



Sunrise

Tuesday, 27 June 2017

Rates: More of the same or surprise from Yellen?

Today's wildcard is Fed chairwoman Yellen's speech. Will she hold on to the FOMC's communication line from the June statement, downplaying the recent setback in eco data, if she touches on monetary policy? We think so given the low amount of eco data published since. That should prevent more US Treasuries gains ahead of key eco data (PCE on Friday).

Currencies: Dollar 'resilient' despite disappointing US data

The dollar easily reversed an intraday setback after poor US durable orders. However, EUR/USD and USD/JPY are still locked in tight ranges. The focus for USD trading is on US consumer confidence and on a speech of Fed's Yellen today. If Yellen confirms the Fed normalization path, it should protect the USD downside, but sustained USD gains need better data.

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 equities closed flat (S&P/Dow) to lower (NASDAQ).** Asian markets follow WS and trade mixed. **Brent oil tries to move further up, but little headway is made overnight.(\$/barrel).**
- **Brazilian president Temer is charged with corruption** by the chief prosecutor. This unprecedented development may put the president on trial, if **2/3 of the chamber of deputies approve to proceed.**
- The **US Supreme Court cleared much of President Trump's travel ban to take effect this week** and agreed to hear arguments in the fall, giving the president at least partial vindication for his claims of closing the nation's borders.
- **Barnier, the EU chief negotiator, rejected May's offer to protect work and residency rights for its citizens living in Britain** and asks Britain go further.
- The **US Senate's health care bill would increase the number of uninsured Americans by 22 million by 2026**, the Congressional Budget Office said. The report came as Republicans released a slightly revised version of the legislation.
- **China's industrial profits rose 16.7% in May** from a year earlier **as global demand improved**, helping to fill companies' order books.
- With little data on the **eco-calendar, investors will focus on Yellen, Carney and the ECB's forum** for policy clues. We also have **Italy, Germany and US selling bonds** today and **June US consumer and Richmond manufacturing confidence** coming out.

Rates

Core bonds little changed

Outperformance very long end continued modestly

	US yield	-1d
2	1,33	-0,01
5	1,76	0,00
10	2,14	-0,01
30	2,70	-0,02

	DE yield	-1d
2	-0,62	0,00
5	-0,38	0,00
10	0,25	-0,01
30	1,04	-0,02

Lower consumer confidence

US & Germany tap the bond market

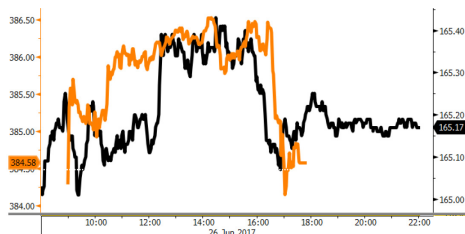
US yield curves little changed at openings session

Global core bond markets closed the first session of the fresh trading week like it ended last week: without significant yield changes. The intraday up-legs in the German Bund and US Note future, which were largely erased by the end of the session, didn't occur in sync. The Bund shot higher around European noon without real driver. **End-of-month/end-of-quarter extension buying** was perhaps already at play. Earlier on the day, investors ignored the **strongest German IFO-reading** on record. The up-leg of the US Note future was clearly attributable to **disappointing May US durable goods orders**, a significant gauge for business investment. The **US 2-yr Note auction** went well, but without impact on overall markets. **In a daily perspective**, US yields ended less than 1 bp off opening levels with the 30-yr marginally outperforming (-1.8 bps). German yields also closed within 1 bp of opening levels except for the 30-yr (-1.7 bps).

