



Sunrise

Thursday, 31 August 2017

Rates: Jury still out on potential trend reversal

We expect EMU eco data to beat consensus (including HICP) while we hold a more neutral stance towards US eco readings. Such scenario should be sufficient to keep core bonds away from key resistance levels or even inflict some additional losses. Tuesday's potential technical trend reversal signal could also still be at play.

Currencies: USD extends rebound, but confirmation is still needed

Yesterday, the dollar extended its rebound against the euro and the yen even as rise in core yields remained modest. The EMU and US price data will take center stage today. Will the euro ignore higher EMU headline inflation? The dollar made a nice technical rebound, but conformation from strong US data is needed, starting with tomorrow's US payrolls.

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	▲

- **US equities extended gains yesterday** with Nasdaq outperforming (+1%) and Dow Jones underperforming (+0.1%). **Overnight risk sentiment on Asian stock markets is more mixed** with China notable underperformer.
- **Trump** has warned that **talking to North Korea is "not the answer"** as tensions mount. Defence secretary **Mattis**, a stabilising influence in the administration, softened that stance by saying that **"we're never out of diplomatic solutions"**.
- **Official Chinese August PMI's printed mixed this morning.** The manufacturing PMI increased to 51.7 from 51.4 in August (51.3 forecast), but the non-manufacturing PMI dropped from 54.5 to 53.4.
- **South Korea's central bank kept its key interest rate unchanged at a record low 1.25%**, as expected, as it assesses the effects of government measures to cool the housing market and recently introduced fiscal stimulus.
- British and EU negotiators exchanged recriminations over a **lack of progress in the latest round of talks on Britain's withdrawal**, with both sides demanding change to meet looming deadlines.
- Mr Trump said he wants to **cut the corporate tax rate to 15%, simplify the tax code, reduce the burden on the middle class** – including helping parents afford child care — and **bring back to the US corporate profits parked offshore**.
- **Today's eco calendar contains German & EMU unemployment data**, EMU inflation numbers, US personal income/spending data, weekly jobless claims, PCE inflation and Chicago PMI.

Rates

Core bonds limit losses, negating Tuesday's technical trend reversal

Calmness in intra-EMU markets

	US yield	-1d
2	1,33	0,01
5	1,73	0,01
10	2,13	0,00
30	2,75	0,00

	DE yield	-1d
2	-0,72	0,00
5	-0,34	0,01
10	0,36	0,02
30	1,12	0,02

Upside risks EMU HICP inflation

Strong US eco data

No follow through bond selling after trend reversal sign

Tuesday's potential technical trend reversal signal didn't find an audience yesterday despite a batch of stronger-than-forecast eco data. EC EMU

confidence indicators, Spanish inflation and German inflation all beat consensus, but couldn't inflict losses on the Bund. The tepid comeback of (European) stock markets (morning) offer a partial explanation. As US investors joined dealings, core bonds tested the intraday downside once more, but the move was lackluster despite another stellar ADP-report and the upward revision of US Q2 GDP to 3% Q/Qa from 2.6% Q/Qa previously. Now strong US equities and a dropping oil price may have been at play. **So, the damage in the German Bund and US Note future remained very limited. The jury is out though with EMU CPI and US payrolls still coming this week.** The US curve only modestly changed with yields 1.3 bps (5-yr) higher to flat (30-yr). Changes on the German yield curve varied between -0.5 bps (2-yr) and +1.8 bps (30-yr). **On intra-EMU bond markets**, 10-yr yield spreads versus Germany barely changed (0 to -1 bp).

