



## Sunrise

Friday, 19 January 2018

### Rates: US yields hit important resistance levels

The US Note future's underperformance against the German Bund continued yesterday. The move was mainly an extension of Wednesday's sell off. US 5-yr and 10-yr yields tested key resistance, respectively at 2.42% (2011 top) and 2.63%/2.64% (2016/2017 top), but a break didn't occur. The US Senate's vote on a stopgap funding bill could be key.

### Currencies: US Government shutdown and consumer confidence to drive the dollar

The price action of the dollar remained unconvincing yesterday. The US currency reversed part of Wednesday's rebound as uncertainty on a US government shutdown weighed. The US Senate votes on a spending bill today. If approved, the dollar might receive additional interest rate support. However, of late this was no guarantee for sustained USD gains.

### 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 ended slightly lower yesterday with the Dow underperforming (-0.4%).** Most Asian equity indices eke out gains overnight with Korea underperforming.
- **The threat of a partial US government shutdown intensified as senators signaled opposition** to a short-term spending bill that the House passed yesterday evening.
- **The White House is considering SF Fed governor Williams as a candidate to serve as the vice chairman** of the Federal Reserve Board in Washington, according to people familiar with the matter.
- **The Fed should review its inflation target** as part of an assessment of its tools for fighting the next recession **NY Fed Dudley** said, adding new impetus to an issue that is among the most important questions facing monetary policy.
- Leaders Silvio Berlusconi of Forza Italia, Matteo Salvini of Northern League and Giorgia Meloni of Brothers of Italy signed **a joint election program ahead of Italy's March 4 general elections.**
- **The expected reduction of the ECB's monetary stimulus programme this year is unlikely to have a major adverse impact on Portugal**, whose public debt should keep declining, a senior Fitch Ratings analyst said.
- **Today's eco calendar** contains University of Michigan consumer confidence and UK retail sales. Fed Bostic and Quarles are scheduled to speak, respectively on the economy and on bank regulation.

# Rates

## US yields hit important resistance levels

	US yield	-1d
2	2,04	0,00
5	2,43	0,01
10	2,63	0,04
30	2,92	0,05

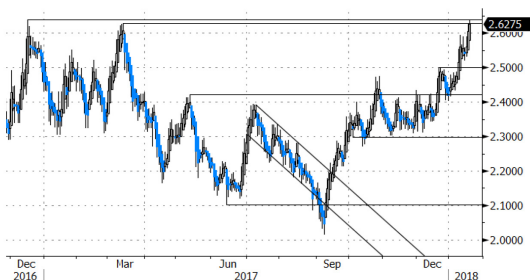
	DE yield	-1d
2	-0,59	-0,01
5	-0,13	0,00
10	0,57	0,01
30	1,31	0,02

**The US Note future's underperformance against the German Bund continued yesterday.** The move was mainly an extension of Wednesday's sell off, when the Fed's Beige Book and Apple's US investment announcement revived the reflation trade. ECB governors' warnings about euro strength dampened speculation on changes to the ECB's communication strategy at next week's ECB meeting and played a role on the European side of the story. **The US 5-yr and 10-yr yields tested key resistance, respectively at 2.42% (2011 top) and 2.63%/2.64% (2016/2017 top), but a break didn't occur.** The US House passed a stopgap funding bill to avert a government shutdown this weekend, but Senators are still bickering. An agreement could be sufficient to push yields above those key levels after the weekend.

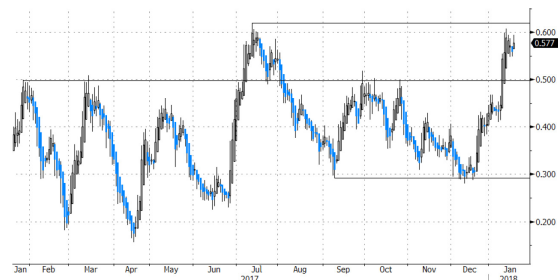
**The US yield curve bear steepened** in a daily perspective with yields up to 4.6 bps (30-yr) higher. The German yield curve steepened as well with yield changes ranging between -1.1 bp (2-yr) and +2.2 bps (30-yr). 10-yr yield spread changes versus Germany ranged between +2 bps and -2 bps.

