



## Sunrise

Monday, 26 June 2017

### Rates: Slow start ahead of key events, but Italian underperformance?

We start the week with a neutral bias as markets will focus on Yellen's speech (tomorrow) and German/US inflation readings (both on Friday). Italian BTP's could underperform following the Italian state's rescue of 2 regional lenders and as the center-right's gains in municipal elections could further tangle up the political landscape.

### Currencies: Dollar still awaiting a trigger for a directional move

Last week, there was no clear guide for USD trading, leaving EUR/USD and USD/JPY in tight ranges. This process might still continue at the start of this week. US data surprise or clear CB guidance is probably needed to unlock this stalemate. Sterling feels conflicting influences from lingering political uncertainty, but hawkish BoE talk.

### 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 stock markets ended flat (Dow Jones) to 0.5% higher (Nasdaq)** in the final session of an uneventful week. Overnight, Asian stock markets record similar gains with **China outperforming (up to +1%)**.
- **Italian authorities said they were prepared to spend as much as €17B as part of the shutdown of two regional banks**, in a deal that will transfer the lenders' best assets to Intesa for a nominal sum.
- **Italy's centre-right opposition was poised for an emphatic victory in municipal races** around the country, bolstering its hopes of a political resurgence and dealing a blow to Matteo Renzi's ruling centre-left Democratic party.
- **Fitch affirmed Belgium's AA- rating (stable outlook)** saying that the high debt ratio balances against the substantial net creditor position, strong governance indicators, high income per capita and macroeconomic stability.
- **The Bank for International Settlements** warned in its annual report that **rising protectionist sentiment** and a **retreat from global cooperation on economic matters** would threaten the world economy.
- **US President Trump** made calls to fellow Republicans in the US Senate to mobilize support for their party's **healthcare overhaul** while acknowledging the legislation **is on a "very, very narrow path" to passage**.
- **Today's eco calendar** contains **the German Ifo-indicator and US durable goods orders**. The US Treasury holds a **\$26B 2-yr Note auction**.

# Rates

*Core bonds narrowly mixed in another uneventful session*

*Modest further narrowing peripheral spreads*

	US yield	-1d
2	1,34	0,00
5	1,77	0,00
10	2,14	-0,01
30	2,72	0,00

*FOMC Mester and Williams sticks to her hawkish policy outlook*

	DE yield	-1d
2	-0,62	0,00
5	-0,38	0,00
10	0,26	0,00
30	1,06	0,02

*Slight downside risks IFO sentiment, while rebound US durables possible*

*ECB conference in Sintra*

## EMU PMI's and ECB rumours don't influence bonds

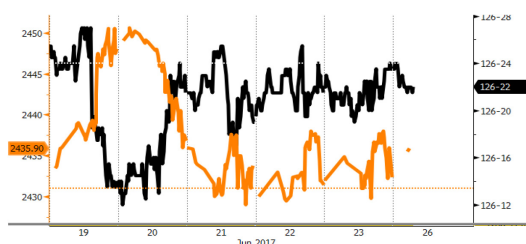
Global core bond markets ended the week in the same vein as the previous 4 trading sessions: with range-bound, technically-inspired, neutral dealings. US yield changes ranged between flat (2-yr) and -0.5 bps (10yr), while the German very long end of the yield curve underperformed (+2.2 bps). The EMU PMI's were mixed in June, but they remained at an elevated level suggesting accelerating growth in Q2. The PMI price components fell to the lowest level in 5 months and confirm the ECB's reluctance in normalising monetary policy. Markets didn't react on the release and seem to be counting down to the Summer holidays. **Sources indicated that scarcity of German government bonds is a key consideration for the ECB when deciding on extending its QE-programme. This scarcity limits the possibility of a major extension.** Markets didn't react, but if this idea gains traction it could send German bonds lower. **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany narrowed up to 3 bps (Spain/Ireland).

## Fed comments mixed

**Cleveland Fed Mester**, a hawk, stands behind the Fed's policy of gradually raising rates. She said it's not to slow the economy, but to keep the expansion sustainable. Recent inflation figures haven't changed her outlook, as she sees weaker inflation as only temporary. She also favours the start of the Fed's balance unwinding this year. **SF Fed governor Williams** also made the case for further gradual rate increases as he expects inflation to hit the Fed's 2% target next year. **St-Louis Fed Bullard** preached patience and called the Fed's projected rate path unnecessary aggressive.

