



Sunrise

Wednesday, 27 September 2017

Rates: Can Trump revive reflationary spirits?

Today's eco calendar won't impact trading. Trump's tax plan is the biggest wildcard which could revive some reflationary spirits on markets. Together with the US Treasury's supply operation, it suggests an underperformance of the US Note future vs the German Bund.

Currencies: 'Trends' of euro softness and dollar rebound to continue?

EUR/USD finally dropped below 1.1823 support. The euro continues to trade soft after the German election. At the same time, the dollar is supported by a growing market belief on a December Fed rate hike. These trends might continue today. The Trump tax cut plans are a wild card. The recent sterling short squeeze shows tentative signs of slowing.

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	↘

- A modest rebound in tech stocks and remarks from Fed Yellen did little to budge US equities indices, **leaving the Dow Jones down for the day and the S&P 500 and Nasdaq with very slight gains. Asian risk sentiment is mixed overnight**
- **Federal Reserve chair Janet Yellen said policymakers ought to be careful of "moving too gradually"** on monetary policy despite "significant uncertainties" over inflation.
- **President Trump warned North Korea that any US military option would be "devastating" for Pyongyang**, but said the use of force was not Washington's first option to deal with the country's ballistic and nuclear weapons program.
- **Annual profits at China's industrial companies rose 24% in August**, accelerating from the previous month in an indication economic growth remains in good shape even as signs emerge of fading momentum following a robust first half.
- **Emmanuel Macron made an impassioned appeal to EU leaders to be "bold" against the threat of populism** as he presented a cascade of initiatives to overhaul the bloc.
- **Republicans' latest push to dismantle the Affordable Care Act sputtered to an end** on Tuesday when Senate GOP leaders scrapped a vote on a bill that had failed to gain sufficient traction within their party.
- **The eco calendar** contains EMU M3 data, US durable goods orders and pending home sales. The RBNZ and CNB decide on rates, Fed Bullard & Brainard speak, US president Trump announces tax plans and the US Treasury taps the market.

Rates

Yellen defends policy and pushes chances Dec rate hike to 70%

Effect on curve small

	US yield	-1d
2	1,44	0,01
5	1,87	0,02
10	2,24	0,02
30	2,78	0,01

	DE yield	-1d
2	-0,72	-0,01
5	-0,31	0,00
10	0,41	0,01
30	1,25	0,01

Upside risks US durable orders

EMU data no market drivers.

Fed Bullard speaks.

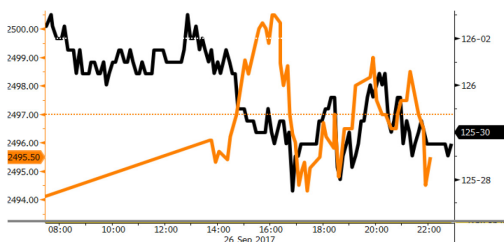
Core bonds slightly lower in listless trading

Core bonds essentially hovered sideways intraday yesterday. US Treasuries marginally underperformed German Bunds. **US eco data printed mixed with weaker consumer confidence** and New Home sales, but a strong US Richmond Fed manufacturing survey. **Yellen defended her gradual tightening policy** and kept open the possibility for a December hike. **The T-Note temporary fell somewhat lower, but recouped the losses swiftly to stay sideways oriented.** Chances for a December rate increase stand now at 70% versus 63% before the speech. At the end of the session, Germany yield changes ranged between -0.7 bps (2-yr) and +1 bp (30-yr). US yields rose by 1.3 bps (2-yr & 30-yr) to 2.2 bps (5-yr). 10-yr yield spread changes versus Germany ended close to unchanged with Greece underperforming (+8 bps) and Portugal outperforming (-4 bps).

Fed Yellen defended the gradually tightening approach. The Fed should be wary of moving too gradually, as persistently easy policy can hurt financial stability. It would be imprudent to keep rates unchanged until 2% inflation was reached. The data remain key to the policy outlook and the Fed will adjust policy when warranted by new data. Low inflation likely reflects factors that should fade. Yellen cannot exclude downward inflation pressures may “unexpectedly” persist and repeated that the 2017 inflation downfall is a mystery. The Fed’s rate path is subject to a great deal of uncertainty. **She also said term premiums are quite narrow and should rise as Fed’s balance sheet shrinks.**

Market calendar misses punch today

Economic data releases will only be of modest interest to markets. EMU **M3 money supply** grew at a healthy clip and lending growth recovered gradually in past quarters. That will have been the case in August too. National EMU economic releases include **French consumer confidence and Italian business sentiment.** Interesting, but unlikely to move global markets. **US durable orders** dived by 6.8% M/M in July, largely a Boeing effect. Excluding transportation, orders were up a decent 0.6% M/M. The market expects a sluggish rebound in August (0.9% M/M), but **we see risks on the upside.** Boeing orders were strong and car output rebounded. Core orders might also be a tad better than the 0.2% M/M increase expected. However, the impact of the late August hurricane Harvey is a wildcard. **Pending Home sales** are expected to have declined slightly in August. **Fed governors Brainard and Bullard speak,** but the former will repeat her remarks from September 26. There is a Q&A though. Bullard was most likely one of the four governors who didn’t pencil an additional rate hike this year.