EMU inflation and raft of US data releases

Coming on the heels of stronger German, Spanish and Belgian HICP inflation, the **risks for EMU inflation are on the upside of the expected 1.4% Y/Y reading** (up from 1.3% Y/Y in July). The higher inflation might be due to base effects and energy prices, more than increases in underlying inflation, in which case core HICP may stabilize at 1.2% Y/Y. An upward surprise in core HICP won't go unnoticed. The **EMU unemployment rate** is expected to have stabilized at 9.1% in July. The EMU labour market is tightening and that results in a gradual decline of the unemployment rate that peaked in July 2013 at 12.1%. As the rate dipped in June, a stabilization is indeed most likely, but with **downside risks**. In the **US**, the calendar is busy with **personal income and spending (July) and the PCE deflators, the weekly initial claims (stable?) which predate the Harvey catastrophe and the Chicago PMI (August)**. Given strong retail sales we expect **personal consumption to have picked up in July**. That would suggest a strong quarterly growth of consumption (and thus strong GDP growth). The consensus correctly anticipates such a rebound (+0.4% M/M) The **PCE deflators** rose most likely only very slowly in July, as reflected already in the earlier reported CPI. That should keep them around 1.4% Y/Y, well below Fed's target. Surprises are unlikely and should be significant to be considered as new info. The **Chicago PMI** is expected to have dropped to 58.5 in August from 58.9 in July. Given that other regional surveys showed improvement, **we see risks on the upside of consensus**. However, the Chicago PMI is notoriously volatile and thus surprises often. Markets often ignore these.



T-Note future (black) & S&P future (orange) (intraday, 2 days): Reversal of T-Note on Tuesday triggered no follow through selling, despite strong eco data. Offset by weaker oil and stronger equities?



Crude oil (Brent) finally drops on Harvey havoc, but move is technically still insignificant. 50 & 200 dma under test, but \$50/barrel support may be key.

Jury still out on potential trend reversal

R2	165,93	-1d
R1	165,55	
BUND	165,07	-0,29
S1	163,36	
S2	160,31	

Asian stock markets trade mixed despite yesterday's WS strength. Japan outperforms on a weaker yen while the rest of the region's bourses are struggling. The US Note future is slightly lower. We expect a neutral to slightly lower opening for the Bund.

Today's eco calendar is well-filled. We expect EMU eco data to beat consensus (including HICP) while we hold a more neutral stance towards US eco readings. **Such scenario should be sufficient to keep core bonds away from key resistance levels or even inflict some additional losses. Tuesday's potential technical trend reversal signal could also still be at play. The technical move is currently more outspoken on FX markets (USD) than on rate markets, but the general context suggests a simultaneous move.** Risk sentiment is a wildcard for trading while some investors could take a wait-and-see approach ahead of tomorrow's payrolls and next week's ECB meeting.

From a technical point of view, the US Note future tested the contract high in combination of a test of 2.1% support in the 10y yield. A break didn't occur and potential trend reversal signal appeared. However, for confirmation, we need successive stronger close this week. It could mark the start of a correction higher/consolidation with more neutral positioning going into key September central bank meetings.



German Bund: Close to contract high, but we don't anticipate a break with next week's ECB meeting looming



US Note future: test of contract high but no break. Potential trend reversal? Should be confirmed by this week's close

Currencies

Dollar extends rebounds. Confirmation still needed

Dollar rebounds further off recent lows

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1884	-0,0088
S1	1,1662	
S2	1,1311	

Asian equities trade mixed despite WS gains yesterday

Dollar extends rebound. EUR/USD drops below 1.19

Yesterday, dollar extended the rebound that started Tuesday. The move was primarily a technical correction on the recent USD decline, but good US eco data (strong ADP and upward revision of the US GDP) and positive risk sentiment reinforced the rebound. EMU inflation was also higher than expected, but couldn't inspire euro bulls. EUR/USD finished at 1.1884 (from 1.1974). USD/JPY closed at 110.24 from 109.71.

Overnight, Asian equities are trading mixed. Japan and Australia outperform. Japanese exporters profit from weaker yen even as July industrial production disappointed. USD/JPY trades in the mid 110 area. Official Chinese PMI's painted a mixed picture. The manufacturing PMI rebounded to 51.7 from 51.4, but the non-manufacturing measure eased from 54.5 to 53.4. Chinese equities underperform as bank shares are under pressure. The dollar also extends its comeback against the euro and trades below 1.19.

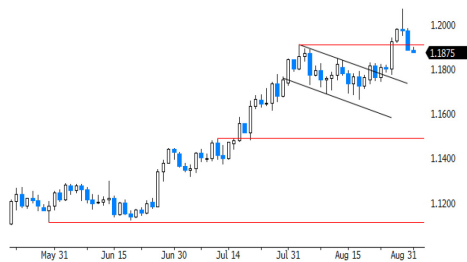
Today, the EMU August HICP inflation and the July unemployment rate will be released. The risks for the euro area inflation are on the upside of the expected 1.4% Y/Y. The EMU unemployment rate is expected to have stabilized at 9.1% in July. In the US, the calendar is busy with personal income and spending (July) and the PCE deflators, the weekly jobless claims (stable?) and the Chicago PMI (August). We expect personal consumption to have picked up in July supporting the case for strong quarterly consumption growth. The PCE deflators most likely rose only slowly in July, keeping the Y/Y-rise at 1.4% Y/Y, well below Fed's target. The Chicago PMI is expected to have dipped, but risks are on the upside.

