



Sunrise

Wednesday, 13 September 2017

Rates: Can US eco data start a 2nd downleg in US T's this week?

Core bonds corrected lower since Friday afternoon as risk sentiment improved with new closing highs for main US equity indices. Technically, US yields regained lost support levels at key tenors. For a new upleg in US yields, we probably need strong eco data today (PPI) and later this week (CPI, retail sales, industrial production,...)

Currencies: Will (US) data support further USD gains?

Earlier this week, the dollar profited from a positive reversal in global sentiment. This risk-rebound might ease. Today and tomorrow, the focus might shift to the US price data. Will they be good enough to sustain a further USD rebound. Sterling is propelled higher by an unexpected rise in inflation. Today's wage data, if better, might reinforce the move.

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	↘

- The bullish start to the week for US equities is still going strong, with **the Dow Jones, Nasdaq and S&P 500 all notching new record closing highs**. Asian stock markets trade mixed overnight.
- **The Trump administration has warned China that the US will target Chinese banks** unless Beijing takes much stronger measures to impose economic pain on North Korea by reducing trade and financial transactions with the regime.
- **US Treasury Secretary Mnuchin casts doubt on President Trump's chances of cutting the corporate tax rate to 15%**. Trump met with 6 senators including 3 Democrats who set clear conditions for future cooperation with him on taxes.
- US oil inventories jumped 6.18 million barrels last week as refineries recovered from weather disruptions. **The EIA cut US output forecasts for 2017 and 2018, while also reducing its demand outlook for next year.**
- **The total volume of bad debts held by Italian banks** shrank by €18bn in July to €173bn (**lowest since 2014**), in a sign that Italy's struggling financial sector is starting to benefit from stronger economic growth and greater investor interest.
- **Brexit negotiators postponed next week's scheduled round of talks**, adding to signs Theresa May is planning a public speech on her divorce strategy. EU and UK officials will now likely meet starting Sept. 25, people familiar said.
- **Today's calendar** contains EMU industrial production, US PPI number and UK labour market data. Germany, Italy and the US tap the bond market and ECB Praet speaks in Frankfurt.

Rates

Improving risk sentiment hits core bonds

Global core bonds extended the decline which started on Friday afternoon, but the pace slowed. Risk sentiment on stock markets remained positive with new closing highs for the three main US indices. Stronger than expected, but second tier, eco data and EMU/US supply (including €3.5B 100-yr RAGB) were additional negatives for core bonds. Monday's technical breaks of US yields back above previous support levels (5-yr: 1.7%, 10-yr: 2.1%, 30-yr 2.68%) were confirmed and suggest that the downtrend since the start of the Summer is over. We might have entered a consolidation phase ahead of next week's FOMC meeting. Markets are still too dovish positioned according to us with US rate markets not even discounting a complete rate hike by the end of 2018.

At the end of the session, the German yield curve bear steepened with yields 2.4 bps (2-yr) to 7.3 bps (30-yr) higher. US yields closed 1.6 bps (2-yr) to 3.7 bps (10-yr) higher. Traded volumes in US Treasuries were rather high for a Monday, giving the move more significance. On intra-EMU bond markets, 10-yr yield spread changes ended close to unchanged with Greece (-8 bps), Portugal and Spain (-3 bps) outperforming.

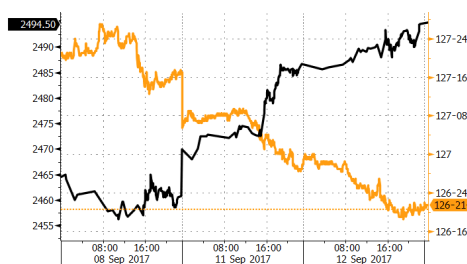
US PPI and ECB Praet are wildcards for trading

Today's eco calendar remains rather thin, but we keep a close eye on US PPI data. Consensus expects a 0.3% M/M gain in August (2.5% Y/Y). A confirmation or upward surprise could extend the correction lower on core bond markets. Compared to last week, we think that core bonds are less sensitive to a weaker outcome. Global inflation readings generally tended to beat consensus lately. July EMU industrial production is forecast at +0.1% M/M, but the outdated numbers won't impact trading. National numbers have already been released and showed a 0.3% M/M decline in Spain, a flat outcome for Germany, a 0.1% M/M increase in Italy and a strong 0.5% M/M gain for France. **ECB chief economist Praet is scheduled to speak in Frankfurt after the European close. Praet is a member of the more dovish wing inside the ECB.** Any comments on the single currency or intentions on the October ECB-meeting (how will the future of APP look like?) could influence dealings.