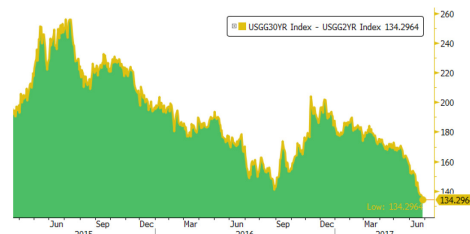
On intra-EMU bond markets, 10-yr yield spread changes versus Germany ranged between -2 bps (Italy) and +1 bp. **Italian assets** welcomed the government's plans to bail-out two regional lenders positively

US consumer confidence & Draghi/Yellen wildcards

US house prices and the Richmond manufacturing index (which is expected to rise moderately) are no market movers. Following a weaker June Michigan consumer sentiment (near record highs), **the Conference Board measure of consumer confidence might be lower too than in May**. However, the decline should be modest as it is more linked with the labour market. Fed governors Williams, Harker and Kashkari spoke already last week and shouldn't bring new info. **Fed chairwoman Yellen speaks in London with Mr. Stern, president of the British Academy, on global economic issues. It would surprise us if she tackles market-sensitive issues so short after the FOMC meeting. The format - Q&A session without text - points to a conversation on global issues. It is a wildcard though.** **ECB president Draghi** gives an introduction at the Sintra conference on investment and growth. It is potentially important, but it doesn't look the moment to stir the markets, as the June ECB meeting cleared the way for a quiet Summer.



Bund future (black) & EuroStoxx (orange): Initial rally aborted without strong triggers



US spread (30-2-yr) narrowed sharply since early 2017

German, US and Italy tap market

R2	165,93	-1d
R1	165,55	
BUND	165,14	0,07
S1	161,68	
S2	160,17	

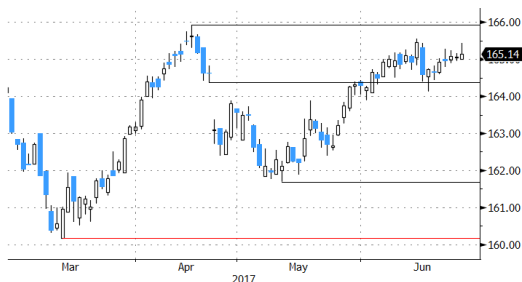
Germany and Italy start this week's EMU bond supply, respectively with a 2-yr Schatz auction (€4B 0% Jun2019) and zero-coupon & inflation-linked bonds. Total bids at the previous 4 Schatz auctions averaged €4.73B. Today's auction yield will probably be the highest since 2016. The Bund cheapened somewhat in ASW spread terms going into the auction, but and it looks rather good compared to surrounding bonds on the German yield curve. We expect plain vanilla demand. **The US Treasury started its end-of-month refinancing operation with a strong \$26B 2-yr Note auction.** The auction stopped firmly through the 1:00 PM bid side, with the strongest bid cover (3.03) since November 2015. Bidding details showed a huge indirect bid, a better-than-average direct bid and a small dealer bid. **Today, the US Treasury continues with a \$34B 5-yr Note auction.** Currently, the WI trades around 0.975%.

More of the same or surprise from Yellen?

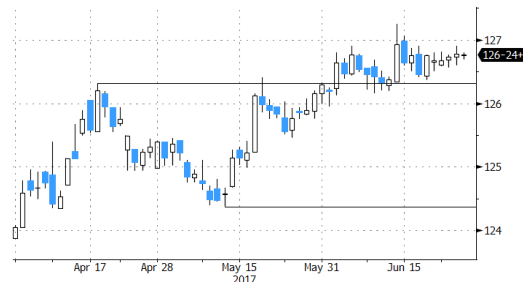
Overnight, Asian stock markets trade mixed in line with WS which closed flat to slightly lower after a stronger opening. The US Note future and Brent crude have no bias, while news flow is thin. We expect a neutral opening for the Bund.

Today's eco calendar contains some US eco data. Risks for consumer confidence are on the downside of expectations, but the main event/wildcard is Fed chairwoman Yellen's speech. It's uncertain whether or not she'll touch on monetary policy. If so, **it will be interesting to see whether she holds on to the FOMC's communication line from the June statement**, downplaying the recent setback in eco data. We think she will do so given the relatively low amount of eco data published since. That should prevent more US Treasuries gains ahead of Friday's inflation readings and next week's key releases (ISM, ADP, payrolls). The impact from this week's US supply operation (normally negative US Treasuries) could be balance by technical end-of-month and end-of-quarter buying. **We hold our neutral bias.**

Technically, we closely monitor the German 2-yr yield which tested important resistance (-0.63%/-0.60%). US yields are above (5yr), near (10y) and below (30y) key support levels even as **the Fed held on to the blueprint of its future tightening cycle last week. 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: Hard time getting away from recent highs



US Note future: US markets remain doubtful about the Fed's tightening intentions

Currencies

Dollar shows intraday resilience despite disappointing US data

Dollar remains well bid. Yen stays in the defensive.

