



Sunrise

Monday, 26 September 2016

Rates: Neutral bias core bonds

We have a neutral bias for core bonds at the start of the new trading week. Risks for German Ifo are on the downside of expectations, but we expect technical elements to reign today's session. Central bank speeches are wildcards with ECB president Draghi one of the highlights.

Currencies: Dollar extends directionless trading. Sterling suffers

The post-Fed repositioning of the USD has run its course. EUR/USD and USD/JPY hold within the established ranges. In a daily perspective, the dollar might be slightly in the defensive. Sterling remains under pressure as markets are uncertain on the timing and the nature of the Brexit process. The post-Brexit lows come again on the radar.

Calendar

Headlines

S&P	↓
Eurostoxx50	↓
Nikkei	↓
Oil	→
CRB	→
Gold	→
2 yr US	↓
10 yr US	→
2 yr EMU	→
10 yr EMU	→
EUR/USD	↗
USD/JPY	→
EUR/GBP	↗

- **European and US equities corrected lower** on Friday after a bumper 2-day post-FOMC rally. The S&P lost 0.57% and EuroStoxx 0.72%. In the US, energy producers and Apple (IT) were the main losers. **Asian equities** trade with losses of up to 1% this morning.
- **Acting Spanish PM Rajoy's Partido Popular** got a boost in regional elections in Galicia and Basque regions, while Socialists lost ground. In Basque region, the Basque party got most seats.
- **Outgoing UK Labour leader Corbyn** was re-elected by his party despite the resistance of a large majority of Labour MPs. Corbyn's left policies make Labour unlikely to be a serious contender to grab power at the next elections.
- **Oil fell sharply to 45.89\$/barrel on Friday** as Saudis signalled a production agreement is unlikely on Wednesday. A modest rebound overnight occurred as nervousness around the OPEC meeting continues.
- According to Focus and based on sources, German **Chancellor Merkel rules out any state assistance for Deutsche Bank**. The US Justice Department threatened with a \$14B fine in sanctions against past DB mortgage-backed securities practices.
- Fitch upgraded the **Slovenian rating to A- from BBB+**. Fitch also confirmed **German's AAA rating** pointing to its strong institutions, high-value added economy, large current account surplus and downward oriented debt path.
- **Moody's downgraded the Turkish rating to junk** (Ba1 with stable outlook) citing external financing needs and a weakening in credit fundamentals as growth slows. Fitch is the only agency to rate Turkey at investment grade (BBB- with neg outlook). The Turkish lira dropped on Friday and remains under pressure today.
- Today, the **market calendar** contains the German IFO business confidence survey and US New Home Sales, while ECB Draghi and Fed governors Tarullo and Kaplan speak. The latter two after European closure.

Rates

Consolidation on bond markets after hectic sessions

On Friday, global core bonds had an uneventful trading session. European PMI data showed a mixed picture with a stronger than expected manufacturing survey and a disappointing services gauge. Boston Fed Rosengren, who voted in favour of hiking rates earlier this week, said that the US central bank's failure to get back to a strategy of gradual rate increases may threaten the ongoing US economic recovery. His concerns are known in markets. So, as with the EMU PMI, he was largely ignored. Equities traded lower while Brent crude fell sharply after an initial uptick, but also moves in these markets got little traction in the bond markets. In a daily perspective, changes on the German yield curve ranged between +flat (2-yr) and +1.4 bps (10-yr). Changes on the US yield curve were mixed as some profit taking on previous flatteners occurred. The US 2-yr yield fell 1.6 bps while the 30-yr yield was up 1.2 bps. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended also nearly unchanged. The IMF warned that bolder action is needed to give Greece more debt relief leading to a 4 bps narrowing of the Greek 10-yr spread. Spanish bonds underperformed again, up 3 bps (spread), probably ahead of regional elections this weekend.

