



Sunrise

Tuesday, 20 June 2017

Rates: Fed speakers wildcard, but neutral trading expected

Today's eco calendar is empty suggesting more low volume trading in tight ranges. Speeches by Fed governors are wildcards for trading. Chicago Fed Evans stroke a dovish note overnight, but the US Treasury market didn't reverse losses after "hawkish comments" by influential NY Fed Dudley yesterday

Currencies: dollar extends cautious rebound

Yesterday, the dollar gained more ground on hawkish Fed comments and on a forceful equity rebound. Central bankers comments and equities will remain the drivers for USD trading today. The USD rebound may slow if Fed governors bring no additional supportive news.

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	→

- **Asian stocks trade mixed with Japan outperforming on weaker yen & strong tech stocks.** Other Asian bourses are narrowly mixed and ignore WS strong run yesterday (S&P/Dow fresh record highs).
- **China's economic growth is expected to fall below the government's 6 per cent target in 2018 and 2019,** according to Fitch, reflecting the increasing challenge of supporting growth given a higher level of indebtedness.
- **Oil is little changed at \$44.2 a barrel.** Crude has now fallen for four weeks straight as U.S. drillers continue to add rigs, blunting OPEC-led efforts to rebalance an oversupplied market.
- **Chicago Fed Evans** said that the **low-inflation environment supports very gradual hikes** and slow, pre-set reductions in the BS. He stressed downside risks to the inflation outlook and that the inflation target is not a ceiling.
- **Germany PPI was a tad below consensus in March at -0.2% M/M and 2.8% Y/Y,** down from 3.4% Y/Y in April. It confirms the general move that inflation is currently rolling over after the sharp rise some months ago.
- **Michel Barnier warned Britain that the EU would not make concessions** after the first day of Brexit negotiations. EU's chief negotiator replied: "I am not in a frame of mind to make concessions, or ask for concessions. We are implementing the decision taken by the UK to leave the EU"
- **Eco-calendar is again dominated by Fed-speakers** (Fischer, Rosengren and Kaplan). There are no other market-important moving data coming out.

Rates

Core bonds open the week in slow-motion

US bonds lose ground on Dudley and equities

Bund limited losses and close barely changed

Fed Evans showed his dovish feathers overnight

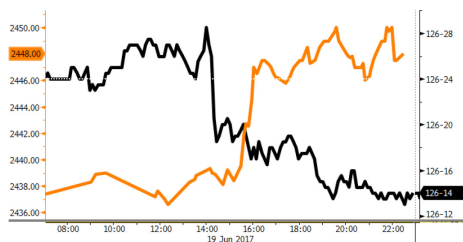
Core bonds initially held a sideways trading pattern in a risk-on environment, but some moderate, gradual erosion occurred during the US session. The calendar was razor-thin, but “hawkish” comments of **NY Fed Dudley** temporarily accelerated the decline in the US Treasuries. Afterwards, the decline continued at a snail’s pace. Equities held up well, eking out nice gains and closing at new highs (S&P/Dow). **The move in the Bund didn’t go far (divergence with US Treasuries)**. We wouldn’t draw too many conclusions, **but we retain bond sensitivity for Fed talk and equities**. The **US curve bear flattened while German yields barely changed**. **Intra-EMU spreads versus Germany (10-yr) narrowed 2- to-5 bps for the periphery, with Spain underperforming (-1bp)**.

NY Fed Dudley said “if we were not to redraw accommodation, the risk would be that the economy crashes to a very, very low unemployment rate and generates inflation. Then the risk would be that we would have to slam on the brakes and the next stop is recession”. **It shows the Fed’s desire to continue hiking rates gradually**. Inflation was a little lower than the Fed would like, but **Dudley isn’t overly concerned about it**. The labour market is doing relatively well and “confidence is very, very high”. Wage growth should quicken as the job market tightens further. The expansion has quite a long way to go, he concluded.