## German IFO and US durables main eco releases

The **June German IFO business sentiment** is expected to be virtually unchanged. In May, sentiment matched the 2011 high, which was also the highest level since the reunification in the early nineties. Given the weakening of the services PMI there are some downside risks, even as the composition of both measures of sentiment and the surveyed population are different. The **US durable orders** are expected to have dropped by 0.6% in May, following a drop in April, but strong readings in February/March. The more important orders excluding transportations are expected to have rebounded by 0.4% M/M following a fall by 0.5% M/M previously. The **ECB holds its forum in Sintra on investment and growth**. The subject contains lots of interesting items that touch monetary policy, but policy itself is not the subject. **Therefore, we may see few comments that directly impact markets.**



US Note future (black) & S&P future (orange): intraday, one week:  
Sideways trading after initial move up and down.



S&P 500 (weekly): Yet another all time weekly high, but momentum has slowed sharply

R2	165,93	-1d
R1	165,55	
<b>BUND</b>	165,07	-0,02
S1	161,68	
S2	160,17	

## German, Italy and US tap market this week

**This week's EMU bond supply comes from Germany and Italy.** They both start tomorrow, respectively with a 2-yr Schatz auction (€4B 0% Jun2019) and zero-coupon & inflation-linked bonds. The Italian treasury returns on Friday with a regular BTP auction. The bonds and amount on offer still needs to be announced. **The US Treasury starts its end-of-month refinancing operation today with a \$26B 2-yr Note auction.** Currently, the WI trades around 1.36%. The Treasury continues tomorrow with a \$34B 5-yr Note auction and ends on Wednesday with a \$28B 7-yr Note auction.

## Slow start ahead of Yellen speech and inflation figures?

**Overnight, Asian stock markets copy WS's modest gains with China outperforming.** The US Note future trades stable, while Brent crude tries to rebound away from the lows. **We expect a neutral opening for the Bund.** **Italian BTP's could underperform** following the Italian state's rescue of 2 regional lenders. The bill could mount up to €17B, consisting of €5B up-front and €12B guarantees. Additionally, the centre-right's gains in municipal elections could further tangle up the political landscape.

**Today's eco calendar** contains German IFO business sentiment (downside risks) and US durable goods orders (neutral). Both are no strong market movers suggesting limited intraday impact. Markets will focus on Yellen's speech (tomorrow) and German/US inflation readings (both on Friday). The impact from this week's US supply operation (normally negative US Treasuries) could be balance by technical end-of-month and end-of-quarter buying. **We start the week with a neutral bias.**

Technically, 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. 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

*USD/JPY still locked near 111.30*

*EUR/USD rebounds on ECB QE speculation*

*Asian markets start week in risk-on modus*

*Dollar moves remain limited.*

*Downside risks IFO?*

*Rebound core US durable orders?*

*ECB holds conference in Portugal*

R2	1,1428	-1d
R1	1,13	
EUR/USD	1,1194	0,0042
S1	1,0839	
S2	1,0778	

## Dollar still waiting for a directional trigger

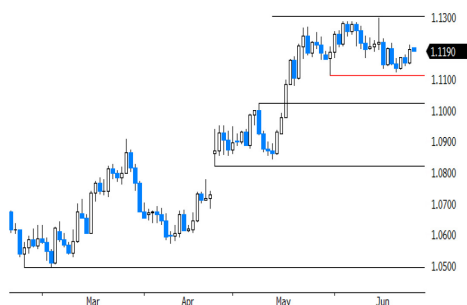
Dollar cross rates didn't show much spirit on Friday. USD/JPY kept a tight range near 111.30. EUR/USD moved slightly higher, from around 1.1150 to 1.1180. The short term (2y) interest rate differential between US/German narrowed from 200 bps on Monday to 196 bps on Friday. Reuters sources indicated that **scarcity of German government bonds is a key ECB consideration** for deciding on extending QE. It limits the possibility of a major extension. The rumours maybe underpinned the single currency, but it is a long shot.

**This morning**, Asian equities trade with moderate gains, as the Tech rally continues. A gradual rebound of the oil price is also slightly supportive. However, the direct impact of equities on USD trading is again small. USD/JPY opened soft, but reversed the initial dip and trades again in the 111.30 area. EUR/USD is trading little changed in the 1.1190 area.

## Eco calendar heats up, Fed speakers take the stage

The June German IFO business sentiment is expected little changed. The weakening of the services PMI suggests some downside risks, even if the composition of both measures of sentiment is different. The **US durable orders** are expected to have dropped by 0.6% in May, following a drop in April. It follows strong readings in February/March. The more important orders excluding transportations are expected to have rebounded 0.4% M/M. The **ECB holds its forum in Sintra on investment and growth**. The subject contains lots of interesting items that touch monetary policy, but policy itself is not the subject. **We expect few comments with direct on impact markets, but one never knows with such conference.**

**In a day-to day perspective**, the data (Ifo and US durables) at the margin might be USD supportive, but it is highly unlikely that they will change the broader picture. Late in the session, the headlines from the ECB forum will filter through. **If there would be suggestions on policy normalisation on a more global scale, it could be slightly more supportive for the euro and the yen rather than for the dollar.** However, all these considerations are highly hypothetical. **So, we start the week with a neutral bias for EUR/USD trading.** The positive risk sentiment might protect the downside of USD/JPY, but it didn't cause any meaningful gains of late.



