



Wednesday, 20 June 2018

Rates: Gentle improvement in risk sentiment

Risk sentiment improved overnight with Asian stocks rebounding and the US note future and Japanese yen losing the past two days' momentum. Central bankers aren't expected to provide new insights in Sintra following last week's key decisions. The eco calendar is empty, suggesting risk sentiment will remain in the driver seat.

Currencies: EUR/USD holding near recent lows even as global tensions ease

Yesterday, FX markets were also affected by the trade-driven global risk-off trade. EUR/JPY, USD/JPY and EUR/USD all closed the session lower. This morning, it looks that trade tensions are easing. USD/JPY rebounds, but the upside in EUR/USD looks less easy. Sterling remains in the defensive ahead of a key Brexit vote in Parliament this afternoon.

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 **US equity markets** continue to lose with the trade war still in play, with S&P500 losing all gains it made in 2018. The **Asian markets** opened rather positive, with only Chinese markets in red.
- **Iran has indicated it will oppose Saudi Arabia and Russia**, who want to leave the current deal of '16 to increase total output and thereby pleasing the US. Iran stated "OPEC should not receive any instructions of the US".
- **In the UK, the House of Commons will vote today on the "meaningful vote"**, after the House of Lords had rejected PM May's proposal on Monday. Today's vote can shape UK strategy for brexit and is expected to be a very close call.
- **Russia has joined the trade debate and will impose import tariffs on certain goods from the US.** The move follows a request from Russian businesses that were hit by US tariffs on steel and aluminium.
- **Merkel and Macron have found common ground on the President's proposal to reform the Eurozone's budget.** They left details open for discussion at the EU summit later this month. Both hailed "a new chapter" for the currency union.
- A rare positive statement on international trade was made by **President Trump yesterday saying progress was made in talks to update the NAFTA agreement.** A deal between the US, Canada and Mexico, however, is not yet on the horizon.
- A skinny economic calendar for today, keeping the **ECB's Forum in Sintra in the spotlight.** Draghi will have discussions with his colleagues from the US (Fed gov. Powell), Japan (BOJ gov. Kuroda) and Australia (RBA gov. Lowe).

Rates

	US yield	-1d
2	2,55	0,00
5	2,78	-0,02
10	2,90	-0,02
30	3,03	-0,02

	DE yield	-1d
2	-0,62	-0,01
5	-0,26	-0,02
10	0,37	-0,03
30	1,14	-0,04

Gentle improvement in risk sentiment

Rising oil prices and the de-escalation of the CDU/CSU rift dropped from the equation which kept core bonds in balance yesterday, **leaving the new tit-for-tat threats in the US/Chinese trade row as the only factor influencing trading. Core bonds profited from global risk aversion.** The main move occurred overnight (US Note future) or in the European opening (Bund). Both entered a more sideways pattern afterward. US stock markets managed to undo, for a third day in a row, part of the opening losses. Merkel and Macron presented their “euro plan” which remained rather vague on e.g. a common EMU budget. Changes on the US yield curve ranged between -0.5 bps (2-yr) and -2.1 bps (5-yr). 10-yr yield spread changes vs Germany ranged between -2 bps (Greece) and +3 bps (Italy).

Most Asian stock markets recovered overnight, eking out some gains with the Nikkei (+1%) and Korea (+2%) outperforming. **Other risk barometers such as the US Note future or Japanese yen lose some of the past two days’ momentum, suggesting an improvement in risk sentiment.** We expect a slightly weaker opening for the Bund.

Today’s eco calendar remains very thin with only US existing home sales. More central bank governors line up at the ECB’s conference in Sintra. We don’t expect any big news coming from the ECB. Yesterday’s speakers, including chairman Draghi and even hawk Nowotny, confirmed last week’s lower for longer guidance. Draghi added that current market expectations about a first rate hike, in Q4 2019, align with the ECB’s guidance. **Fed Powell or BoJ Kuroda aren’t expected to change tack neither after last week’s central bank meetings.** The trade conflict remains a wildcard, but the US and China seemed to have placed their bets over the weekend. **We expect more risk-sentiment driven trading today with a short term easing of tension intraday negative for core bonds.**

Technically, the German 10-yr yield and US 10-yr yields respectively failed to break above 0.5% and 3% last week. Both are currently near the middle of **sideways consolidation ranges, respectively between 0.2% and 0.5% and between 2.7% and 3.1%. We expect the range bound trading to continue**



German 10-yr yield fails to break back above 0.5% after dovish ECB meeting



US 10-yr yield: near the middle of sideways consolidation range, roughly between 2.7% and 3.1%

Currencies

R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1590	-0,0033
S1	1,1510	
S2	1,1448	

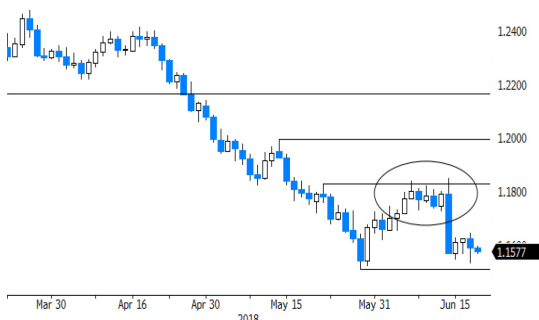
R2	0,9033	-1d
R1	0,8968	
EUR/GBP	0,8796	0,0022
S1	0,8628	
S2	0,8548	