Chicago Fed Evans leans more in the direction of Dallas Fed Kaplan who said earlier “he wants to see more progress on achieving the 2% target before taking the next step”. Evans said there were only small differences in whether the FOMC hikes rates 2,3 or 4 times in 2017. **“And given we may be facing more elevated risks for some time, remaining accommodative could help reduce the risk of returning to the zero lower boundary”**. He added that policy accommodation needed to slow to enable the Fed to reach its 2% inflation target, but his inflation forecast is **“not quite as sanguine”** as the FOMC median.

	US yield	-1d
2	1,36	0,04
5	1,79	0,04
10	2,18	0,03
30	2,78	0,00

	DE yield	-1d
2	-0,65	0,01
5	-0,39	0,01
10	0,28	0,01
30	1,10	-0,01



T-Note future (black) & S&P future (orange) intraday: T-Note drops mainly on Dudley’s hawkish comments



US 2-yr yield slightly higher on Dudley and close to upper boundary sideways range, but no sign yet markets embrace Fed rate path

No eco data of importance

Fed speakers main topic, but will they touch policy?

Eco calendar remains thin, but plenty of Fed speakers

The **eco calendar** is thin and the US and EMU. **Speeches of Fed governors Fischer, Rosengren** and (Kaplan) are more interesting if they touch on monetary policy (official topic: macro prudential conference).

The FOMC held on to its plans to hike rates three times this year and to start the normalization of the balance sheet, despite mistrust of markets. Governor Kashkari already explained his dissent at the FOMC meeting by saying he prefers the risk of not raising rates too soon, as lower core inflation might not be transitory. **Governors Kaplan and Evans voted for a rate hike, but are cautious to take the next step.** Influential **NY Fed governor Dudley** talked the other direction showing the desire to continue withdrawing accommodation and highlighting some discord inside the FOMC about the persistence of the current eco softness.

Fed speakers wildcard

R2	165,93	-1d
R1	165,55	
BUND	164,65	-0,04
S1	161,68	
S2	160,17	

Overnight, Asian stock markets trade mixed despite yesterday’s strength on WS with Japan outperforming on the back of a weaker yen. The US Note future and Brent crude traded lacklustre, suggesting a neutral opening for the Bund.

Today’s eco calendar is empty suggesting more low volume neutral trading in tight ranges (both Bund and US Note future). **Speeches by Fed governors are wildcards for trading.** However, Fed vice-chair Fischer and Boston Fed Rosengren speak at a macro prudential conference while Dallas Fed Kaplan already talked during the weekend. He stroke a slightly dovish note by warning that the slump in eco data shouldn’t continue forever. Chicago Fed Evans echoed that overnight, warning it could delay a next rate hike to December. **The latter however also implies that the Fed currently targets a September move, a scenario which isn’t discounted at all (26% probability).**

US yields are above (5yr), close to (10y) and below (30y) key support levels even as **the Fed held on to the blueprint of its future tightening cycle last week. If support levels in US yield terms hold, we recommend a cautious sell-on-upticks strategy. Our basis assumption remains that the long term rally of core bonds is over as policy normalisation slowly starts (ECB) or accelerates (Fed).**



German Bund: Test of contract high aborted?



US Note future: US Treasuries still in uptrend, but top may be set (as 10-yr yield is back above yield support)

Currencies

USD rises on Fed-comments and equity rebound

Dollar gains on Fed comments and strong equities

Trading in the major FX cross rates took a very slow start to the new week. The swings of EUR/USD and USD/JPY were negligible in the morning session. In the US session, the dollar received support from positive comments of Fed's Dudley and from further equity gains. EUR/USD drifted to the mid 1.11 area and closed the session at 1.1149 (from 1.1198). USD/JPY finished the day at 111.53 (from 110.88).

Asian equities trade mixed

Overnight, Asian equities traded mixed. Japanese stocks outperform supported by an ongoing positive sentiment in the tech sector, nearing the highest level in almost two years. Fed's Evens spoke more cautious than Dudley, but the dollar maintains yesterday's gains against the euro (EUR/USD 1.1155 area) and even gained slightly against the yen (111.70 area). According to the June Minutes, the RBA expects continued growth in employment to reduce spare capacity, but the RBA also monitors risks of rising indebtedness. **The Aussie dollar trades with a slightly negative bias, but this is probably still due to yesterday's Moody's downgrade of the banking sector.** AUD/USD struggles not to fall below 0.76.