Yesterday, European yields and the euro didn't rise after higher than expected inflation in EMU members states. The dollar rebound was the main feature.

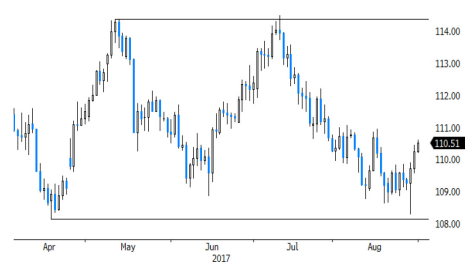
Interesting to see whether the euro also ignores a rise in overall EMU inflation. At the same time, the USD rebound continues this morning, especially EUR/USD declines further. For now, we consider the move as nothing more than a correction on the protracted USD decline of late. Markets will look forward to tomorrow's payrolls (including the wage development). **Today, the dollar rebound might shift into a lower gear.** Strong data and a higher US yields are needed to give the USD comeback a more solid base.

EMU inflation, US spending and PCE deflation to dominate trading.

USD rally may slow ahead of the payrolls.



EUR/USD extends correction after rejected test above 1.20



USD/JPY: downside test rejected. Key 108.13 support remains intact, at least for now.

Thursday, 31 August 2017

Broader context and technical picture. Late June, EUR/USD started a new up-leg as investors anticipated a reduction of ECB bond buying. The Fed was expected to normalize policy only in a very gradual way as US inflation remains soft.

Uncertainty on the policy of the Trump administration was a secondary negative for the dollar. EUR/USD set a correction top north of 1.19 before consolidating in a 1.1662/1.1910 range. EUR/USD jumped temporary above 1.20 after Jackson Hole. Sentiment on the dollar remains fragile, but there are signs of a EUR/USD topping out. Strong US data are needed for a further USD comeback. In MT perspective, the EUR/USD rally has gone far. A return of EUR/USD to the 1.15/16 area is possible. **Pockets of US political risk are a (negative) wildcard for the dollar. We wait for a technical signal. A break below the 1.18/1.1775 area would be a sign of a loss off upside momentum.**

A downward correction in core (US and European) yields supported the yen in August. **USD/JPY declined from mid-114 mid-July and came within reach of the key 108.13 range bottom, but the support did its job.** We maintain the working hypothesis that this level won't be broken as a lot USD bad news is discounted. A cautious buy-on-dips (with stop-loss protection below 108) may be considered.

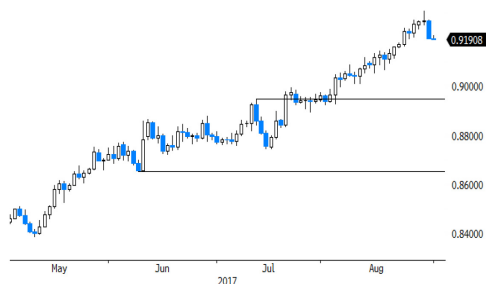
EUR/GBP extends correction below 0.92

Global positioning also dominated sterling trading yesterday. EUR/GBP declined even as UK specific news was sterling negative and the stalemate in the Brexit negotiations persisted. EUR/GBP joined the correction of EUR/USD. **Cable held up relatively well despite the overall USD rebound. This suggests some underlying GBP strength.** EUR/GBP closed the session at 0.9194 (from 0.9267). Cable finished the session at 1.2925 (from 1.2918)

Overnight, UK GFK consumer confidence improved from -12 to -10, a decline to -13 was expected. Sterling remains well bid this morning, but we assume it is a simple continuation of yesterday's move rather than a reaction to the data. The UK calendar contains no other data, but BoE's Saunders speaks in Cardiff. The headlines from the Brexit negotiations remain negative, but for now there is no additional negative impact anymore. **After the recent decline, sterling probably came closer to the point where the BoE might be 'forced' to give more weight to the inflation impact of the decline of sterling.** This might have helped to put a floor.

