



Sunrise

Friday, 17 November 2017

Rates: Cautiousness ahead of the weekend?

US Treasuries outperform this morning as US political risk showed another dimension. Risk sentiment will continue to play a key role today. The proof of yesterday's risk rebound is in today's eating. We remain suspicious about the sustainability of the move (bull trap?) and have an upward bias for bond trading going into the weekend.

Currencies: Dollar fails to extend rebound

The dollar regained slightly further ground yesterday, but the move was unconvincing given the moves on other markets. The potential positive impact from the progress in Congress on a tax bill is counterbalanced by political uncertainty on the investigation versus the Trump campaign team regarding the Russia links. Dollar sentiment remains fragile.

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 followed the general risk rebound** and closed around 0.8% higher with Nasdaq outperforming (+1.2%). **Asian bourses rally further overnight with China underperforming.**
- **The US House passed a bill** that would usher in the most far-reaching overhaul of the US tax system in 31 years. After the House's passage of tax legislation, **the Senate finance committee approved its own bill**, enabling Senate majority leader McConnell to bring it to the floor for debate the week after next.
- **Special counsel Robert Mueller's team** in mid-October issued **a subpoena to President Trump's campaign** requesting Russia-related documents from more than a dozen top officials, according to a person familiar with the matter.
- **Corporate bonds may make up a larger share of the ECB's asset purchase programme from January** when it will halve the size of the scheme to €30 bn per month, ECB governing council member Nowotny said.
- **China's central bank injected \$47bn into its financial system** yesterday, its **largest intervention in nearly a year**, in an effort to calm investor fears that the crackdown on debt-fuelled growth would put a break on expansion.
- **Investors retreated from high-yield bond funds last week** as a sell-off rippled across the \$1.3tn asset class, **pulling money from the vehicles at the fastest pace in more than three years.**
- **Today's eco calendar** contains US housing starts and building permits. ECB Draghi and ECB Weidmann are scheduled to speak.

Rates

	US yield	-1d
2	1,71	0,02
5	2,05	0,04
10	2,38	0,05
30	2,80	0,06

Bear steepening US yield curve

	DE yield	-1d
2	-0,71	0,01
5	-0,34	0,00
10	0,38	0,00
30	1,27	0,00

Rebound in US housing data?

Risk rebound on stock markets

Global core bonds lost ground yesterday during Asian trading and in the first half of European dealings as risk sentiment improved. Following a 7-day sell-off and a test of key support in eg the German Dax, stocks found their composure and rebounded. The German Bund started outperforming the US Note future at the start of the US session, erasing most of the intraday losses. **US eco data printed mixed, but once again failed to move markets.** Expected progress on US tax reforms weighted on US Treasuries, especially at the long end of the curve.

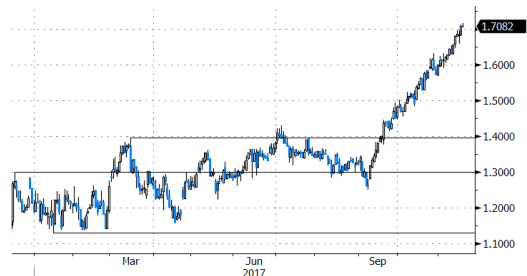
At the end of the session, the US yield curve bear steepened with yields 2.5 bps (2-yr) to 6.2 bps (30-yr) higher. The US 2-yr yield moved above 1.7% for the first time since 2008 as investors slowly start embracing next year's FOMC forecast of three additional hikes (after the December one) on more and more hawkish Fed comments. German yield changes ranged between flat (10-yr) and +0.7 bps (2-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 2 bps with Greece (+10 bps) underperforming.

Thin eco calendar

The eco calendar is thin today with only US Housing starts (1190k; 5.6% M/M) and building permits (1250k; 2% M/M), which are generally speaking no market movers. Consensus expects a rebound in October data. Housing figures recently showed signs of peaking with a potential downtrend so it will be interesting to see whether the rebound actually occurred. ECB President Draghi and Bundesbank president Weidmann both speak at the European Banking Congress in Frankfurt. The topic of debate "Europe into a new era – How to seize the opportunities?" suggests that they won't touch on monetary policy.



German Bund future (black) & Dax (orange) (intraday): Simultaneous sell-off since at the end of last week and on Monday, but risk correlations restored afterwards



US 2-yr yield breaches above 1.7% with markets slowly starting to embrace the Fed's 3 rate hike scenario next year (currently 1.5 discounted).

Cautiousness ahead of the weekend?

R2	165,18	-1d
R1	163,43	
BUND	162,77	0,06
S1	161,91	
S2	160,24	

The risk rebound on Asian stock markets is slowly extended this morning with China underperforming. US assets (dollar, Treasuries) react on reports that special counsel Mueller subpoenaed Trump campaign officials requesting Russia-related documents. The reports outweigh progress in the US House and US Senate on (two separate) tax reform bills. We expect a neutral opening for the Bund which shouldn't be impacted by the Mueller headlines.

