



## Sunrise

Friday, 09 September 2016

### Rates: Fed speakers wildcard for trading

The Bund fell back to the middle of its sideways trading range (163.04-165.63) as the ECB kept its powder dry yesterday. We expect the contract to remain within that range for the time being. Today's eco calendar is empty apart from two Fed speeches. Will Kaplan and Rosengren leave the door open for a September rate hike?

### Currencies: euro fails to gain even as Draghi stays muted on further easing

Yesterday, trading in the major USD cross rates showed a diffuse picture. The euro initially gained as the ECB didn't give any hints on further easing. However, later in the session the dollar fought back as core bond yields jumped higher. Today, currency markets will continue to keep a close eye at the speeches from Fed members.

### 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	↗

- **US Equities ended slightly lower** yesterday as losses in the technology sector outweighed gains in energy shares. This morning, **most Asian shares trade slightly lower**, but Chinese and Japanese stocks managed to reverse most of their losses.
- **China's consumer price inflation slowed to its weakest pace in almost a year in August**, pulled down by lower food prices. PPI inflation however registered its softest fall since April 2012, contracting by 0.8% Y/Y significantly less than the 1.8% Y/Y fall seen in July.
- **Brent crude oil prices rose 3% yesterday, closing just below \$50/barrel** after weekly data showed a sharp decline in stockpiles of US crude oil and fuel. The WTI oil price closed above \$47.50/barrel.
- **Fed Governor Brainard will deliver a speech in Chicago on September 12**, just eight days before the Fed's September policy meeting. Ms Brainard is considered to lean towards the dovish end of the spectrum and hawkish commentary could be a sign that the Fed is priming the markets for a move at its September meeting.
- **North Korea confirmed it conducted a fifth nuclear test**, saying it was successful and confirmed its ability to produce nuclear-tipped missiles "at will". The test came just hours after US President Obama wrapped up a tour of Asia and at the 68th anniversary of North Korea's founding as a state.
- Today, **the eco calendar is thin** with only the UK trade data. **E(M)U Finance Ministers and central bankers meet in Bratislava** and Fed's Rosengren, Kaplan and ECB's Rimsevics are scheduled to speak.

# Rates

*Steep losses for core bonds*

*Curves steepened*

*Small changes in intra-EMU 10-yr yield spreads*

	US yield	-1d
2	0,774	0,0360
5	1,1834	0,0584
10	1,6077	0,0703
30	2,3102	0,0789

*No additional policy easing, no tweaking yet of conditions for bond buying*

*ECB staff projections only slightly lowered*

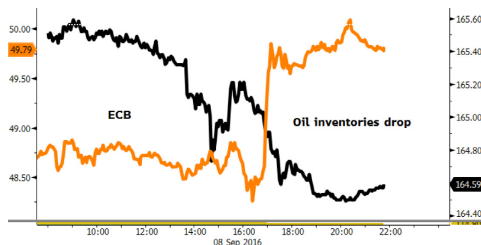
*Committees to evaluate QE implementation and its options*

	DE yield	-1d
2	-0,6430	0,0180
5	-0,5140	0,0510
10	-0,0510	0,0680
30	0,5156	0,0956

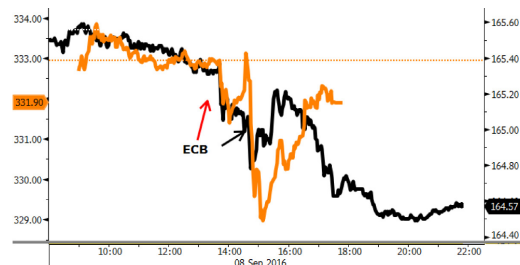
## Double whammy for core bonds: Draghi & surging oil

Yesterday, global core bonds initially lost some modest ground as ECB Draghi didn't ease policy further while toning down hints on future policy easing. German Bunds underperformed US Treasuries. The ECB kept all its policy rates unchanged and reaffirmed its plan to run QE to March 2017 or beyond if needed at a pace of €80B/month. The Bund lost ground after the announcement as some investors were positioned for the outside chance of a rate cut or an extension of the period during which bonds are purchased. **Later on, core bonds had a second down-leg, now mainly triggered by a surge in the oil price, a consequence of an unexpectedly sharp drop in inventories. This drop was caused by declining imports due to storm activity in the Gulf.** In a daily perspective, the German yield curve bear steepened with yields 2.5 bps (2-yr) to 8.9 bps (5-yr) higher. The US yield curve bear steepened too with yields 3.6 bps (2-yr) to 7.8 bps (30-yr) higher. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged with the exception of Portugal (+4 bps) and Greece (-4 bps).