R2	1,1428	-1d
R1	1,113	
EUR/USD	1,1182	-0,0012
S1	1,0839	
S2	1,0778	

US Consumer confidence expected to ease, but at healthy level

Yellen speech and comments from ECB forum are wild cards

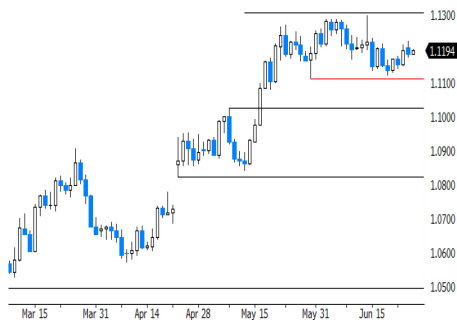
Will Yellen help the dollar?

On Monday, the dollar initially profited from positive risk sentiment. The US currency temporarily reversed the intraday gains on disappointing US durable orders, but showed resilience afterward. Especially USD/JPY erased the post data weakness amid talk of new carry trades funded in yen. The pair closed the session at 111.86 (from 111.28). EUR/USD finished the day at 1.1182.

This morning, Asian equities trade narrowly mixed. USD/JPY trades in the high 111 area, but a test of the 112.13 resistance didn't occur yet. EUR/USD hovers in the high 1.11 area. Yesterday's comments from ECB's Draghi defending the low rate policy maybe prevented further euro gains. Basically, the recent sideways trading persists. Commodity currencies like the CAD, the AUD and the kiwi dollar remain well bid. The latter continues its recent outperformance despite a smaller May trade surplus.

US Consumer confidence and Yellen in focus

In the US, consumer confidence (Conference board) and the Richmond Fed manufacturing index will be published. Consumer confidence is expected to ease slightly, but another negative surprise may add to lingering uncertainty on the Fed rate hike path. That should be USD negative. However, the dollar easily resisted a poor durable goods report yesterday. The market might be cautious to place big bets ahead of a speech of Fed's Yellen in London (CET 19.00). If she addresses monetary policy, we expect her to confirm to Fed communication after the June FOMC decision. This might help to protect the downside of the dollar, but we don't expect a big USD rebound. For that to happen, US data have to improve. Headlines from the ECB forum in Portugal are a wildcard. In a daily perspective, we expect EUR/USD trading to remain technical in nature ahead of Yellen. We also keep an eye at the USD/JPY price action. We are a bit surprised by recent 'relative dollar strength' even as core yields stay low. For now, we remain cautious on further USD/JPY-gains as long as US eco data remain mediocre and as long as the dollar receives no additional interest rate support.



EUR/USD: test of 1.1300/66 resistance rejected, but correction is modest. First support at 1.1110 holds



USD/JPY: nears first resistance at 112.13, but no break yet

Technical picture: USD still confined to tight ranges

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. The pair tested the 1.1300 area going into the FOMC decision, but the test was rejected. 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.**

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.

EUR/GBP locked near 0.88

Yesterday, **the conservative party reached a deal with the DUP of Northern Ireland to support the minority government of PM May.** The deal applies for the life of the current parliament (till 2022). Amongst others, it contains £1bn extra funding for northern Ireland. Sterling gained temporary a few ticks after the announcement, but the reaction was negligible. EUR/GBP closed the session at 0.8789. Cable finished the day at 1.2723.

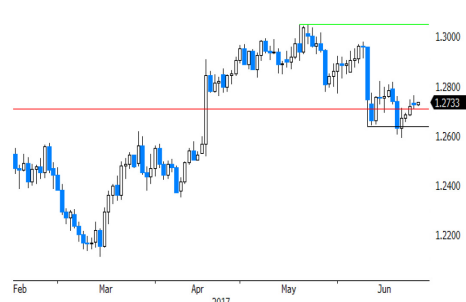
Today, the CBI retail data will be published. A modest decline is expected. The CBI data are interesting but have rarely a lasting impact on GBP-trading. Even so, we look for the market reaction in case of better than expected data as the debate on a rate hike in the BoE intensifies. BoE governor Carney will give a press conference after the publication of the Financial stability report. This is not the forum for an in extenso debate on monetary policy, but the BoE governor can make some sidesteps. **If anything, his assessment might be slightly negative for sterling.** Headlines from the Brexit negotiations remain a wildcard. The EU apparently holds a rather tough stance which is a tentative sterling negative.