US yields "comfortably" back above key technical levels

	US yield	-1d
2	1,33	0,02
5	1,74	0,04
10	2,17	0,04
30	2,76	0,03

	DE yield	-1d
2	-0,73	0,02
5	-0,32	0,05
10	0,40	0,07
30	1,21	0,07



S&P (Black) and T-Note future (orange) (intraday, 3 days): Clear change in risk sentiment lifts stocks and weighs on US Treasuries



S&P 500: Bull party continues with new all time closing high

Germany, Italy and the US tap market

The German Finanzagentur taps the on the run 10-yr Bund (€3B 0.5% Aug2027).

Total bids averaged €3.99B at the previous 4 Bund auctions and we don't expect much improvement today with investors probably fearing policy normalisation speculation (higher yields) in the run-up to the October ECB meeting. **The Italian Treasury launches a new 7-yr BTP (€3.5-4B 1.45% Nov2024) and taps the on the run 3-yr BTP (€2-2.5B 0.35% Jun2020) and 20-yr BTP (€1-1.5B 2.25% Sep2036).**

Grey trading suggests that the new BTP will be priced with a 7.3 bps pick-up in ASW spread terms compared with the previous 7-yr benchmark (1.85% Oct2023). That corresponds with a 17 bps pick-up in yield terms. The other two BTP's traded rather stable in the run-up to the auction, but the Sep2036 BTP sits rather cheap on the Italian curve. **The US Treasury continued its refinancing operation yesterday with a poor \$20B 10-yr Note auction.** The auction stopped with a full basis point tail and the bid cover was the second smallest since last November (2.28). Bidding details showed little interest across the line (dealer, direct and indirect bid). **The Treasury ends its refinancing operation today with a \$12B 30-yr Bond auction.** The WI trades currently around 2.76%.

Can US eco data start a 2nd downleg in US T's this week?

Asian stock markets trade mixed overnight despite new closing highs for the three main US indices last night (+0.4%). The US Note future has a small upward bias, suggesting a somewhat higher opening for the Bund as well.

Today's eco calendar contains US PPI data and EMU industrial production. PPI could influence trading, especially in case of an upward surprise. The US supply operation remains negative for US Treasuries. **Improving risk sentiment drove core bonds lower over the past days, but we think that the risk rally could slow.** Upbeat US eco data are probably needed now to add a second downleg (US CPI, US retail sales, industrial production,... later this week). **From a technical point of view, US yields recaptured lost support levels (see above). If confirmed, it suggests that we probably entered a consolidation phase ahead of the September 20 FOMC meeting.** Last week's safe haven flight could in retrospect be considered as an exhaustion move with markets now too dovish positioned given that the FOMC will normally announce the start of BS tapering and that they might keep a December rate hike on the table.

Speculation in the run-up to the October meeting (a slowdown in monthly asset purchases and extension APP; start policy normalisation) should cap Bund gains. ECB Praet's speech is in this respect a wildcard for trading.

R2	165,83	-1d
R1	164,00	
BUND	161,93	-0,90
S1	161,66	
S2	160,5	



German Bund: Draghi delays key decisions to October. Speculation on APP announcement should cap gains.



US Note future: Risk sentiment improved. Time for consolidation going into the FOMC meeting?

Currencies

Will (US) data support further USD gains?

Dollar rebound continues, but at a slower pace

Asian equity rally slows despite record closings on WS

Dollar rally loses momentum

Eco calendar better filled

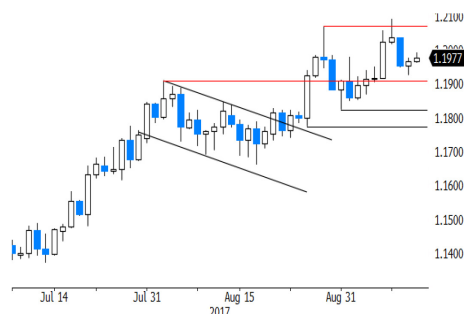
Will data be able to support the sentiment-driven USD rebound?

The risk rebound continued yesterday, but at a slightly lower pace. This was also the case for the rise in core yields and of the dollar. Investors further reduced 'excessive' USD long positions as tensions eased. USD/JPY still outperformed and managed to regain the 110 mark to close to session at 110.17. The dollar's rebound against the euro petered out. EUR/USD finished the session at 1.1967, from 1.1953 on Monday.

