



Sunrise

Friday, 23 June 2017

Rates: Stronger EMU PMI finally relevant for markets

Risks for EMU PMI's are on the upside of expectations which is a negative for the Bund. As the ECB's normalization process slowly takes off, EMU eco data will gain importance for markets. Bunds can underperform US Treasuries. We also continue to monitor oil prices given this month's sharp sell-off.

Currencies: Dollar in limbo and no signs of change anytime soon

For the third consecutive session, dollar trading was confined to a very tight range. Asian trading suggest that the stalemate may be prolonged, but the EMU business sentiment report might bring at least a bit more suspense. However, even if our upside risk is confirmed and the euro profits, it is unlikely key technical levels will be broken.

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	→

- **Asian equities are ending the week mixed. Chinese stocks started with losses** a day after word of a **probe into potential systemic risk** posed by large enterprises in China. **Dow Jones, Nasdaq and S&P closed around zero change.**
- After weeks of speculation ignited by his own tweets, **US President Donald Trump said that he does not have recordings of his conversations with James Comey**, the FBI director he fired.
- **Republican internal struggle continues in the US. Four republican senators said not to support the new Senate reform bill** that ends the obligation to have health insurance, cut Medicaid for the poor, and repeal taxes on the rich.
- **Fed member Bullard**, a non-voter in 2017, said the **projection to raise rate to 3% over 2.5 years was unnecessarily aggressive.** He added that the central bank should **start shrinking the asset portfolio sooner rather than later.**
- The **biggest US banks cleared a Fed stress test of their ability to withstand economic shocks.** Next week, the Fed will release findings from its Comprehensive Capital Analysis & Review.
- **UK PM May's proposal to safeguard residency rights of EU-citizens currently living in the UK** met a tepid reception. The EU-partners' main objection is that questions on EU-citizen rights would be handled in British courts.
- The main events on the **eco-calendar** today are **the June PMI figures for the eurozone and the US.** This evening, **Fed members Bullard, Mester and Powell speak** and the **summit of EU leaders comes to a close.**

Rates

German 2-yr yield near key resistance

The Bund and US Note future traded uneventful yesterday closing little changed after some insignificant moves up and down intraday. Oil recovered slightly from heavy losses in previous days, while European and US equities ended narrowly mixed. US jobless claims printed in line with expectations while EMU consumer confidence improved more than expected to the highest level since early 2001. EMU data continue to surprise on the upside. None of these factors had a lasting impact on core bonds.

The underperformance at the front end of the German yield curve continued during European dealings, even as final yield changes were very modest. "Hawkish" comments by ECB chief economist Praet played some role as they fit in a gradually changing global monetary policy stance. It's becoming clearer that the peak in dovish central bank talk is behind us (see our Sunset yesterday for more examples of the changing winds at various central banks). The tentative correction at the front end of the German curve suggests that markets started picking up the signals. The German 2-yr yield moved tested the -0.63%/-0.60% resistance, which if broken, paints an inverse head and shoulders formation on the charts.

In a daily perspective, changes on the German yield curve ranged between +0.4 bps (2-yr) and -1.7 bps (30-yr). The US yield curve shifted 0.3 bps (30-yr) to 1.3 bps (5-yr) lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrowed up to 3 bps (Spain/Ireland) with Greece and Portugal slightly underperforming.

Eco calendar heats up, Fed speakers take the stage

The eco calendar is more interesting for the first time this week. Markets expect a marginal decline of the EMU PMI business sentiment, but at high levels suggesting the upside momentum is still intact. An upward surprise is possible after yesterday's unexpectedly strong EMU consumer confidence. French INSEE business confidence was marginally stronger in June versus May. The IFO institute revised its forecast for Germany higher and sounded very bullish in its comments. US manufacturing and services PMI are expected mixed. The former a tad stronger and the latter a bit weaker than in May. However, at levels well below the EMU ones. US New Home sales fell sharply in May and we side with consensus in expecting a moderate rebound. After the European close, Fed governors Bullard (dove), Mester (hawk) and Powell (moderate who speaks on clearing). St. Louis Bullard, the ultra-dovish outlier, argued in the WSJ that the Fed's rate path is too aggressive. He does support the start of balance sheet tapering later this year.

Core bonds narrowly mixed in uneventful session

German 2-yr yield tests resistance

Slight narrowing peripheral spreads

Slight narrowing

Peripheral spreads little changed

	US yield	-1d
2	1,34	-0,01
5	1,76	-0,01
10	2,15	-0,02
30	2,73	-0,01

Even stronger EMU business confidence?