From a technical point of view, EUR/GBP extensively tested the 0.8854 area (2017 top), but a real break didn't occur. The BoE debate on a rate hike caused some volatility recently. In the end, the 0.8854/66 resistance remains within reach. A break would open the way to the 0.90 area. **A return below the 0.8655 correction low would indicate easing pressure on sterling.** Such a break lower will be difficult. A **EUR/GBP buy-on-dips approach remains favoured.**

R2	0,8881	-1d
R1	0,8866	
EUR/GBP	0,8789	-0,0010
S1	0,8383	
S2	0,8314	



EUR/GBP: sterling rebounds temporary on BoE comments, but the 0.8854/66 resistance stays within reach.



GBP/USD convincing sterling rebound yet

Calendar

Tuesday, 27 June		Consensus	Previous
US			
15:00	S&P CoreLogic CS 20-City MoM SA / YoY NSA (Apr)	0.5%/5.9%	0.87%/5.89%
16:00	Conf. Board Consumer Confidence (Jun)	116.0	117.9
16:00	Conf. Board Present Situation (Jun)	--	140.7
16:00	Conf. Board Expectations (Jun)	--	102.6
16:00	Richmond Fed Manufact. Index (Jun)	5	1
UK			
12:00	CBI Retailing Reported Sales (Jun)	5	2
12:00	CBI Total Dist. Reported Sales (Jun)	15	18
Italy			
10:00	Economic Sentiment (Jun)	--	106.2
10:00	Manufacturing Confidence (Jun)	106.7	106.9
10:00	Consumer Confidence Index (Jun)	105.8	105.4
China			
03:30	Industrial Profits YoY (May)	A 16.7%-	14.0%
Events			
10:05	Fed's Williams Speaks in Sydney		
10:00	ECB Draghi speaks in Sintra (introduction)		
11:00	Italy to Sell Zero-coupon and Inflation-linked Bonds		
11:30	Germany to Sell €4B 0% 2019 Bonds		
12:00	BoE Carney about Financial Stability report		
17:00	Fed's Harker Speaks on Economy in London		
19:00	Fed's Yellen Speaks on Global Economic Issues in London		
19:00	US to Sell \$34N 5-yr Notes		
23:30	Fed's Kashkari Speaks at Townhall Event in Houghton, Michigan		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,14	-0,01	US	1,33	-0,01	DOW	21409,55	14,79	
DE	0,25	-0,01	DE	-0,62	0,00	NASDAQ	6247,149	-18,10	
BE	0,60	0,00	BE	-0,55	0,00	NIKKEI	20225,09	71,74	
UK	1,01	-0,02	UK	0,23	0,00	DAX	12770,83	37,42	
JP	0,05	-0,01	JP	-0,11	0,00	DJ euro-50	3561,76	18,08	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,09	1,66	0,67	Eonia	-0,3620	0,0000	Libor-1	1,2200	0,0000
5y	0,14	1,82	0,80	Euribor-1	-0,3740	0,0000	Libor-3	1,2933	0,0000
10y	0,72	2,12	1,13	Euribor-3	-0,3310	0,0000	Libor-6	1,4450	0,0000
				Euribor-6	-0,2730	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1182	-0,0012	EUR/JPY	125,07	0,57	CRB	168,57	0,83	
USD/JPY	111,86	0,58	EUR/GBP	0,8789	-0,0010	Gold	1246,40	-10,00	
GBP/USD	1,2723	0,0005	EUR/CHF	1,0872	0,0020	Brent	45,83	0,29	
AUD/USD	0,7585	0,0017	EUR/SEK	9,7509	-0,0111				
USD/CAD	1,3244	-0,0023	EUR/NOK	9,4829	0,0226				

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