T-Note future (orange) & S&P future (black) (intraday): Sideways oriented session with slight negative bias core bonds.



Probability for Dec hike rises to 70% (black line). Break higher started after FOMC meeting

R2	163,43	-1d
R1	161,98	
BUND	161,65	-0,22
S1	160,49	
S2	160,50	

US continues refinancing after average 2-yr Note auction

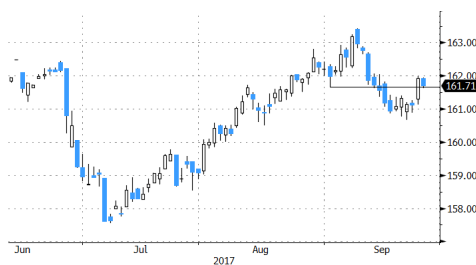
The US started its end-of-month refinancing operation with an average \$26B 2-yr Note auction. The auction stopped just below the 1:00 PM bid side and the bid cover was about average (2.88). Bidding details showed that strong direct bids lead the way. The Treasury continues its refinancing today with \$13B 2-yr FRN auction and \$34B 5-yr Note auctions. The WI of the latter currently trades around 1.875%.

Can Trump revive reflationary spirits?

Asian stock markets trade mixed overnight. risk sentiment improved cautiously. The dollar gains marginally ground while the US Note future sheds a few ticks. **Anticipation on today's details by president Trump about his tax reforms might be at play.** We expect a neutral opening for the Bund.

Today's eco calendar won't impact trading (see above). Trump's tax plan is the biggest wildcard which could revive some reflationary spirits on markets. Together with the US Treasury's supply operation, it suggests and underperformance of the US Note future vs the German Bund.

After the FOMC meeting, we concluded that US Treasuries re-entered a sell-on-upticks phase as the Fed confirmed its view on 2017/2018 interest rate policy. A December rate hike isn't fully discounted yet (70%). We hold a sell-on-upticks view in the Bund. as well as the ECB's normalisation process slowly takes off and as speculation on the future of APP will rise in the run-up to the October 26 ECB policy meeting. **From a technical point of view, both the Bund and the US Note future fell below uptrend lines (early September) since the start of summer, making the picture neutral from bullish.**



German Bund: Draghi delays key decisions to October. Speculation on APP announcement could inflict more losses.



US Note future: Hawkish Fed inflicts more losses on US Treasuries. Can Trump revive reflationary spirits and inflict additional losses?

Currencies

Dollar extends cautious rebound

Dollar extends gradual rebound

EUR/USD drops below 1.1823 support.

Asian markets show mixed picture

Dollar maintains yesterday's gains

Eco data of second tier importance

Will trump tax plan be able to support dollar?.

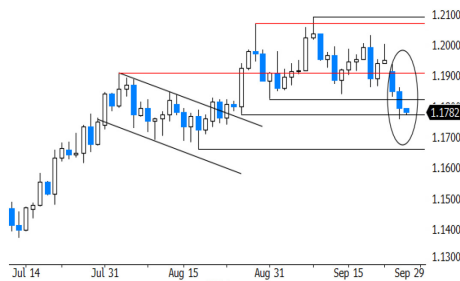
There was no distinct theme to guide FX trading yesterday. The euro extended Monday's correction and dropped below the EUR/USD 1.1823 support. The dollar was also better bid overall. Fed's Yellen defended the strategy of gradual rate hikes (see fixed income section). The dollar surprisingly lost a few ticks on her comments, but preserved most of its intraday gains. EUR/USD ended the day at 1.1793 (from 1.1848), below the 1.1823 support. USD/JPY finished at 112.24 (from 117.73). The trade-weighted dollar also rebounded off the lows.

There is no clear trend on Asian markets this morning. Japanese equities struggle to build out gains even as USD/JPY remains well bid. The pair trades in the mid 112 area. Chinese equities outperform. Industrial profits rose from 16.5% to 24.0% Y/Y. Brent oil holds just below \$ 59 p/b after a modest correction yesterday. EUR/USD trades in the 1.1775 area, marginally lower from yesterday's close. So, the dollar is able to maintain yesterday's gains.