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



USD/JPY: no clear trend as post-Fed rebound has no strong legs

## Technical picture: USD still confined to tight ranges

**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. 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. 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.

## Sterling balanced by BoE speak and political uncertainty

**On Friday, sterling initially profited** from the hawkish farewell speech of resigning BoE Forbes. The recent sequence of events (BoE meeting – Carney comments – Haldane speech) triggered a significant rethinking in rate hike expectations. The probability of a 25 bps hike by the BoE this year rose from 6.5% on June 14 to 50% Friday. However, sterling gains remained modest as official Brexit-talks started on a bad note. **EU Tusk said that PM May's opening offer on EU nationals living in the UK is below expectations. Sterling's fortunes changed throughout the day with EUR/GBP reversing the earlier decline to close the session in again in the 0.88 area.**

**Today,** the eco calendar only contains the BBA loans for home purchases. The focus for sterling trading will be on Brexit negotiations and on PM May trying to find support for her minority government. The results of the exchange of views on the rights of EU citizens in the UK didn't go really smooth. On the other hand, the debate within the BoE might give sterling some downside protection, especially when UK eco data remain relatively strong. So, for now we expect EUR/GBP to hold its sideways consolidation pattern in the 0.88 area.

**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 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	0,8799	0,0005
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, partially on USD softness

# Calendar

Monday, 26 June		Consensus	Previous
<b>US</b>			
14:30	Durable Goods Orders (May P)	-0.6%	-0.8%
14:30	Chicago Fed Nat Activity Index (May)	0.20	0.49
14:30	Durables Ex Transportation (May P)	0.3%	-0.5%
14:30	Cap Goods Orders Nondef Ex Air (May P)	0.3%	0.1%
14:30	Cap Goods Ship Nondef Ex Air (May P)	0.4%	0.1%
16:30	Dallas Fed Manf. Activity (Jun)	16	17.2
<b>Japan</b>			
01:50	PPI Services YoY (May)	A 0.7%	0.7%
<b>UK</b>			
10:30	BBA Loans for House Purchase (May)	40250	40750
<b>Germany</b>			
10:00	IFO Business Climate (Jun)	114.5	114.6
10:00	IFO Expectations (Jun)	106.4	106.5
10:00	IFO Current Assessment (Jun)	123.2	123.2
24JUN-28JUN	Import Price Index MoM / YoY (May)	-0.6%/4.6%	-0.1%/6.1%
<b>Spain</b>			
09:00	PPI MoM / YoY (May)	--/--	0.0%/5.9%
<b>Events</b>			
06:20	Fed's Williams Speaks in Sydney		
17:00	ECB Youth Dialogue With Mario Draghi in Lisbon		
19:00	US to Sell \$26B 2-yr Notes		
18:30	ECB Forum in Sintra With Draghi and other central bankers on investment & growth		



10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,14	-0,01		US	1,34	0,00	DOW	21394,76	-2,53
DE	0,26	0,00		DE	-0,62	0,00	NASDAQ	6265,25	28,56
BE	0,60	0,01		BE	-0,55	0,01	NIKKEI	20153,35	20,68
UK	1,03	0,02		UK	0,24	0,03	DAX	12733,41	-60,59
JP	0,05	0,00		JP	-0,10	-0,01	DJ euro-50	3543,68	-12,08
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0,09	1,65	0,68	Eonia	-0,3620	0,0000			
5y	0,14	1,82	0,82	Euribor-1	-0,3740	-0,0020	Libor-1	1,2200	0,0039
10y	0,72	2,12	1,13	Euribor-3	-0,3310	-0,0010	Libor-3	1,2933	-0,0023
				Euribor-6	-0,2730	-0,0010	Libor-6	1,4450	-0,0036
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1194	0,0042		EUR/JPY	124,5	0,35	CRB	167,74	1,24
USD/JPY	111,28	-0,05		EUR/GBP	0,8799	0,0005	Gold	1256,40	7,00
GBP/USD	1,2718	0,0036		EUR/CHF	1,0852	0,0014	Brent	45,54	0,32
AUD/USD	0,7568	0,0026		EUR/SEK	9,762	0,0052			
USD/CAD	1,3267	0,0034		EUR/NOK	9,4603	-0,0069			

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