Consolidation on bond markets

Mixed EMU PMI's and hawkish Rosengren comments ignored

	US yield	-1d
2	0,7581	-0,0163
5	1,1577	-0,0114
10	1,6184	-0,0017
30	2,3478	0,0140

	DE yield	-1d
2	-0,6760	-0,0130
5	-0,5590	-0,0160
10	-0,0840	-0,0010
30	0,4873	0,0022

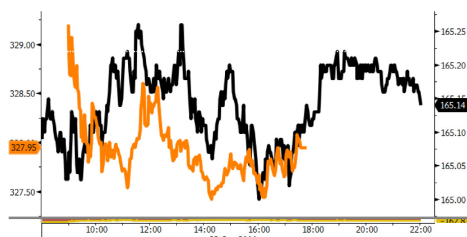
Downside risks German IFO

Drop in US home sales expected

ECB Draghi & Nowotny speak as will Fed Tarullo & Kaplan

German IFO and US New Home sales for release

In September, the consensus expects a **stabilization of the headline IFO business climate** at 106.3 (106.2 in August, 108.3 in July) with a similar stabilization in both the expectation (100.1) and current assessment sub-indices (112.9) The German PMI survey showed a deterioration to 52.7 in September from 53.3 in August and 55.3 in July, due to declining services sentiment. The Bundesbank also warned for some slowing of the German economy in H2. Therefore, we put the **risks on the downside of expectations**. In the US, the **home sales** are expected to have dropped 8.3% in August (600K) following a huge 12.4% rise in July (654K). It is a volatile series and after the jump higher in August to a multi-year high, **some retracement in line with consensus does look reasonable**, especially as also bad weather in the South may have affected sales. Anyway, given the volatility in the series and the firm upward trend, market reaction should remain subdued in case of a still sharper downside surprise. Regarding central bank speakers, **Tarullo and Kaplan** are dovishly oriented and supported the Fed's wait-and see decision. Tarullo speaks on the stress test (non-policy subject). **ECB Draghi** said little on the ECB monetary policy recently. ECB Committees have been tasked to review the policy and look whether changes in the implementations are needed. With the Fed standing put, Draghi shouldn't feel the pressure to say much in the next weeks on policy.



Bund future (black) and EuroStoxx (orange) intraday: Largely sideways bond trading session. Equities stabilize following initial drop lower.



Brent oil fell sharply Friday on another twist in Saudi's comments on the Sep 28 OPEC meeting. Support remains within striking distance (\$45.32/barrel)

R2	166	-1d
R1	165,67	
BUND	165,03	0,1000
S1	164,29	
S2	163	

The Netherlands, Germany, Italy and US tap market

This week's scheduled EMU bond supply comes from the Netherlands, Germany and Italy. Tomorrow, the Dutch debt agency taps the off the run 30-yr DSL (4% Jan2037) for €0.75-1.25B. On Wednesday, the German finanzagentur holds a €4B 2-yr Schatz auction (0% Sep2018). On Thursday, the Italian debt agency concludes, probably with 5- and 10-yr BTP auctions (announcement today). This week's auctions will be supported by a €13B Belgian redemption.

