



Sunrise

Tuesday, 21 November 2017

Rates: Absence of strong trading themes

Today's eco calendar is uneventful. The prospects of new German elections could cause an outperformance of Bunds versus US Treasuries. Risk sentiment remains a potential market driver as well. Later this week, EMU eco data will play first fiddle while US trading is expected to slow down to a trickle with Thanksgiving and Black Friday looming.

Currencies: EUR/USD drifts cautiously lower in technical trade

Yesterday, EUR/USD declined partially due to uncertainty on German politics. The dollar profited slightly from a growing interest rate support. There are few important data to guide trading today. The dollar might gain slightly further ground against the euro. Sterling rebounds as the UK government might do some further concession in the Brexit negotiations.

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 with a small upward bias** to end the session 0.1% higher with the Dow outperforming (+0.3%). **Asian risk sentiment is positive** with Japan (+1%) and China (+1.5%) outperforming.
- **German Chancellor Merkel said she'd rather face new elections than govern without a majority**, betting that voters won't blame her after four-party talks on forming a coalition collapsed.
- **Theresa May won ministerial backing** for her plan to break the deadlock in Brexit talks next month, but Eurosceptic colleagues warned that **any increase in the UK's "divorce bill" offer to at least €40bn must be conditional on it securing a transition deal and a good trade agreement with the EU.**
- **Paris (European Banking Authority) and Amsterdam (European Medicines Agency) have been chosen as the new homes for two prized EU agencies**, after ministers in Brussels resorted to picking names from a hat to decide where the two organisations and their combined 1,000 staff should move after Brexit.
- **Australia's central bank warned of "considerable uncertainty" about how quickly wages growth and inflation might pickup**, as it left interest rates at record lows for more than a year.
- **The ECB will probably make small tweaks to its guidance on monetary policy next year** rather than any major change in language, officials familiar said.
- **Today's eco calendar** remains thin UK public finance data and US existing home sales. Finland and the US tap the market. ECB Coeuré speaks.

Rates

German bonds shrug off German political crisis

Bull flattening yield curves

	US yield	-1d
2	1,75	0,03
5	2,09	0,04
10	2,37	0,02
30	2,77	0,00

In a data-poor opening session of the week, German bonds (and other markets) shrugged off the German political crisis triggered by the collapsed coalition negotiations (see headlines). Opening gains of the Bund evaporated quickly, as also equities and the euro recovered losses. **That virtually ended the price action in the Bund which settled in a narrow range close to Friday's lows.** The Dax opened weak, testing key support, but no break occurred, leading to short covering and modest daily gains. In US dealings, **US Treasuries drifted lower in order- and sentiment-driven dealings with ongoing curve flattening and positioning as the main rationale.** The 2-to-10 and the 5-to-30-yr US yield spreads reached new cycle lows at 60.7 bps and 68.4 bps respectively.

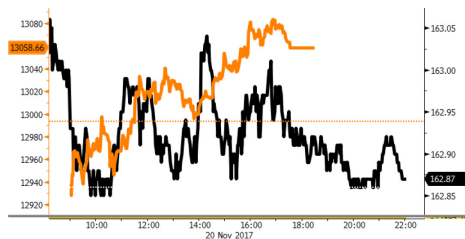
In a daily perspective, the US yield curve shifted higher with yields 0.3 bps (30-yr) to 3.5 bps (5-yr) higher. German yield changes varied between -0.6 bps (30-yr) and +0.5 bps (5-yr). **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany ranged between flat and +1 bp with Greece up 4 bps.

Lackluster US Existing Home sales

	DE yield	-1d
2	-0,71	0,00
5	-0,34	0,01
10	0,36	0,00
30	1,24	-0,01

US existing home sales sole eco release today

Existing Home sales virtually stabilized in October (5.40 M annual rate), after a sluggish rebound in September, which ended a 3-month decline. **We side with the consensus view.** The lacklustre performance is confirmed by the pending home sales, the mortgage applications and some surveys. Part of the lacklustre performance is due to the low number of homes for sale and is in contrast with the New Home sales series, which set a new cycle high in September. The Existing Home sales report is often ignored. The event calendar is nearly empty too with only **a participation of ECB Coeuré at a panel discussion.** Coeuré opposed the open-ended nature of the prolongation of the ECB's bond buying programme.