Most Asian stock markets eke out some gains overnight despite yesterday's slightly negative close on WS. The US Note future hovers near the sell-off lows and Brent crude shows early signs of topping off. We expect a neutral opening for the Bund. **Today's eco calendar contains Michigan consumer confidence and speeches by Fed Bostic (economy) and Quarles (regulation).** Bostic votes on policy this year and said earlier this year that he is in favour of 2 or 3 rate hikes. Ahead of tonight's US Senate vote on a stopgap spending bill, we don't expect US yields to break through resistance levels. In case of an agreement, we prepare for such move after the weekend. **In case of a government shutdown spells, which is not our base scenario this time, US Treasuries tended to profit from safe haven flows.**

**Technical considerations remain at play for the Bund as well.** German yields are close to resistance levels, respectively at -0.55% (2-yr), -0.06% (5-yr), 0.62% (10-yr) and 1.38% (30-yr), but a break higher is unlikely ahead of this weekend's SPD convention and next week's ECB meeting. **We argue in favor of some consolidation near the highs (in yield terms). Medium term, we closely follow German trade union negotiations about pay rises. German wages are expected to be pivotal to start an upward spiral in EMU price dynamics and could be a bearish signal for Bunds.** Strong global growth, rising inflation expectations and the global push to monetary normalization are **bearish factors for bonds medium term.**



US 10-yr yield tests 2.63%/2.64% resistance. Break possible if US Senate averts government shutdown?



German 10-yr yield: consolidation ahead of ECB meeting

# Currencies

## Senate vote spending bill key for USD short-term ?

R2	1,2643	-1d
R1	1,2297	
<b>EUR/USD</b>	<b>1,2238</b>	<b>0,0052</b>
S1	1,1713	
S2	1,1554	

R2	0,9307	-1d
R1	0,9033	
<b>EUR/GBP</b>	<b>0,8807</b>	<b>-0,0004</b>
S1	0,8690	
S2	0,8657	

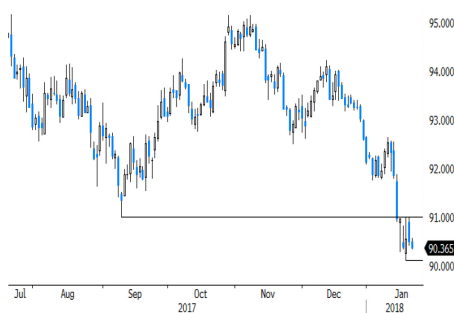
**The dollar couldn't sustain early-day gains yesterday. Especially USD/EUR showed signs of weakness.** The interest rate differentials widened again slightly in favor of the dollar. It was not enough to help the US currency, as was often the case of late. US data were mixed. Uncertainty on a US government shutdown capped further US equity gains and weighed on the dollar. USD/JPY finished the day at 111.11. EUR/USD closed the session at 1.2238.

**Asian equities remain in good shape, but the positive risk sentiment doesn't help the dollar.** The trade-weighted dollar (DXY) trades at 90.38 (near the cycle low). USD/JPY dropped back below 111 and AUD/USD surpassed the 0.80 mark. EUR/USD also regained a few more ticks even as US yields are at recent highs/key resistance levels.