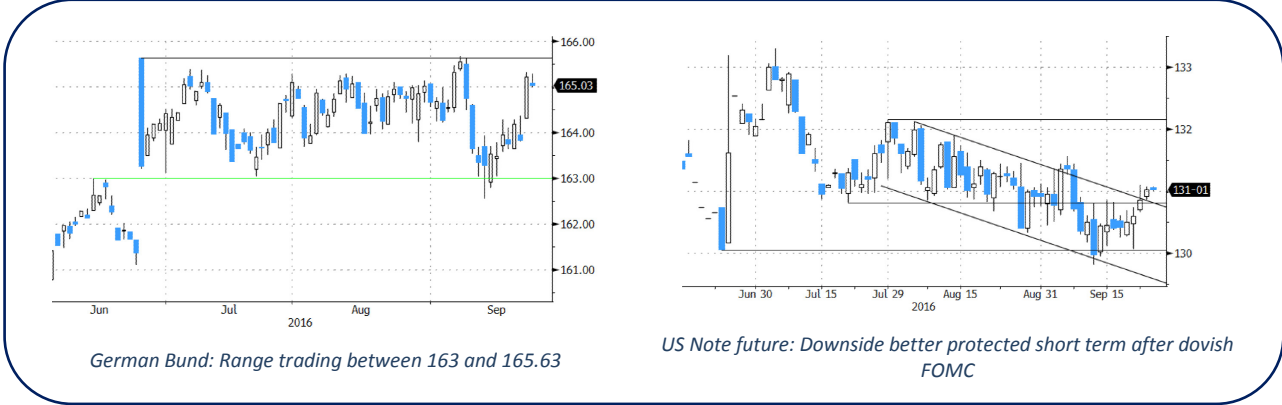
The US Treasury starts its end-of-month refinancing operation today with a \$26B 2-yr Note auction. Currently, the WI trades around 0.77%. The auction will be followed by a \$34B 5-yr Note auction tomorrow and a \$13B 2-yr FRN & a \$28B 7-yr Note auctions on Wednesday.

Neutral bias at the start of the trading week

Overnight, Asian equities trade 0.5% to 1% lower, in line with WS's losses on Friday. The US Note future and Brent crude stabilize around Friday evening's levels. We expect a neutral opening for the Bund. Spanish regional elections (Galicia, Basque country) dealt another blow to Socialists, but it's unclear/unlikely (?) whether the regional elections will influence some Socialists into supporting PM Rajoy's bid to form a new government.

Today's eco calendar contains German Ifo. We see risks on the downside of expectations, but don't expect much reaction on bond markets. This week's upcoming US supply is somewhat negative for US Treasuries, but the impact could be balanced by end-of-month-buying. Central bank speakers are a wildcard for trading (see above).

Overall, we favour more range trading for the Bund within the post-Brexit range between 163-165.63. The trading range for the US Note future is expected to be 130-01+ to 132-05, at least until the first week of October (ISM's/payrolls) or until Washington-based Fed governors change the tone of their public comments (Oct 14, Yellen speech).



Currencies

Dollar still holding tight ranges

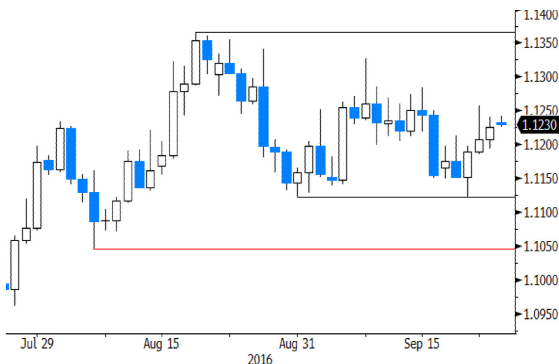
EUR/USD and USD/JPY held relatively tight ranges on Friday as the post-Fed repositioning slowed

R2	1,1366	-1d
R1	1,1252	
EUR/USD	1,1232	0,0030
S1	1,1123	
S2	1,1046	

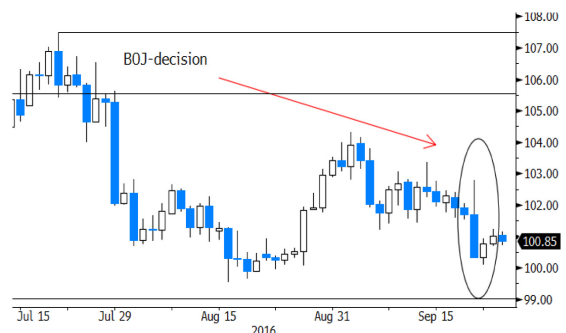
Dollar holding in well-known territory as equities show moderate losses

On Friday, the major dollar cross entered calmer waters as the post-Fed repositioning had run its course. EUR/USD and USD/JPY held tight ranges close to 1.12 and 101 respectively. A slightly softer than expected EMU PMI didn't affect currency trading in a lasting way. EUR/USD gained a few ticks after the close of the European markets. Remarkably, this euro gain/USD decline more or less coincided with a decline of oil at that time. Even so, trading remained within the established ranges. EUR/USD closed the session at 1.1226 (from 1.1208). USD/JPY finished the day at 101.02 (from 100.76).