	DE yield	-1d
2	-0,63	0,00
5	-0,38	-0,01
10	0,25	-0,01
30	1,04	-0,02



US Note future (black) & S&P future (orange): yesterday's trading already resembled Summer dealings



Brent oil: Lousy attempt to regain some ground

Stronger EMU PMI's finally relevant for markets?

R2	165,93	-1d
R1	165,55	
BUND	165,09	0,12
S1	161,68	
S2	160,17	

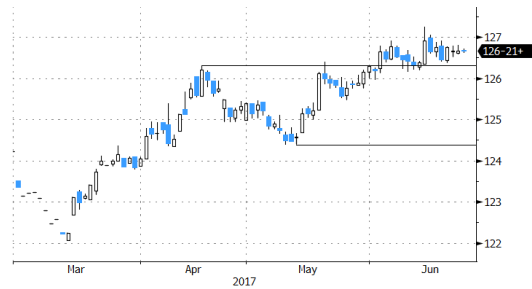
Overnight, Asian stock markets traded mixed with China underperforming. The US Note future and Brent crude give no indication for the start of European dealings so we expect a neutral opening.

Today's eco calendar finally becomes more interesting with EMU PMI's. Risks are on the upside of expectations which is a negative for the Bund. As the ECB's normalization process slowly takes off, EMU eco data will gain importance for markets. Bunds can underperform US Treasuries. We closely monitor the German 2-yr yield which tested important resistance (-0.63%/-0.60%) as global central bank talk recently proved that the peak of dovishness is behind us. Fed speakers are a wildcard (see above). We also keep a close eye on oil prices. **The sell-off accelerated in June with Brent crude dropping from \$55/barrel to \$45/barrel.**

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. If support levels in US yield terms hold, we recommend a cautious sell-on-upticks strategy. Our basis assumption remains that the long term rally of core bonds is over as policy normalisation slowly starts (ECB) or accelerates (Fed). A declining oil price is, via declining inflation expectations, a risk to our view.**



German Bund: Hard time getting away from recent highs



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

Currencies

Dollar remains in limbo

Dollar captured in technical trade.

Days come and days go, but the dollar cannot find direction. The decline of the oil price and the potentially negative impact on interest rates weighed marginally on the dollar yesterday morning. However, the decline of oil halted and even reversed modestly in the afternoon, allowing the dollar to gradually eke out small gains. The eco data were ignored.

Yen extends correction as BOJ

Overnight, listless trading in Asian equity markets following the unchanged closure of WS yesterday. Brent crude is modestly higher in an unconvincingly sluggish rebound after steep price falls. The US T-Note barely budged. In this context, **the lethargic FX trading of the majors continued**. EUR/USD trades insignificantly higher at 1.1162. USD/JPY is unchanged at 111.34.

Boring Asian session

Eco calendar heats up, Fed speakers take the stage

Upside risks EMU business sentiment

The **eco calendar** is more interesting for the first time this week. Markets expect a marginal decline of the **EMU PMI business sentiment**, but at high levels suggesting the upside momentum is still intact. **An upward surprise is possible after yesterday's unexpectedly strong EMU consumer confidence**. French INSEE business confidence was marginally stronger in June versus May. **US manufacturing and services PMI are expected mixed**. The former a tad stronger and the latter a bit weaker than in May. However, at levels well below the EMU ones. **US New Home sales** fell sharply in May and **we side with consensus in expecting a moderate rebound**. After the European close, Fed governors Bullard (dove), Mester (hawk) and Powell (moderate who speaks on clearing) will give speeches. The WSJ reports already today that Bullard finds the Fed's rate path unnecessarily aggressive, but he backs the speedy start of the Fed's balance sheet tapering, to create policy for eventual "rainy" days.

Fed speakers to ventilate their feelings on recent FOMC decision and hot issues?

R2	1,1428	-1d
R1	1,13	
EUR/USD	1,1152	-0,0016
S1	1,0839	
S2	1,0778	



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



USD/JPY: post-Fed rebound slows as oil and low US yields weigh

Given the eco calendar, **stronger EMU PMI's could help EUR/USD higher, but we think that after May's sharp rise of the euro, the consolidation period is not over**. Therefore, any EUR favourable upward surprise would give only a modest, technical insignificant boost for EUR/USD. The downside of the pair is limited too until the USD gets better eco news, signs that trump's pro-growth agenda get again traction or interest rate support. We don't see this happening in the next few days. The sluggish oil recovery is, if anything, slightly dollar negative. **We maintain a neutral stance on EUR/USD today**.

Technical picture still negative for EUR/USD

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. So 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 (tested yesterday but no break). 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 slightly of late, but we remain cautious to forecast a U-turn.