From a technical point of view, EUR/GBP cleared the 0.8854/80 resistance (top end June), opening the way for further gains. The move was the result of euro strength. Simultaneously, UK price data were soft enough to keep the BoE sidelined. MT, we maintain a **buy EUR/GBP 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 don't jump on the up-trend anymore after the recent rally and wait for a correction, e.g. to the technical support in the 0.88/89 area.**

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,9195	-0,0073
S1	0,8995	
S2	0,8743	



EUR/GBP: correction time, at last



GBP/USD: sterling resists overall USD comeback

Calendar

Thursday, 31 August		Consensus	Previous
US			
14:30	Personal Income / Personal Spending (Jul)	0.3%/0.4%	0.0%/0.1%
14:30	Initial Jobless Claims	238K--	234k
14:30	Continuing Claims	1951K	1954k
14:30	PCE Deflator MoM / YoY (Jul)	0.1%/1.4%	0.0%/1.4%
14:30	PCE Core MoM / YoY (Jul)	0.1%/1.4%	0.1%/1.5%
15:45	Chicago Purchasing Manager (Aug)	58.5	58.9
16:00	Pending Home Sales MoM / NSA YoY (Jul)	0.4%/--	1.5%/0.7%
Canada			
14:30	Quarterly GDP Annualized (2Q)	3.7%	3.7%
Japan			
01:50	Industrial Production MoM / YoY (Jul P)	A-0.8%/4.7%	2.2%/5.5%
China			
03:00	Manufacturing PMI/ Non-manufacturing PMI (Aug)	A51.7/53.4	51.4/54.5
EMU			
11:00	Unemployment Rate (Jul)	9.1%	9.1%
11:00	CPI Estimate YoY (Aug)	1.4%	1.3%
11:00	CPI Core YoY (Aug A)	1.2%	1.2%
Germany			
08:00	Retail sales (July) M/M Y/Y	-0.6%/2.9%	1.4%/1.5%
09:55	Unemployment Change (000's) (Aug)	-6k	-9k
09:55	Unemployment Claims Rate SA (Aug)	5.7%	5.7%
France			
08:45	CPI EU Harmonized MoM / YoY (Aug P)	0.6%/1%	-0.4%/0.8%
Italy			
10:00	Unemployment Rate (Jul P)	11.1%	11.1%
11:00	CPI EU Harmonized MoM / YoY (Aug P)	0%/1.3%	-1.9%/1.2%
Spain			
09:00	Retail Sales SA YoY (Jul)	2.2%/2.5%	2.5%
Belgium			
15:00	GDP SA QoQ / YoY (2Q F)	--/--	0.4%/1.4%
Events			
03:30	BOJ Masai speaks		
09:25	BOE Saunders speaks in Cardiff		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,13	0,00	US	1,33	0,01	DOW	21892,43	27,06	
DE	0,36	0,02	DE	-0,72	0,00	NASDAQ	6368,309	66,42	
BE	0,68	0,01	BE	-0,56	0,00	NIKKEI	19646,24	139,70	
UK	1,03	0,03	UK	0,18	0,01	DAX	12002,47	56,59	
JP	0,01	0,00	JP	-0,16	-0,02	DJ euro-50	3403,71	15,49	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,09	1,62	0,62	Eonia	-0,3600	0,0000	Libor-1	1,2389	0,0000
5y	0,16	1,77	0,78	Euribor-1	-0,3720	0,0000	Libor-3	1,3169	0,0000
10y	0,79	2,08	1,12	Euribor-3	-0,3300	0,0000	Libor-6	1,4517	0,0000
				Euribor-6	-0,2730	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1884	-0,0088	EUR/JPY	131,01	-0,32	CRB	176,87	-0,66	
USD/JPY	110,24	0,53	EUR/GBP	0,9195	-0,0073	Gold	1314,10	-4,80	
GBP/USD	1,2925	0,0007	EUR/CHF	1,1452	0,0011	Brent	50,86	-1,14	
AUD/USD	0,7905	-0,0046	EUR/SEK	9,4821	-0,0229				
USD/CAD	1,2621	0,0109	EUR/NOK	9,2799	0,0021				

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