Overnight, Asian equity indices show losses of about 0.5% to 1.0%. The correction is probably profit taking on the post-Fed/BoJ rally, as was the case in the US on Friday. Friday's steep decline of oil probably was also still at play. There is not that much of high profile news to guide global trading this morning. **Markets ponder the chances of the OPEC reaching a deal on production cuts later this week. However, for now there is no clear direct impact on USD trading.** EUR/USD trades in the 1.1230 area. USD/JPY changing hands in the 101 area. Both are still very close to the levels that were on the screens last week.



EUR/USD: USD still looking for a new driver post-Fed



USD/JPY struggles to prevent further losses

German IFO and US new home sales take center stage

Impact on the dollar should be limited

Oil and US presidential debate remain a wildcard

Today, the German IFO business climate and the US New home sales are on the agenda. For the IFO a **near stabilization of the headline business climate at 106.3 is expected. The German PMI** deteriorated to 52.7 from 53.3, due to declining services sentiment. The Bundesbank also warned for a slowdown of the German economy in H2. Therefore, we put the **risks on the downside of expectations**. In the US, **new home sales** are expected to have dropped 8.3% in August following a huge 12.4% rise in July. **A retracement in line with consensus looks reasonable.** Anyway, given the volatility in the series, the market reaction should be subdued even in case of a downside surprise. Regarding central bank speakers, **Tarullo and Kaplan** are dovishly oriented and supported the Fed's wait-and see decision. **ECB Draghi** speaks before the EU Parliament. He said little on the ECB policy recently. ECB Committees are tasked to review the policy and look whether changes in the implementations are needed. With the Fed standing put, Draghi shouldn't feel the pressure to say much in the next weeks on policy. **In a daily perspective**, there is no single clear driver for USD trading. Soft data and a risk-off sentiment might keep

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core bond yields and the dollar under slight pressure. Draghi staying muted on more easing might be slightly euro supportive. Oil and the US presidential debate are wildcards. So, we put the risk for a slightly softer USD today, but with no reason to break out of recent ranges.

EUR/USD tested the 1.1123 support before the Fed, but the test was rejected as the Fed stayed in wait-and-see modus. **We assume that the Fed decision hasn't changed the broader picture for EUR/USD.** Markets will be sensitive whether the data support the case for a December rate hike. **Swings in December rate hike expectations will probably be the driver for USD trading.** The dollar might lose slightly further ground short-term, but as long as the market implied probability of a Fed rate hike remains at current levels, the downside of the dollar looks well protected. We prefer more range trading in the 1.1123/1.1366 range and a sell-on-upticks approach. **USD/JPY remains in the defensive after the BOJ meeting.** The post-BOJ decline of the yen was very short-lived and reversed very soon. We stay cautious on USD/JPY long exposure. However, the **99.54/99.02 area will remain a strong support. 104.32 is the first main resistance.** We expect the established 99.89/104.32 range to hold, but downside risks have grown post BOJ/FED.