EUR/USD holding near recent correction low

Contrary to what was the case of late, **the trade war also affected global FX trading yesterday**. Risk-off triggered broad yen-buying resulting in a decline of USD/JPY, EUR/JPY and via the crosses also of EUR/USD. Soft ECB comments at in Sintra reinforced the euro decline. Selling eased later but the three cross rates still finished in negative territory. EUR/USD closed at 1.1590 (from 1.1623). USD/JPY closed at 110.06 (from 110.55). The risk-off modus weighed on smaller, less liquid currencies like the CAD and the Aussie dollar and smaller currencies on boundaries of the euro zone (SEK, PLN, CZK and to a lesser extent NOK). **This morning**, Asian are rebounding off the recent lows, with China still underperforming. **The jury is still out, but the direct impact from the trade-war might be easing**. USD/JPY tries to regain the 110 mark. EUR/USD trades off recent lows, but the picture stays unconvincing (1.1575). The decline in likes of the Aussie dollar, which suffered from the trade conflict looks like slowing down.

Today, US data, including existing homes sales are only of second tier significance for FX trading. Fed's Powell, BOJ's Kuroda, ECB's Draghi and other ECB members will speak in Sintra. **The question is whether markets will recover from yesterday's risk-off trade**. If so, USD/JPY might profit and it might pressure on some smaller currencies. **It doesn't feel that the euro is in pole-position to profit from easing tensions**. Policy divergence between the Fed and the ECB as it appeared at last week's policy meetings, hampers a euro rebound, even if risk sentiment improves. Of late, we advocated that a retest of the 1.1510 correction low is possible. We maintain that view. **The dollar can stay strong for longer. In a day-to-day perspective, the pressure on USD/JPY might ease, at least until the next flaring up of (geopolitical) uncertainty**.

Yesterday, Brexit uncertainty and a negative global risk sentiment weighed on the sterling. EUR/GBP trended higher in the 0.87 big figure. Cable set a new correction low below the 1.32 support. **Today, the Lower House will to vote again on the 'meaningful vote'**. Even if May survives the vote, the domestic battle on Brexit won't be over. It is also not clear that markets will consider a victory of the government as sterling supportive, as it raises the chance on Britain to crash out of the EU. We don't preposition for a sustained sterling rebound yet. Tomorrow's BoE assessment might also remain cautious and provide little support for sterling.



EUR/USD: easing global tensions might not be a big help for the euro



EUR/GBP. Sterling in the defensive going into key Brexit vote

Calendar

Wednesday, 20 June		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-1.5%
14:30	Current Account Balance (1Q)	-\$129.0b	-\$128.2b
16:00	Existing Home Sales Total/MoM (May)	5.52m/1.1%	5.46m/-2.5%
Japan			
09:00	Convenience Store Sales YoY (May)	--	0.7%
UK			
12:00	CBI Trends Total Orders (Jun)	2	-3
12:00	CBI Trends Selling Prices (Jun)	--	19
Germany			
08:00	PPI MoM/YoY (May)	0.4%/2.5%	0.5%/2.0%
Events			
10:00	ECB's Nowotny Presents Austrian Financial Stability Report		
09:30	Villeroy Speaks in Paris		
10:00	ECB's Lautenschläger chairs panel in Sintra		
11:45	ECB Governing Council member Knot speaks in Amsterdam		
12:30	ECB's Coeure is chairing a panel in Sintra, Portugal		
15:30	Draghi, Powell, Kuroda and Lowe speak in Sintra, Portugal		
09:15	NIER Publishes Swedish Economic Forecasts		
11:30	Germany to Sell EUR1.5 Bln 2.5% 2044 Bonds		
Wed 06/20	House of Commons final vote on amendment giving Parliament a "meaningful vote"		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,90	-0,02	US	2,55	0,00	DOW	24700,21	-287,26	
DE	0,37	-0,03	DE	-0,62	-0,01	NASDAQ	7725,585	-21,44	
BE	0,74	0,00	BE	-0,52	0,00	NIKKEI	22523,94	245,46	
UK	1,28	-0,04	UK	0,70	-0,02	DAX	12677,97	-156,14	
JP	0,04	0,01	JP	-0,13	0,00	DJ euro-50	3435,3	-31,35	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,88	1,12	Eonia	-0,3630	0,0020	Libor-1	2,0838	0,0000
5y	0,26	2,91	1,29	Euribor-1	-0,3700	0,0000	Libor-3	2,3247	0,0000
10y	0,88	2,96	1,52	Euribor-3	-0,3230	0,0000	Libor-6	2,4969	0,0000
				Euribor-6	-0,2680	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1590	-0,0033	EUR/JPY	127,56	-0,93	CRB	193,82	-2,36	
USD/JPY	110,06	-0,49	EUR/GBP	0,8796	0,0022	Gold	1278,60	-1,50	
GBP/USD	1,3174	-0,0071	EUR/CHF	1,1525	-0,0042	Brent	75,08	-0,26	
AUD/USD	0,7381	-0,0042	EUR/SEK	10,3082	0,0613				
USD/CAD	1,3286	0,0084	EUR/NOK	9,4908	0,0456				

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