Today's eco calendar is uneventful. US Treasuries might outperform Bunds ahead of the weekend as US political risk showed another dimension even if we doubt the topic's bearing power. Progress on the tax reforms will probably take the upper hand again next week. Risk sentiment will continue to play a key role. The proof of yesterday's risk rebound is in today's eating. We remain suspicious about the sustainability of the move (bull trap?) and have an upward bias for bond trading going into the weekend. Central bank speakers and developments on the oil market are wildcards.

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 US curve flattening continues with investors putting themselves slowly in line with FOMC projections. 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



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

Currencies

R2	1,2092	-1d
R1	1,188	
EUR/USD	1,1770	-0,0021
S1	1,1554	
S2	1,1331	

Dollar fails to extend rebound

An improvement in global risk sentiment and a rise in US yields supported a modest USD rebound yesterday. (US) data were mixed and had no significant impact on trading. EUR/USD finished the session at 1.1770 (from 1.1791). USD/JPY finished at 113.06 (from 112.88). So, the dollar traded off Wednesday's lows, but the rebound was far from impressive.

Asian markets show somewhat of a diffuse picture overnight. Most indices opened with good gains in the wake of yesterday's strong WS close. However sentiment dwindled throughout the session. Mainland China indices even trade in the red as the PBOC added liquidity to the system. The dollar came under pressure early in Asia on headlines that President Trump's election campaign received a subpoena of special Counsel Robert Mueller on the links between the campaign leaders and Russia. USD/JPY dropped from the 113+ area and set a minor new low for the week in the 112.40 area (currently 112.55). EUR/USD returned north of 1.18.

The eco calendar is thin today. The EMU current account is no market mover. US housing starts and permits are expected to rebound after a mediocre performance of late. These data will only be of second tier importance for USD trading. **There were quite some conflicting headlines overnight from the US.** Congress made some progress on a tax reform bill, but there was negative political noise from Special council Mueller's subpoena. Asian equity markets modestly trade in positive territory, but the intraday swings suggest some underlying uncertainty. It's far from sure that the risk rally will continue in Europe and/or in the US. It looked that the dollar could enter calm waters yesterday after a potential ST trend reversal sign on Wednesday. **The dollar indeed regained slightly further ground, but the gains were unconvincing.** The overnight price action also suggests that underlying sentiment on the US currency remains fragile. The dollar at least doesn't receive much support from a rise in ST US yields/interest rate differentials. We keep a close eye at the 1.1861/80 top. This level can again come under pressure if risk sentiment turns negative again. The overnight price action in USD/JPY doesn't give much comfort for USD bulls.

Asian equities mostly trade in positive territory ...

...but sentiment is perturbed by a subpoena for Trump's campaign team

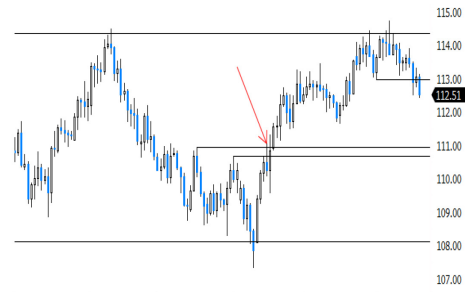
The dollar reversed yesterday's rebound

Thin eco calendar

US politics and global risk sentiment to set the tone for USD trading today



EUR/USD fails to extend Wednesday's correction



USD/JPY: downside pressure persists

From a technical point of view, EUR/USD set a new post-ECB low on Tuesday last week, but the move petered out. EUR/USD this week regained intermediate resistance at 1.1690/1.1837, but 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 yet unless there comes real negative news from the US. Wednesday's intraday price action suggested that a ST EUR/USD top could be in place, but this isn't confirmed yet. We look out whether 1.1861/1.1880 resistance can do the job. **USD/JPY's momentum was positive in past months.** The pair regained 110.67/95 resistance and tested the 114.49 MT range top. The attempt failed. A sustained break would improve the technical picture. However, last week's price action was unconvincing despite a solid interest rate support. The pair dropped temporary below the 112.96 support early this week and struggles to prevent further losses. We see no sign yet of a sustained USD/JPY rebound.