During the press conference, ECB president Draghi stressed that no additional stimulus was needed for the time being. The governing council didn't even discuss extending QE and Draghi didn't mention changing the eligibility criteria of PSPP, sending the Bund further lower. Like in January this year, the ECB tasked relevant committees to evaluate the smooth implementation of the QE-programme and its options. In the first quarter of the year, this "task" was followed by additional easing at the next ECB meeting. The central bank continues to monitor very closely developments on the growth and inflation front. **The new staff forecasts trimmed the 2017 and 2018 GDP projections marginally, while upgrading the 2016 prediction slightly. Risks for the economic outlook remain tilted to the downside.** New inflation forecasts remained unchanged for 2016 (0.2%) and 2018 (1.6%) while the 2017 prediction was lowered from 1.3% to 1.2%. **Underlying inflation lacked an upward trend though.** Therefore, the ECB must preserve substantial monetary support to hit the 2%-inflation target.



Bund future (black) and oil price (orange) intraday: Bund hit modestly by ECB unchanged policy, but later on losses deepened on surge oil price.



Bund (Black) and EuroStoxx (orange): Equities digest ECB inaction quite easily

### Thin calendar

The **eco calendar remains thin today**, both in the US and euro zone with only the French industrial production data. **E(M)U finance Ministers and central bankers meet in Bratislava** and ECB's Rimsevics and Fed's Rosengren and Kaplan are scheduled to speak. Following a drop in June, French industrial production is expected to have rebounded slightly in July led by rebound in the manufacturing sector.

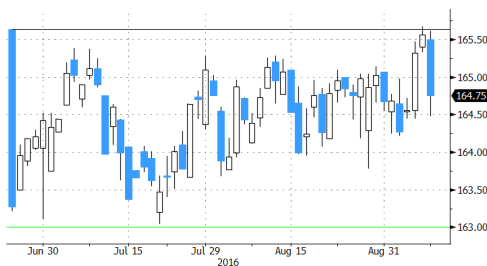
R2	168,86	-1d
R1	165,63	
<b>BUND</b>	<b>164,53</b>	-0,9800
S1	163,78	
S2	163	

### Sentiment-driven trading, Fed speakers wildcard

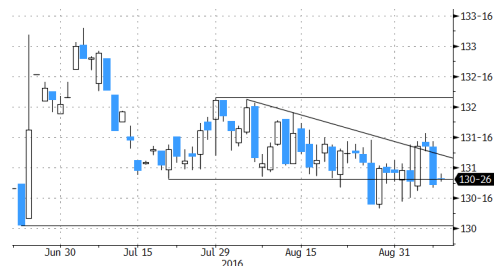
**Overnight**, most Asian stock markets lose ground in line with Europe and WS yesterday. Korean markets underperform following the North Korean nuclear warhead detonation test. Japanese markets trade flat. The US Note future and Brent crude trade stable, suggesting a neutral opening for the Bund.

**Today's eco calendar is empty apart from speeches from Fed governors Kaplan and Rosengren.** The latter warned recently of risks in keeping rates too low for too long. We look out whether or not he's still inclined to hike rates in September following the weak ISM's. Fed Kaplan is more dovish and said in Jackson Hole that he expected the rate path likely to be flatter than anticipated going forward. **Rosengren's comments will carry most weight as he is a voting FOMC member this year, unlike Kaplan, but we don't expect a major market impact ahead of Monday's freshly announced speech by Fed Brainard.** The dovish Fed member speaks one day before the blackout period. If the Fed really wants to hike in September, it could be a final chance to communicate it to markets. Somewhat more hawkish comments from a dovish FOMC member would carry a lot of credibility. **Overall, trading will be technically inspired and sentiment-driven today.**

**Technically**, the US Note future fell back below this month's downward trend line. Following a batch of weaker ISM's and slightly disappointing payrolls, odds are now in favour of a December Fed rate hike rather than a September one. The German Bund (Dec contract!) tested the upper bound of this Summer's sideways trading range (165.63). The test failed and the contract is back within the known trading range following the ECB's inaction. **We expect more sideways action ahead in both Bund and US Note future.**



German Bund (Dec. contract!!): Bund back near middle sideways range as the ECB keeps its powder dry



US Note future (Dec contract!!): Surging oil price pulls US Treasuries back lower

# Currencies

## Euro fails to profit even as Draghi gives no hint of easing

*Euro fails to sustain ECB inspired gains*

*USD rebounds as core bond yields rise*

R2	1,1428	-1d
R1	1,1366	
<b>EUR/USD</b>	<b>1,128</b>	<b>0,0029</b>
S1	1,1123	
S2	1,1046	