Dollar maintains yesterday's gains

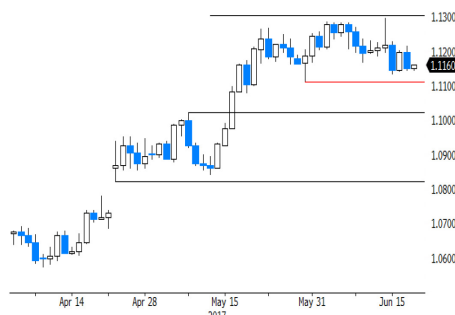
Today, there are again only second tier eco data in the US and Europe (current account). Currency traders will again look for clues from equities and from central bank speakers, including Fed's Fisher, Fed's Rosengren and Fed's Kaplan. Some Fed members turned more cautious, but we expect Fisher to support Yellen's normalisation approach. If so, it might be slightly USD supportive. Asian equities and the US futures indicate an ongoing constructive risk sentiment, but the pace of the rally might slow. The Macron victory is probably fully discounted and we'll have to see how far the tech rebound still has to go.

Eco calendar is again thin

Fed speaker and equities to guide USD trading

R2	1,1428	-1d
R1	1,13	
EUR/USD	1,1159	-0,0032
S1	1,0839	
S2	1,0778	

After last week's relatively hawkish Fed statement, the **topside in EUR/USD looked better protected and a cautious sell-on upticks approach was advised. We hold on to that view.** However, sustained USD gains need better US eco data, supportive Fed comments and/or higher US yields. The dollar received that support yesterday to some extent. **However, there are few high profile data in the US this week. If the equity rally slows, so might the USD rebound.** To monitor the USD momentum, we especially keep an eye at USD/JPY. Recently the USD/JPY performance was mediocre even as several equity indices are trading near record levels. The post-Fed performance was a bit more solid but the pair wasn't able to regain any important resistance yet.



EUR/USD: test off 1.1300/66 resistance rejected, but correction remains limited for now.



USD/JPY profits from higher US yields and positive equity sentiment, but no important technical break yet.

Technical picture

The USD/JPY rally ran into resistance in early May. A mini sell-off mid-May made the short-term picture negative, driving the pair further down in the 108.13/114.37 range. The post-Fed USD rebound pushed the pair beyond a first minor resistance at 110.81. A break beyond the 112.13 correction top would improve the ST-picture. The day-to-day sentiment improved of late, but we remain cautious to forecast a U-turn.

Early May, EUR/USD failed to break below the 1.0821/1.0778 support (gap). Poor US data and US political upheaval propelled EUR/USD north of the 1.1023 range top to a corrective top. The pair tested the 1.1300 area going into the FOMC decision, but the test is rejected. So the Trump top/correction top at 1.1300/1.1366 proved to be a solid resistance. USD sentiment will have to become really negative to clear this hurdle. EUR/USD 1.1110 is a first minor support. A return below 1.1023 would indicate that the upside momentum has eased.

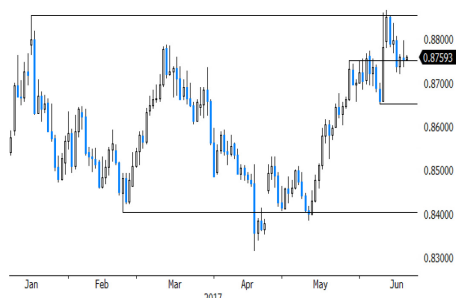
Sterling rebound slows

Yesterday, UK's Brexit Minister Davis and EU's Barnier started the formal Brexit negotiations. The impact on sterling trading was limited. The first official remarks of UK's Davis were reconciliatory and created the impression that the UK aims a softer Brexit than expected before the UK election. However, The jury is still out as the domestic political situation in the UK remains highly uncertain. Silvana Tenreyro was appointed to the BoE MPC to replace Kristin Forbes. She might be more dovish than Forbes. EUR/GBP closed the session little changed at 0.8752.