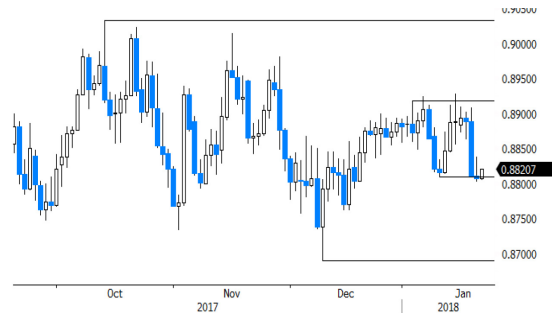
**The debate on the US spending bill and US consumer confidence** (University of Michigan) are the main topics today with potential to move FX markets. Consumer confidence is expected to rebound after a setback in the previous two months. Recent US business sentiment indicators didn't profit much from the tax reform. **So we are a bit cautious.** A US government shutdown would weigh on the dollar. **If a shutdown is avoided, US yields might break key resistances (see fixed income part). Will this be enough to improve USD sentiment?** This weekend's SPD decision whether or not to start formal talks to form a German government are also important for European markets.

**Global Picture:** The **dollar remains in the defensive** as markets prepare for a change in policy from central banks outside the US. This propelled EUR/USD despite a huge interest rate differential in favour of the dollar. The USD decline slowed this week, but the 'rebound' remained unconvincing from now. A return below previous resistance at 1.2092 is needed to call off the ST alert for the dollar. EUR/USD 1.2598 (62% Retracement) is next important resistance on the charts.

The **December UK retail sales** are expected to decline 1.0% M/M after a strong November figure. A positive surprise (smaller decline) is possible. Activity data are not the most important issue for (FX) trading. Even so, sterling showed some underlying resilience recently. A break of EUR/GBP below 0.8810 would open the way to the 0.87 range bottom, which we consider solid support. **Some further correction within the established range is possible.**



DXY (USD trade-weighted): USD fails to rebound off recent lows



EUR/GBP: drifting lower in the established range

# Calendar

Friday, 19 January		Consensus	Previous
<b>US</b>			
16:00	U. of Mich. Sentiment (Jan P)	97.0	95.9
<b>UK</b>			
10:30	Retail Sales Ex Auto Fuel MoM / YoY (Dec)	-1.0%/2.6%	1.2%/1.5%
10:30	Retail Sales Inc Auto Fuel MoM / YoY (Dec)	-1.0%/2.6%	1.1%/1.6%
<b>EMU</b>			
10:00	ECB Current Account SA (Nov)	--	30.8b
<b>Germany</b>			
08:00	PPI MoM / YoY (Dec)	0.2%/2.3%	0.1%/2.5%
<b>Belgium</b>			
15:00	Consumer Confidence Index (Jan)	--	2
<b>Events</b>			
14:45	Fed's Bostic Speaks on the Economy		
19:00	Fed's Quarles Speaks on Bank Regulation		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,63	0,04	US	2,04	0,00	DOW	26017,81	-97,84	
DE	0,57	0,01	DE	-0,59	-0,01	NASDAQ	7296,047	-2,23	
BE	0,71	0,01	BE	-0,48	0,00	NIKKEI	23808,06	44,69	
UK	1,33	0,02	UK	0,58	0,01	DAX	13281,43	97,47	
JP	0,08	0,00	JP	-0,13	0,00	DJ euro-50	3620,91	8,13	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,05	2,37	0,99	Eonia	-0,3700	-0,0070	Libor-1	1,5575	0,0000
5y	0,39	2,48	1,17	Euribor-1	-0,3690	0,0000	Libor-3	1,7392	0,0000
10y	0,96	2,64	1,40	Euribor-3	-0,3280	0,0000	Libor-6	1,9130	0,0000
				Euribor-6	-0,2750	-0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2238	0,0052	EUR/JPY	135,98	0,35	CRB	196,34	-0,06	
USD/JPY	111,11	-0,18	EUR/GBP	0,8807	-0,0004	Gold	1327,20	-12,00	
GBP/USD	1,3894	0,0063	EUR/CHF	1,1735	-0,0032	Brent	69,31	-0,07	
AUD/USD	0,8001	0,0031	EUR/SEK	9,814	0,0037				
USD/CAD	1,2418	-0,0020	EUR/NOK	9,6041	0,0015				

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