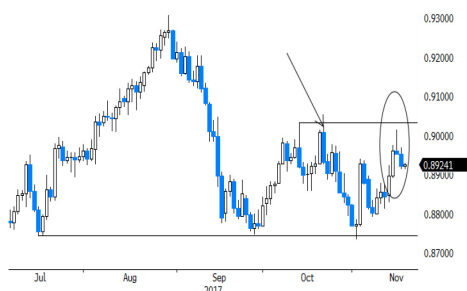
R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8921	-0,0031
S1	0,8743	
S2	0,8657	

EUR/GBP declines off 0.9033 range top

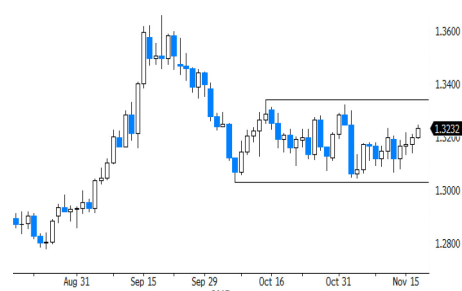
EUR/GBP traded in the mid 0.89 area yesterday morning, off Wednesday's top. Sterling profited from the better risk sentiment. Wednesday's **potential trend reversal signal in EUR/GBP (and in EUR/USD) also weighed on the euro cross rates.** UK retail sales were marginally stronger than expected at 0.3% M/M, but printed the first negative Y/Y reading since 2013 (-0.3%). **Sterling finally gained slightly further ground, especially against the euro.** Press headlines indicating that UK and EU politicians acknowledge the need for an orderly, well-organised Brexit may have been slightly supportive for sterling. EUR/GBP closed the session at 0.8921. Cable finished the day at 1.3195.

There are no important UK data today. The focus for sterling trading will on politics/Brexit. UK PM May will meet several EU leaders, including EU president Tusk, at a summit on Labour and social reform in Gothenburg. It is unlikely that there will be an outright agreement e.g. on the amount of the divorce bill. However, **politicians from both sides might hold a positive tone after informal meetings, indicating further progress in the run-up to the EU summit.** We expect sterling to hold a wait-and see modus. Investors probably don't want to be positioned aggressively short sterling as more constructive Brexit news remains a potential positive event risk for sterling. **In technical trade, sterling might regain some further ground. We changed our ST bias on EUR/GBP from positive to neutral yesterday. We maintain this assessment.** Further overall euro gains remain a risk to this approach.

MT technical: Sterling rebounded in September as the BoE prepared markets for a rate hike. This rebound ran into resistance and sterling declined again as markets anticipated that any rate hikes would be very gradual and limited. EUR/GBP trades in a 0.8733/0.9033 consolidation range. Earlier this week, the EUR/GBP rebound ran into resistance just ahead of the 0.9033 range top. The 0.9015/33 area might be tough to break short-term.



EUR/GBP: topside test rejected. Room for a further technical rebound of sterling?



GBP/USD: Cable holds sideways consolidation pattern.

Calendar

Friday, 17 November		Consensus	Previous
US			
14:30	Housing Starts / MoM (Oct)	1190k/5.6%	1127k/-4.7%
14:30	Building Permits / YoY (Oct)	1250k/2.0%	1225k/-3.7%
Canada			
14:30	CPI NSA MoM / YoY (Oct)	0.1%/1.4%	0.2%/1.6%
EMU			
10:00	ECB Current Account SA (Sep)	--	33.3b
11:00	Construction Output MoM / YoY (Sep)	--/--	-0.2%/1.6%
Italy			
10:00	Current Account Balance (Sep)	--	3679m
Events			
09:30	ECB's Draghi Speaks in Frankfurt		
14:00	Bundesbank's Weidmann Speaks at European Banking Congress		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,38	0,05	US	1,71	0,02	DOW	23458,36	187,08	
DE	0,38	0,00	DE	-0,71	0,01	NASDAQ	6793,291	87,08	
BE	0,59	0,00	BE	-0,61	0,01	NIKKEI	22396,8	45,68	
UK	1,31	0,02	UK	0,50	0,02	DAX	13047,22	70,85	
JP	0,04	-0,02	JP	-0,21	-0,02	DJ euro-50	3564,8	19,08	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,00	0,93	Eonia	-0,3580	-0,0010	Libor-1	1,2660	0,0000
5y	0,21	2,13	1,08	Euribor-1	-0,3720	0,0000	Libor-3	1,4219	0,0000
10y	0,84	2,37	1,36	Euribor-3	-0,3290	0,0000	Libor-6	1,6181	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1770	-0,0021	EUR/JPY	133,07	-0,02	CRB	188,25	-0,39	
USD/JPY	113,06	0,18	EUR/GBP	0,8921	-0,0031	Gold	1278,20	0,50	
GBP/USD	1,3195	0,0024	EUR/CHF	1,1700	0,0046	Brent	61,36	-0,51	
AUD/USD	0,7588	-0,0001	EUR/SEK	9,8851	-0,0543				
USD/CAD	1,2757	-0,0007	EUR/NOK	9,6633	-0,0573				

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