**On Thursday**, the ECB left its policy unchanged and didn't give any concrete hint on further easing, though they mandated task committees to redesign QE if needed. **The absence of such a hint supported the euro, with EUR/USD temporary regaining the 1.13 barrier.** However, late in Europe, markets were unsettled by a sharp rise of the oil price. This rise also propelled core bond yields. An initial decline in spreads between the US and Germany/Europe in the wake of the ECB policy decision was reversed. This re-widening in interest rate differentials changed fortunes again in favour of the dollar. More or less at the same time there was market chatter that a last-minute announcement of a speech of Fed's Brainard (next Monday) could be an opportunity for the Fed to keep the door open for September rate hike. USD/JPY jumped about one big figure and closed the session at 102.49 (from 101.74). EUR/USD reversed earlier gains, returned to the 1.1240/50 area and closed the day at 1.1260 (from 1.1239).

**Overnight**, most Asian equity indices trade with modest losses. The equity performance follows moderate losses in the US yesterday evening. Regional markets also feel some negative impact of tension on the Korean peninsula as North Korea executed a new nuclear test. USD/JPY declined off the overnight highs in the 102.50/60 area. The pair currently stabilizes in the 102.10/20 area. Cautions risk-off sentiment in Asia also causes modest losses of the dollar against the euro. EUR/USD trades currently in the 1.1280 area.

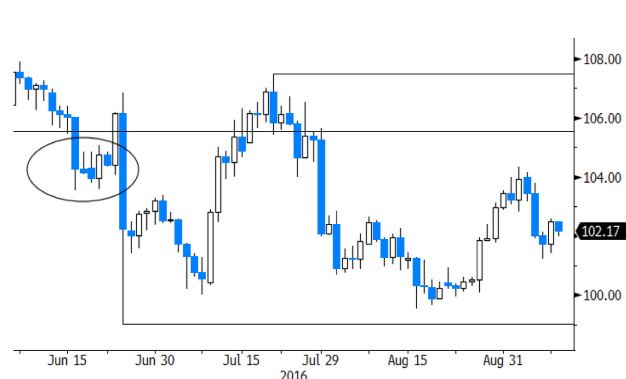
*Thin eco calendar*

*Fed speakers are a wildcard for USD trading*

**Today**, the **eco calendar remains thin**, both in the US and euro zone with only the French industrial production data. **E(M)U Finance Ministers and central bankers meet in Bratislava** and ECB's Rimsevics and Fed's Rosengren and Kaplan are scheduled to speak. We especially keep an eye at the Fed speakers. Will they try to keep the door open for a September rate hike? If so, it might help to put a floor for the dollar. **Yesterday's price action of the euro and the dollar gave some confusing signals.** The euro didn't profit even as the ECB stayed muted on further easing. The dollar performed reasonably well even as expectations on a Fed rate hike have declined of late. Even so, the (currency) market apparently still doesn't want to fully play the card of no Fed easing in September. The moves in the major USD cross rates remain modest and some kind of erratic. However, for now, the downside of the dollar looks rather well protected.



EUR/USD: no sustained euro gains even as ECB stays muted on further easina



USD/JPY: Decline to slow?

Friday, 09 September 2016

The post-payrolls' price action on Friday and Monday suggested that sentiment remained USD constructive, but **an awful US non-manufacturing ISM (after a mediocre manufacturing ISM and payrolls) made a September Fed rate hike unlikely. However, the debate isn't completely over yet.** EUR/USD rebounded above the first resistance at 1.1252. This made us **change our short-term bias from USD positive to neutral.** Range trading in the 1.1123/1.1366 is now favoured. The ECB policy decision didn't change the picture for EUR/USD trading. **Sentiment on USD/JPY has also changed.** Receding chances of a Fed rate hike and uncertainty about the BOJ's commitment to ease policy further, reversed recent USD gains. The day-to-day momentum in USD/JPY remains fragile, but **we expect the 99.54/99.02 area to provide strong support. 104.32 is now the first point of reference on the topside.**