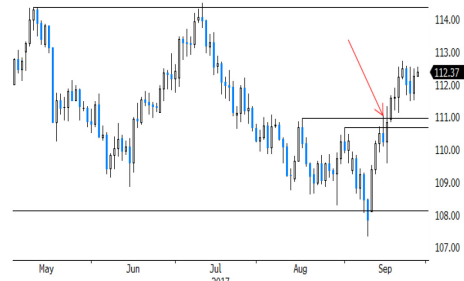
Today's EMU economic data releases (M3 Money supply and confidence data in France and Italy) are of second tier importance for FX. **In the US, durable orders** dived 6.8% M/M in July, largely a Boeing effect. Excluding transportation, orders were up a decent 0.6% M/M. The market expects a sluggish rebound in August (1% M/M), but **we see risks on the upside. Fed governors Brainard and Bullard speak.** Bullard didn't spoke recently, but he is concerned about too low inflation. **The EMU data and Fed speaker won't be a dollar game-changer. A decent durable orders report might be slightly supportive for the dollar.**

Yesterday's price action in the major dollar cross rate far from spectacular. However, **the 'trends' of a gradual dollar rebound and tentative euro softness persisted.** These trends might continue today. The announcement of a new 'tax plan' of the Trump administration is wildcard. Question is how concrete the plan will be and whether it has a chance of Congressional approval. If the market see progress on this key issue, it might be USD supportive.

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1793	-0,0055
S1	1,1662	
S2	1,1311	



EUR/USD dropped below 1.1823 support as 'trends' of a USD rebound and euro softness persist



USD/JPY: USD maintains recent gains, but potential event risk might block further gains

From a technical point of view EUR/USD hovered in a consolidation pattern between 1.1823 and 1.2070. It took time for the pair to break below the 1.1823 range bottom, but the break occurred yesterday. **More confirmation is needed that the bottoming out process in US yields and in the dollar against might be the start of more sustained EUR/USD gains. Even so, yesterday's move is encouraging for USD bulls. Next support in EUR/USD comes in 1.1662**

The day-to-day momentum in **USD/JPY** was constructive recently, but it was primarily due to yen weakness. USD/JPY regained the 110.67/95 previous resistance, a short-term positive. The 114.49 correction top is the next important reference. The cross rate remains sensitive to changes in overall risk sentiment.

Sterling short-squeeze to slow?

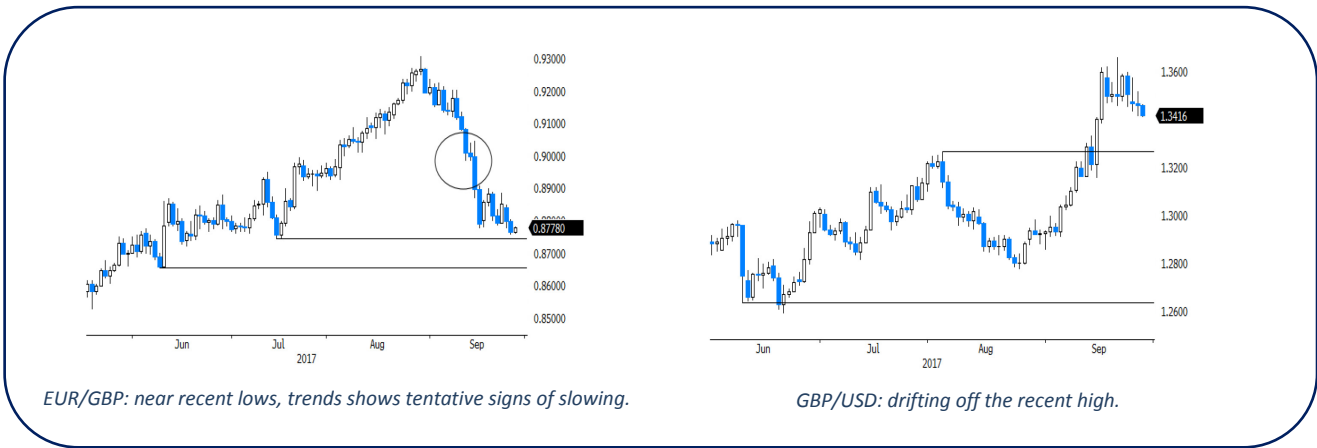
EUR/GBP set a minor new correction low the 0.8755 area yesterday morning driven by a large order and an overall euro decline. However, EUR/BP gradually decoupled from the EUR/USD decline and some sterling selling kicked in. **The recent sterling short-squeeze might be losing momentum.** EUR/GBP closed the session at .0.8763, near the recent low. Cable traded with a negative intraday bias and closed the session at 1.3458. The Brexit negotiations restarted, but comments from EU's Barnier suggested not much progress despite the modestly positive comments after PM May's speech last week.

