMI (Sep P)	55.5	55.8
09:00	Markit France Services PMI (Sep P)	54.8	54.9
09:00	Markit France Composite PMI (Sep P)	55.0	55.2
Belgium			
15:00	Business Confidence (Sep)	-2	-2.1
Events			
09:15	ECB Coeuré speaks in Sarajevo (20 years of stability)		
10:00	ECB Draghi speaks (key-note) in Dublin at Henry Grattan lecture		
12:00	Fed's Williams Speaks to Media at Swiss National Bank Event		
13:15	ECB Vice-President Constancio speaks in Frankfurt		
15:30 & 19:30	Fed's George & Kaplan Speaks at Dallas/Kansas City Fed Oil Conference		

10-year	Close	-1d		2-year	td	-1d		Stocks	Close	-1d
US	2,28	0,01		US	1,44	0,00		DOW	22359,23	-53,36
DE	0,46	0,01		DE	-0,68	0,01		NASDAQ	6422,693	-33,35
BE	0,74	0,01		BE	-0,51	0,01		NIKKEI	20296,45	-51,03
UK	1,37	0,02		UK	0,45	0,01		DAX	12600,03	30,86
JP	0,03	-0,02		JP	-0,13	-0,01		DJ euro-50	3539,59	14,04
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	-1d	-2d		USD	-1d	-2d
3y	-0,05	1,82	0,93	Eonia	-0,3660	-0,0060		Libor-1	1,2356	0,0000
5y	0,24	1,97	1,10	Euribor-1	-0,3730	0,0000		Libor-3	1,3231	0,0000
10y	0,89	2,25	1,42	Euribor-3	-0,3300	-0,0010		Libor-6	1,4800	0,0000
				Euribor-6	-0,2720	-0,0010				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,1941	0,0049		EUR/JPY	134,31	0,85		CRB	183,40	-1,24
USD/JPY	112,48	0,26		EUR/GBP	0,8792	-0,0021		Gold	1294,80	-21,60
GBP/USD	1,358	0,0085		EUR/CHF	1,1591	0,0055		Brent	56,43	0,14
AUD/USD	0,7929	-0,0102		EUR/SEK	9,5198	-0,0104				
USD/CAD	1,2327	0,0004		EUR/NOK	9,3161	-0,0402				

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