EUR/GBP drops below the 0.88 pivot

After Wednesday's soft BoE Haldane comments inspired swings, sterling shifted yesterday in wait-and see modus. **The CBI trends orders were again stronger than expected, but with no lasting impact on sterling trading. In late afternoon, EUR/GBP followed EUR/USD lower and sterling even outperformed the dollar maybe due to MPC Forbes. The Outgoing MPC member made her case for policy tightening one last time. EUR/GBP dropped below 0.88 to close at 0.8794 (from 0.8813 on Wednesday). Following a steep rise since mid-May, EUR/GBP looks ready for a pause or even a correction, but that may only be a temporary respite.** A technical relevant break lower (see below) is needed for us to become more sterling optimistic. Cable held an extremely tight range before closing at about 1.2682 (from 1.2671).

Today, the UK calendar is empty. Strong EMU business sentiment might be a euro positive, but recent price action suggest the euro rally has become tired and thus the upside should be limited. Weaker EMU data could push EUR/GBP lower, but sterling gains should be corrective in nature.

From a technical point of view, EUR/GBP extensively tested the 0.8854 area (2017 top), but a real break didn't occur. BoE comments caused some intraday 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	0,8794	-0,0020
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 decline slows (temporary) but no sustained rebound yet

Calendar

Friday, 23 June		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Jun P)	52.9	52.7
15:45	Markit US Services PMI (Jun P)	53.5	53.6
15:45	Markit US Composite PMI (Jun P)	--	53.6
16:00	New Home Sales (May)	591k	569k
16:00	New Home Sales MoM (May)	3.8%	-11.4%
Canada			
14:30	CPI NSA MoM YoY (May)	0.3%/1.5%	0.4%/1.6%
14:30	CPI YoY (May)	1.5%	1.6%
Japan			
02:30	Nikkei Japan PMI Mfg (Jun P)	A 52	53.1
EMU			
10:00	Markit Eurozone Manufacturing PMI (Jun P)	56.8	57
10:00	Markit Eurozone Services PMI (Jun P)	56.1	56.3
10:00	Markit Eurozone Composite PMI (Jun P)	56.6	56.8
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Jun P)	59	59.5
09:30	Markit Germany Services PMI (Jun P)	55.4	55.4
09:30	Markit/BME Germany Composite PMI (Jun P)	57.2	57.4
France			
08:45	GDP QoQ YoY (1Q F)	0.4%/1%	0.4%/1%
09:00	Markit France Manufacturing PMI (Jun P)	54	53.8
09:00	Markit France Services PMI (Jun P)	57	57.2
09:00	Markit France Composite PMI (Jun P)	56.7	56.9
Italy			
10:00	Industrial Orders MoM YoY (Apr)	--	-4.2%/9.2%
10:00	Industrial Sales MoM YoY (Apr)	--	0.5%/7.2%
Belgium			
15:00	Business Confidence (Jun)	-0.8	-1.1
Events			
	EU Summit of leaders concludes		
	Moody's rates sovereign debt of US, Germany and France		
17:15	Fed's Bullard Speaks about Monetary Policy in Nashville		
18:40	Fed's Mester Speaks in Cleveland		
20:15	Fed's Powell Speaks in Chicago on Central Clearing		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,15	-0,02	US	1,34	-0,01	DOW	21397,29	-12,74	
DE	0,25	-0,01	DE	-0,63	0,00	NASDAQ	6236,685	2,73	
BE	0,59	0,00	BE	-0,56	-0,01	NIKKEI	20132,67	22,16	
UK	1,02	-0,02	UK	0,21	0,00	DAX	12794	19,74	
JP	0,05	-0,01	JP	-0,11	-0,01	DJ euro-50	3555,76	1,41	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,10	1,64	0,66	Eonia	-0,3620	0,0000	Libor-1	1,2156	0,0000
5y	0,13	1,81	0,79	Euribor-1	-0,3720	0,0010	Libor-3	1,2894	0,0000
10y	0,71	2,10	1,11	Euribor-3	-0,3300	-0,0010	Libor-6	1,4450	0,0000
				Euribor-6	-0,2720	-0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1152	-0,0016	EUR/JPY	124,15	-0,24	CRB	166,50	-0,92	
USD/JPY	111,33	-0,05	EUR/GBP	0,8794	-0,0020	Gold	1249,40	3,60	
GBP/USD	1,2682	0,0011	EUR/CHF	1,0838	-0,0023	Brent	45,22	0,40	
AUD/USD	0,7542	-0,0011	EUR/SEK	9,7568	-0,0144				
USD/CAD	1,3233	-0,0101	EUR/NOK	9,4672	-0,0587				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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