Today, the CBI September retail data will be published. Reported sales are expected to rebound from -10 to 8. Official retail sales were strong in July and August. **Another strong figure might reinforce the case for BoE rate hike.** However, the FX reaction to the CBI data is usually modest.

We look out after yesterday's disappointing sterling performance for more signs that the sterling short-squeeze loses momentum. Overnight price action suggests some GBP softness.

EUR/GBP made an impressive uptrend since April and set a MT top at 0.9307 late August. **Recent UK price data amended the dynamics** and the reversal of sterling was reinforced by hawkish BoE comments. Medium term, we maintain a **EUR/GBP buy-on-dips approach as we expect the mix of relative euro strength and sterling softness to persist. However, the prospect of (limited) withdrawal of BOE stimulus put a solid floor for sterling ST term. We look how far the current correction goes. EUR/GBP is nearing support at 0.8743 and 0.8652, which we consider difficult to break.**

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8763	-0,0035
S1	0,8743	
S2	0,8657	



Calendar

Wed, 27 September		Consensus	Previous
US			
14:30	Durable Goods Orders (Aug P)	1%	-6.8%
14:30	Durables Ex Transportation (Aug P)	0.2%	0.6%
14:30	Cap Goods Orders Nondef Ex Air (Aug P)	0.3%	1.0%
14:30	Cap Goods Ship Nondef Ex Air (Aug P)	0.1%	1.2%
16:00	Pending Home Sales MoM / NSA YoY (Aug)	-0.5%/-0.5%	-0.8%/-0.5%
Japan			
07:30	Small Business Confidence (Sep)	A 49.4	49.0
China			
03:30	Industrial Profits YoY (Aug)	A 24%--	16.5%
New Zealand			
22:00	RBNZ Official Cash Rate	1.75%	1.75%
UK			
12:00	CBI Retailing Reported Sales (Sep)	8	-10
12:00	CBI Total Dist. Reported Sales (Sep)	--	2
EMU			
10:00	M3 Money Supply YoY (Aug)	4.6%	4.5%
France			
08:45	Consumer Confidence (Sep)	103	103
Italy			
10:00	Economic Sentiment (Sep)	--	107.0
10:00	Manufacturing Confidence (Sep)	108.2	108.1
10:00	Consumer Confidence Index (Sep)	110.6	110.8
11:00	Industrial Orders MoM / NSA YoY (Jul)	--/--	4.3%/13.7%
Norway			
08:00	Unemployment Rate AKU (Jul)	--	4.3%
Sweden			
09:00	Consumer Confidence (Sep)	--	100.3
Events			
17:30 & 19:00	US to Sell \$13B 2-yr FRN & \$34B 5-yr Notes		
08:10	ECB Rimsevic gives opening remarks		
17:45 & 18:55	BOC Poloz soeoch/press conference		
19:30	Fed's Bullard Speaks on Economy and Monetary Policy		
20:00	Fed's Brainard Speaks at Minority Banker Forum (text speech is similar to Sept 26 one)		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,24	0,02	US	1,44	0,01	DOW	22284,32	-11,77	
DE	0,41	0,01	DE	-0,72	-0,01	NASDAQ	6380,164	9,57	
BE	0,70	0,00	BE	-0,55	0,00	NIKKEI	20267,05	-63,14	
UK	1,33	0,00	UK	0,45	0,01	DAX	12605,2	10,39	
JP	0,05	0,02	JP	-0,13	0,00	DJ euro-50	3536,38	-1,43	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,06	1,80	0,91	Eonia	-0,3590	0,0010			
5y	0,21	1,93	1,08	Euribor-1	-0,3710	0,0000	Libor-1	1,2367	0,0000
10y	0,85	2,20	1,39	Euribor-3	-0,3290	0,0000	Libor-3	1,3297	0,0000
				Euribor-6	-0,2730	-0,0010	Libor-6	1,4971	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1793	-0,0055	EUR/JPY	132,37	-0,02	CRB	183,40	-1,21	
USD/JPY	112,24	0,51	EUR/GBP	0,8763	-0,0035	Gold	1301,70	-9,80	
GBP/USD	1,3458	-0,0008	EUR/CHF	1,1425	-0,0025	Brent	58,44	-0,58	
AUD/USD	0,7886	-0,0051	EUR/SEK	9,5761	0,0461				
USD/CAD	1,2349	-0,0022	EUR/NOK	9,3092	0,0474				

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