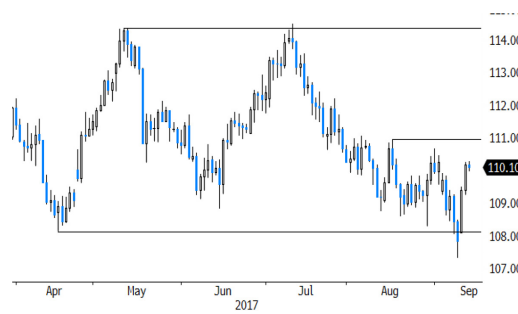
The risk rebound is losing momentum in Asia despite record closings of the Nasdaq and the S&P on WS. **The rise in US yields also slows. USD/JPY stabilizes in the low 110 area. EUR/USD is returning slightly higher in the 1.19 big figure (currently 1.1985).** Geopolitical tensions (North Korea) have eased this week, but the bickering continues even after the approval of new UN sanctions. The PBOC again weakened the fixing of the yuan against the dollar. This follows other measures that are seen as the PBOC trying to prevent a further protracted rebound off its currency. The CNY/CNH trade marginally stronger this morning.

The eco calendar is better filled today. Final German August inflation data and the EMU July production data won't change the picture for FX trading. **In the US, the focus is on tomorrow's CPI data. However, today's PPI's might also move markets in case of a substantial surprise.** Recently, moves in the dollar were mainly driven by global investor sentiment. **It is interesting to see whether the data regain impact on interest rates and on the dollar.** The August PPI is expected substantially higher at 0.3% M/M and 2.5% Y/Y (from 1.9%). August inflation data in other countries tended to be a bit higher than expected, but there is no one-to-one link, especially not on the level of the PPI's. **The dollar is trying to build a bottoming out pattern. This process could become more solid if US data are good, or at least if they don't create new doubts.** Later in the session, we keep an eye at a speech of ECB's Praet in Frankfurt. He maintained a rather soft bias of late. The dollar made a nice rebound earlier this week. **The sentiment-driven rally might lose momentum and it is not that obvious that other news will already be able ready to trigger a further upleg. So, some consolidation might be on the cards**

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1967	0,0014
S1	1,1662	
S2	1,1311	



EUR/USD off recent top, but technical picture hasn't changed



USD/JPY succeeds nice ST rebound. First technical resistance nears

Global context. The euro remained strong last week even as the ECB delayed communication on APP tapering till October and as Draghi kept a soft tone. **Markets take the view that ECB policy normalisation will come anyway. At the same time, the dollar lost further interest rate support as global uncertainty kept US yields on a downward trajectory.** The decline in US yields and of the dollar has probably gone far enough given recent US eco data, which were fairly good. A technical correction occurred this week. The dollar in the first place needs an improvement in global sentiment and higher yields. US data will probably become noisy due to the impact of the hurricanes. This might cloud the Fed outlook and complicate a USD rebound. In this context, we want more confirmation that the recent USD bottoming out process might be the start of more sustained USD gains. For now we assume that further gains will be tough and limited.

Dollar sentiment remains fragile and this is visible in the technical picture of both EUR/USD and USD/JPY. EUR/USD last week set a minor new correction top at 1.2092. A return below 1.1823 would be a technical sign that the EUR/USD rally has run its course short-term. We are not that far yet. USD/JPY regained the previous range bottom at 108.13, but more confirmation is needed to conclude that the dollar is bottoming. Regaining the 110.67/95 would be a first positive sign.

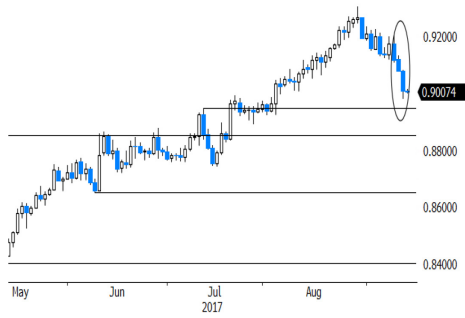
Will wage data support further GBP-gains?

UK eco data came in the spotlight yesterday. UK August inflation rose much more than expected from 2.6% Y/Y to 2.9%. Core inflation was also above consensus at 2.7% Y/Y. At the August policy meeting, the BoE kept a wait-and-see bias even as it was aware that inflation could reach 3.0%. **The current uptick will probably force the BoE to give more weight to inflation, even as growth slows and as Brexit uncertainty persists. The sterling rebound accelerated after the CPI release.** EUR/GBP dropped temporarily below the 0.90 mark and finished the session at 0.9009. Cable closed the session at 1.3283, even as the dollar was well bid across the board. The UK announced that the next round of Brexit negotiations will be postponed, but it had little impact on trading.