Bund future (black) & EuroStoxx (orange) (intraday): Stronger opening on German political crisis evaporated fast as markets don't see it as threatening the favourable eco situation



Dax : Despite political crisis, Dax rebounds as key support is reached and following a bearish engulfing sell-off

Absence of strong trading themes

R2	165,18	-1d
R1	163,43	
BUND	162,96	0,10
S1	161,91	
S2	160,24	

Risk sentiment on Asian stock markets is positive with China

outperforming (+1.5%). The US Note future or Brent crude trade flat and give no indication for the start of Bund trading. If any, we expect a slightly softer opening.

Today's eco calendar is uneventful. The prospects of new German elections could cause an **outperformance of Bunds vs US Treasuries.** Risk sentiment remains a potential market driver as well. The German Dax is still in the "danger zone" around 13 000. Losing this technical area would suggest a more pronounced downward correction. Later this week, EMU eco data will play first fiddle. US trading is expected to slow down to a trickle. There are hardly any eco data, trading volumes will be lower than usual because of Thanksgiving (Thursday) & Black Friday and US Congress holds its recess possibly delaying the US tax reform debate. Speeches by European central bankers are a wildcard, but normally no market mover.

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 2018 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

USD profits slightly from rising interest rate support

Dollar gains ground

Political uncertainty weighs slightly on the euro.

Yesterday, trading in the major USD cross rates, especially in EUR/USD, was quite volatile. EUR/USD dropped sharply in Asia due to the collapse of the German coalition talks, but the move was undone in early European dealings, as European (equity) markets recouped opening losses. Later, EUR/USD returned south. The risk of new German election still might have played a role, but the move included also USD strength as interest rate differentials widened in favour of the dollar. EUR/USD closed the session at 1.1735 (from 1.1790). The gains in USD/JPY were modest (close: 112.62).

Asian equities rebound

Dollar doesn't profit from a risk-on.

Overnight, risk sentiment turned remarkably positive. Most Asian indices show decent gains, with China outperforming. Even so, the positive risk sentiment had again no positive impact on USD/JPY. The pair trades in the mid 112.50. The dollar is also losing a few ticks against the euro. EUR/USD trades in the 1.1750 area. The Aussie lost slightly, as the RBA sounded quite dovish, worrying about low wage rises. AUD/USD trades at about 0.7545.

Eco calendar is again thin

Technical considerations will driver to dollar

Today, eco calendar remains thin. Markets might keep an eye at the US Existing Home sales. Sales are expected to have stabilized in October (5.40 M annual rate), after a sluggish rebound in September. **We side with the consensus view.** The market impact, if any, will only be second tier.

Yesterday, there was no clear theme/driver to guide trading in the major US cross rates. The impact of the German political crisis on the euro was a bit diffuse. In the end the dollar did win on points, but the gain was mediocre given the high/rising interest rate support. Sentiment on risk and technical considerations will remain the drivers for USD trading in a market were liquidity becomes thinner in the run-up to Thanksgiving. **We maintain a cautiously negative bias on EUR/USD and assume that the 1.1861/80 area will be difficult to break.** The dollar profited only modestly from the rising interest rate differential of late. At the same time, the high yield spread should at least make investors cautious to be USD short, giving the USD currency downside protection.

R2	1,2092	-1d
R1	1,188	
EUR/USD	1,1733	-0,0057
S1	1,1554	
S2	1,1331	



EUR/USD: Drifting lower within 1.1554-1.1880 area?



USD/JPY: decline has halted, for now, but rebound remains unconvincing

From a technical point of view, EUR/USD set a post-ECB low two weeks ago, but the move petered out. EUR/USD last 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 unless real negative news from the US pops up.** On the downside, the 1.1554 reaction low remains the first important reference, but it is still far away. A downside correction within the 1.1554/1.1880 range is favoured. **The USD/JPY's momentum was positive in October, but deteriorated this month. The pair tested** the 114.49 MT range top, but the attempt failed. Recent price action was unconvincing despite solid US interest rate support. Last week's drop below the 112.96 support reinforces the downside pressure. 111.65 is the next key support. A break would turn the picture outright USD negative.