Sterling still haunted by political uncertainty

R2	0,8725	-1d
R1	0,868	
EUR/GBP	0,8649	0,0062
S1	0,8344	
S2	0,8251	

On Friday, there were no UK eco data. However political uncertainty on the pace and the nature of the Brexit process sparked again investor uncertainty. **This time comments from UK's Boris Johnson, that article 50 could be triggered early 2017 and that the exit process could take less than two year, probably weighed on sterling.** That's sooner than markets assumed until now. It's difficult to see whether this was the only reason for the decline of sterling. Whatever, sterling remained under (political) pressure. EUR/GBP rebounded to the 0.8675/80 and closed the session at 0.8659(from 0.8571). Cable dropped temporary below last week's low (1.2950 area) but closed the session at 1.2966 still a substantial on a daily basis (from 1.3078).

During the weekend, UK's Johnson made some more balanced comments on the timings regarding the Brexit process. However, for now it doesn't help sterling much. **Later today,** the BBE loans for home purchases are on the agenda. A modest further decline to 37 100 is expected. A poor figure might be slightly negative for sterling. Even so, the broader political debate might be more important for GBP trading. A cautious global sentiment on risk is usually also a negative for sterling. So, we expect sterling to stay in the defensive. The fear for a hard Brexit might still resurface/stay in place. In this context, we don't expect any GBP rebound to go far. A sell sterling on upticks approach remains preferred. 0.8725 is the first important target on the EUR/GBP charts.



EUR/GBP: 0.8725 post-Brexit top again within reach



GBP/USD: struggles not to fall further below 1.30

Calendar

Monday, 26 September		Consensus	Previous
US			
16:00	New Home Sales / MoM (Aug)	600k/-8.3%	654k/12.4%
16:30	Dallas Fed Manf. Activity (Sep)	-3.0	-6.2
Japan			
07:00	Leading Index CI (Jul F)	--	100.0
07:00	Coincident Index (Jul F)	--	112.8
UK			
10:30	BBA Loans for House Purchase (Aug)	36500	37662
Germany			
10:00	IFO Business Climate (Sep)	106.3	106.2
10:00	IFO Current Assessment (Sep)	112.9	112.8
10:00	IFO Expectations (Sep)	100.1	100.1
24SEP-28SEP	Import Price Index MoM / YoY (Aug)	-0.1%/-2.5%	0.1%/-3.8%
Events			
11:30	SNB's Jordan Speaks in Geneva		
16:00	ECB's Draghi Speaks at European Parliament in Brussels		
14:30	ECB Coeure speaks in Rome		
17:45	Fed's Tarullo Speaks on Next Steps in Bank Stress Testing		
18:00	ECB's Nowotny at Panel Discussion on Banking		
19:00	US \$26B 2-yr Note auction		
19:30	Fed's Kaplan Speaks in San Antonio Moderated Q&A		

Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	1,62	0,00	US	0,76	-0,02	DOW	18261	18261,45
DE	-0,08	0,00	DE	-0,68	-0,01	NASDAQ	for Exch - NQI	#VALUE!
BE	0,14	0,00	BE	-0,61	0,00	NIKKEI	16520	16520,18
UK	0,73	0,01	UK	0,08	0,00	DAX	10626,97	10626,97
JP	-0,05	0,00	JP	-0,22	-0,01	DJ euro-50	3032	3032,31

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,345	-0,003
3y	-0,225	1,054	0,423	Euribor-1	-0,37	0,00	Libor-1 USD	0,27	0,27
5y	-0,149	1,173	0,491	Euribor-3	-0,30	0,00	Libor-3 USD	0,38	0,38
10y	0,279	1,444	0,763	Euribor-6	-0,20	0,00	Libor-6 USD	0,52	0,52

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,1232	0,0033	EUR/JPY	113,24	0,30		186,3232	1334,46	46,36
USD/JPY	100,86	-0,03	EUR/GBP	0,8649	0,0061	-1d	0,00	-0,39	-0,90
GBP/USD	1,2975	-0,0062	EUR/CHF	1,0893	0,0031				
AUD/USD	0,7623	-0,0021	EUR/SEK	9,5833	0,01				
USD/CAD	1,3161	0,0104	EUR/NOK	9,1120	0,00				

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