UK labour market data will be published today. Job market data are expected to remain solid. Wage growth is expected to rise from very low Y/Y-levels (average earnings from 2.1% to 2.3%). **A positive surprise will raise speculation on a (limited) BoE rate hike further down the road. We don't expect the BoE already to take action this week, but more positive inflation news might force Carney and Co to adapt their rhetoric. Sterling made already a good run of late, but it might still go a bit further;**

From a technical point of view, EUR/GBP cleared 0.8854/80 resistance (top end June), opening the way for a protracted August rebound. The move was the result of euro strength. Simultaneously, UK price data were soft enough to keep the BoE side-lined. Recent price data amended this story. We maintain a **buy-on-dips approach as we expect the combination of relative euro strength and sterling softness to persist. The 0.9415 'flash-crash spike' is the next target on the charts. However, we let the current correction do its job, e.g. to the technical support in the 0.88/89 area, to sell sterling versus the euro.**

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,9009	-0,0072
S1	0,8995	
S2	0,8743	



EUR/GBP: correction continues on higher inflation data



GBP/USD: tries to break above recent top as rate hike speculation returns.

Calendar

Wed., 13 September		Consensus	Previous
US			
14:30	PPI Final Demand MoM / YoY (Aug)	0.3%/2.5%	-0.1%/1.9%
14:30	PPI Ex Food and Energy MoM / YoY (Aug)	0.2%/2.1%	-0.1%/1.8%
14:30	PPI Ex Food, Energy, Trade MoM / YoY (Aug)	0.1%/	0.0%/1.9%
Japan			
01:50	BSI Large All Industry QoQ (3Q)	--	-2.0
01:50	BSI Large Manufacturing QoQ (3Q)	5.0	-2.9
01:50	PPI MoM / YoY (Aug)	0.1%/3.0%	0.3%/2.6%
UK			
10:30	Claimant Count Rate (Aug)	--	2.3%
10:30	Jobless Claims Change (Aug)	--	-4.2k
10:30	Average Weekly Earnings 3M/YoY (Jul)	2.3%	2.1%
10:30	Weekly Earnings ex Bonus 3M/YoY (Jul)	2.2%	2.1%
10:30	ILO Unemployment Rate 3Mths (Jul)	4.4%	4.4%
10:30	Employment Change 3M/3M (Jul)	154k	125k
EMU			
09:00	Employment QoQ / YoY (2Q)	--/--	0.4%/1.5%
11:00	Industrial Production SA MoM / WDA YoY (Jul)	0.1%/3.3%	-0.6%/2.6%
Germany			
08:00	Wholesale Price Index MoM / YoY (Aug)	--/--	-0.1%/2.2%
08:00	CPI EU Harmonized MoM / YoY (Aug F)	0.2%/1.8%	0.2%/1.8%
Spain			
09:00	CPI EU Harmonised MoM / YoY (Aug F)	0.2%/2.0%	0.2%/2.0%
Sweden			
09:30	GDP QoQ / WDA YoY (2Q F)	1.7%/4.0%	1.7%/4.0%
Events			
11:00	Italian BTP Auction (0.35% Jun2020, 1.45% Nov2024, 2.25% Sep2036)		
11:30	Germany to Sell €3B 0% 2027 Bonds		
19:00	US to Sell \$12B 30-yr Bonds		
19:00	ECB Executive Board Member Praet speaks in Frankfurt		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,17	0,04	US	1,33	0,02	DOW	22118,86	61,49	
DE	0,40	0,07	DE	-0,73	0,02	NASDAQ	6454,282	22,02	
BE	0,71	0,06	BE	-0,55	0,02	NIKKEI	19865,82	89,20	
UK	1,14	0,09	UK	0,28	0,06	DAX	12524,77	49,53	
JP	0,03	0,01	JP	-0,14	-0,01	DJ euro-50	3512,56	17,37	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,08	1,66	0,73	Eonia	-0,3580	-0,0010			
5y	0,18	1,82	0,89	Euribor-1	-0,3720	0,0010	Libor-1	1,2361	0,0000
10y	0,84	2,12	1,23	Euribor-3	-0,3300	0,0010	Libor-3	1,3167	0,0000
				Euribor-6	-0,2720	0,0020	Libor-6	1,4493	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1967	0,0014	EUR/JPY	131,84	1,08	CRB	181,41	-0,25	
USD/JPY	110,17	0,78	EUR/GBP	0,9009	-0,0072	Gold	1332,70	-3,00	
GBP/USD	1,3283	0,0120	EUR/CHF	1,1488	0,0058	Brent	54,27	0,43	
AUD/USD	0,8019	-0,0010	EUR/SEK	9,5387	-0,0385				
USD/CAD	1,2186	0,0076	EUR/NOK	9,377	0,0043				

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