There are no eco data in the UK today. Sterling traders will keep an eye at a Speech of BoE governor Carney. After last week's vote split BoE vote, markets will look out how much weight Carney will give to the recent inflation uptick. We expect Carney to be rather balanced. A cautious tone might be slightly negative for sterling. Markets will also keep an eye at the comments commenting for the Brexit negotiations. It looks like Europe is determined to hold on to its agenda. The pressure on sterling eased at the end of last week, but we don't expect a sustained rebound.

From a technical point of view, EUR/GBP extensively tested the 0.8854 area (2017 top), but a real break didn't occur. Some consolidation might be on the cards after last week's post BoE EUR/GBP correction. However, the broader technical picture hasn't changed. A return below the 0.8655 correction low would be an indication that the pressure on sterling is easing. Such a break will be difficult. A EUR/GBP buy-on-dips approach is still favoured.

R2	0,8881	-1d
R1	0,8866	
EUR/GBP	0,8759	-0,0005
S1	0,8383	
S2	0,8314	



EUR/GBP stabilizes as Brexit negotiations formally start.



GBP/USD ceding slightly ground on USD rebound

Calendar

Tuesday, 20 June		Consensus	Previous
US			
14:30	Current Account Balance (1Q)	-\$123.6b	-\$112.4b
Japan			
07:30	Nationwide Dept Sales YoY (May)	A 0%	0.7%
07:30	Tokyo Dept Store Sales YoY (May)	A -1.1%	-0.8%
09:00	Convenience Store Sales YoY (May)	--	0.3%
EMU			
10:00	Current Account SA (Apr)	--	34.1b
Germany			
08:00	PPI MoM YoY (May)	A-0.2%/2.8%	0.4%/3.4%
Belgium			
15:00	Consumer Confidence Index (Jun)	--	0
Sweden			
09:30	Unemployment Rate (May)	7.1%	7.2%
09:30	Unemployment Rate SA (May)	6.6%	6.7%
Events			
01:00	Fed's Evans Speaks in New York		
10:30	Bank of Portugal Governor Costa Speaks at Conference (macroprudential policy)		
20JUN-21JUN	Riksbank's Ingves, Skingsley at Amsterdam Conference (macroprudential policy)		
09:15	Fed's Fischer Speaks in Amsterdam (macroprudential policy)		
09:30	BOE's Carney speaks at Mansion House event in London		
10:45	SNB's Jordan Speaks in Bern		
13:45	Fed's Rosengren to Speak at Macro-prudential Conference		
21:00	Fed's Kaplan Speaks in San Francisco on US economic conditions & monetary policy		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,18	0,03		US	1,36	0,04		DOW	21528,99	144,71
DE	0,28	0,01		DE	-0,65	0,01		NASDAQ	6239,013	87,26
BE	0,61	-0,01		BE	-0,54	0,01		NIKKEI	20230,41	162,66
UK	1,03	0,01		UK	0,18	0,02		DAX	12888,95	136,22
JP	0,06	0,00		JP	-0,11	0,00		DJ euro-50	3579,58	35,70
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>td</u>	<u>-1d</u>
3y	-0,09	1,68	0,61	Eonia	-0,3600	-0,0050		Libor-1	1,2122	0,0000
5y	0,14	1,86	0,76	Euribor-1	-0,3740	-0,0010		Libor-3	1,2736	0,0000
10y	0,75	2,16	1,11	Euribor-3	-0,3290	0,0000		Libor-6	1,4327	0,0000
				Euribor-6	-0,2710	0,0000				
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>		Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1,1159	-0,0032		EUR/JPY	124,5	0,26		CRB	171,28	-1,77
USD/JPY	111,57	0,55		EUR/GBP	0,8759	-0,0005		Gold	1246,90	-7,20
GBP/USD	1,2739	-0,0030		EUR/CHF	1,0877	-0,0027		Brent	46,95	-0,30
AUD/USD	0,7611	-0,0004		EUR/SEK	9,7503	0,0057				
USD/CAD	1,3211	-0,0012		EUR/NOK	9,4627	0,0064				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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