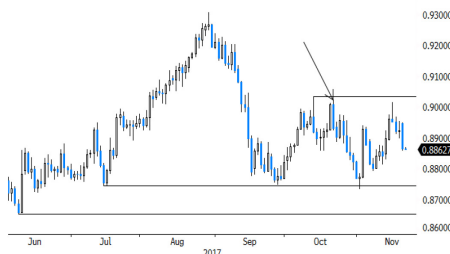
Sterling rebounds as UK considers Brexit concessions

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8865	-0,0058
S1	0,8743	
S2	0,8657	

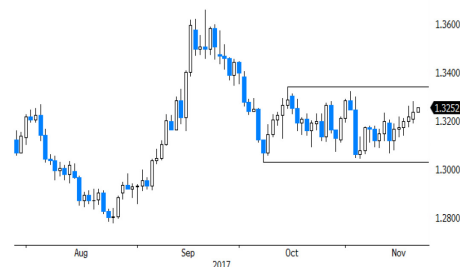
Yesterday, sterling ended the session mixed. It rebounded against the euro partially due to overall euro weakness trigger by the German political crisis. Initially the new flow on Brexit remained mixed as EU's Barnier repeated that the UK has to come with workable solutions, including for the issue of the Irish border. The market took comfort as the UK government agreed to double the amount of the Brexit separation bill. EUR/GBP closed the session at 0.8865 (from 0.8923). The gain in cable (close at 1.3235) was modest as the dollar strengthen later on.

Today, the monthly UK public finance data and the CBI trends orders will be published. Order data are expected to improve slightly in November from -2 to 3 after a substantial decline last month. We side with consensus. Yesterday, sterling profited from the UK Brexit concessions (see higher). We don't expect a formal reaction for the EU anytime soon. **Evens so, the cautious positive momentum of sterling might continue short-term.** EUR/GBP might decline a bit further in the 0.9033/0.8733.

MT technical: Recently, the BoE driven sterling rebound ran into resistance and sterling declined again as markets anticipated that any 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.



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



GBP/USD: Cable holds sideways consolidation pattern.

Calendar

Tuesday, 21 November		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Oct)	0.20-	0.17
16:00	Existing Home Sales / MoM (Oct)	5.40m/0.2%	5.39m/0.7%
Japan			
05:30	All industry activity index M/M (Sep)	A -0.5%	0.2%
06:30	Nationwide Dept Sales YoY (Oct)	A -1.8%	4.4%
UK			
10:30	Public Finances (PSNCR) (Oct)	--	11.2b
10:30	Central Government NCR (Oct)	--	19.3b
10:30	Public Sector Net Borrowing (Oct)	6.5B	5.3b
10:30	PSNB ex Banking Groups (Oct)	7.1B	5.9b
12:00	CBI Trends Total Orders (Nov)	3	-2
12:00	CBI Trends Selling Prices (Nov)	--	18
Belgium			
15:00	Consumer Confidence Index (Nov)	--	4
Events			
01:30	RBA Nov. Rate Meeting Minutes		
11:00	BOE testimony governors Cunliffe, McCafferty, Saunders & Vlighe		
12:00	Finland to Sell up to €1 bn 0.5% 2027 Bonds		
16:00	ECB's Coeure Chairs Panel in Frankfurt (Before and beyond fiscal union)		
17:30	US to Sell \$13 bn 2-yr FRN		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,37	0,02	US	1,75	0,03	DOW	23430,33	72,09	
DE	0,36	0,00	DE	-0,71	0,00	NASDAQ	6790,714	7,92	
BE	0,58	0,00	BE	-0,61	0,01	NIKKEI	22416,48	154,72	
UK	1,29	0,00	UK	0,49	0,01	DAX	13058,66	64,93	
JP	0,03	-0,01	JP	-0,20	-0,01	DJ euro-50	3561,41	13,95	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,02	0,94	Eonia	-0,3580	0,0010	Libor-1	1,2872	0,0000
5y	0,21	2,15	1,10	Euribor-1	-0,3720	0,0010	Libor-3	1,4407	0,0000
10y	0,84	2,36	1,34	Euribor-3	-0,3290	0,0000	Libor-6	1,6321	0,0000
				Euribor-6	-0,2740	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1733	-0,0057	EUR/JPY	132,14	-0,03	CRB	189,21	-1,18	
USD/JPY	112,62	0,52	EUR/GBP	0,8865	-0,0058	Gold	1275,30	-21,20	
GBP/USD	1,3235	0,0020	EUR/CHF	1,1656	-0,0003	Brent	62,22	-0,50	
AUD/USD	0,755	-0,0014	EUR/SEK	9,9563	0,0235				
USD/CAD	1,282	0,0057	EUR/NOK	9,7285	0,0123				

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