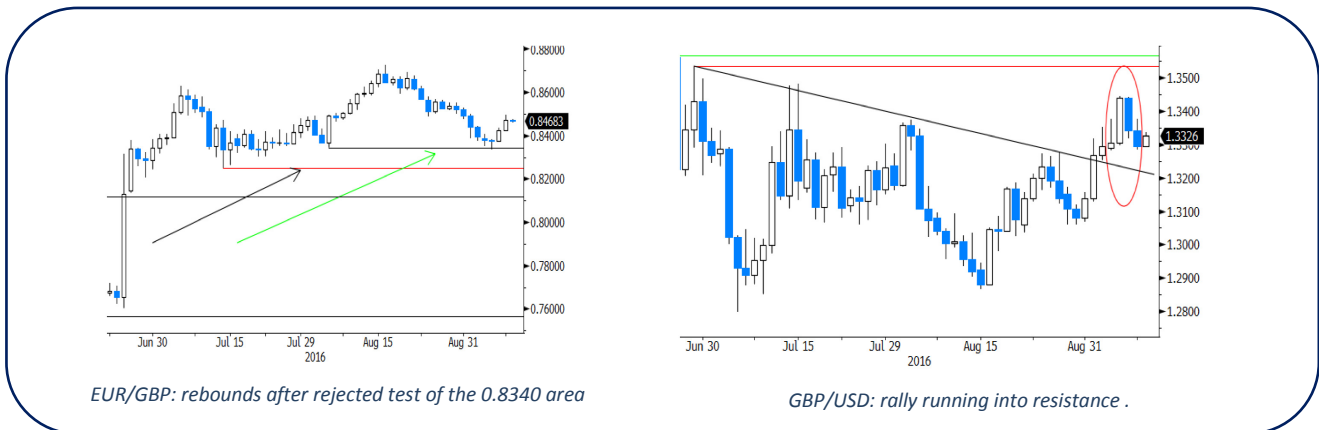
### Sterling correction continues

R2	0,8815	-1d
R1	0,8725	
EUR/GBP	<b>0,8461</b>	0,0034
S1	0,8344	
S2	0,8251	

**On Thursday,** there was little UK specific news to guide GBP trading. So sterling trading was driven by the price swings in the euro and/or the dollar. Cable initially held a sideways range in the 1.3330/75 area. EUR/GBP was primarily driven by the rise of the euro in the run-up to the ECB policy decision. In the afternoon, EUR/GBP initially remained well bid on euro strength during the ECB press conference. However, the rebound of the dollar (decline of EUR/USD) also caused a modest intraday setback of EUR/GBP. The pair closed the session at 0.8470 (from 0.8424). The late session rebound of the dollar also weighed on cable. The pair closed the session at 1.3295 (from 1.3341).

**Today, the UK trade balance and construction output will be published.** For the trade data, a substantial improvement is expected. Construction output is expected to decline further. We see risks for a slightly negative outcome of the data, but they are not the most important ones from a market point of view. Sterling was in correction modus of late. In the wake of the relatively soft Carney comments earlier this week, this correction might have some further to go. A less positive risk sentiment might also be slightly negative for sterling.

**Sterling had a strong run of late as the UK economy showed remarkable resilience post-Brexit. EUR/GBP declined off the 0.8724 post-Brexit top. Gradually a lot of good news was discounted and finally sterling fell prey to profit taking this week. For the technical picture of sterling against the euro to improve, EUR/GBP should drop below 0.8344/33 and even 0.8251.** This looks difficult short-term. A countermove is developing. Cable also showed a positive momentum. A first resistance at 1.3372 was temporarily regained. 1.3481/1.35 is key before concluding the bottoming out process after the steep post-Brexit fall is finished. **We expect sterling consolidation/correction on the recent rally to continue.**



# Calendar

Friday, 9 September		Consensus	Previous
<b>US</b>			
16:00	Wholesale Inventories MoM (Jul F)	0.1%	0.0%
<b>Canada</b>			
14:30	Unemployment Rate (Aug)	7.0%	6.9%
14:30	Net Change in Employment (Aug)	14.0K	-31.2k
<b>Japan</b>			
01:50	Money Stock M2 / M3 YoY (Aug)	A 3.3%/2.8%	3.3% / 2.9%
06:30	Tertiary Industry Index MoM (Jul)	A 0.3%	0.8%
<b>China</b>			
03:30	<b>CPI YoY (Aug)</b>	<b>A 1.3%</b>	<b>1.8%</b>
03:30	PPI YoY (Aug)	A -0.8%	-1.7%
<b>UK</b>			
10:30	<b>Visible Trade Balance GBP/Mn (Jul)</b>	<b>-£11650</b>	<b>-£12409</b>
10:30	Trade Balance (Jul)	-£4200	-£5084
10:30	Construction Output MoM YoY (Jul)	-0.5%/-3.4%	-0.9%/-2.2%
10:30	BoE/TNS Inflation Next 12 Mths (Aug)	--	2.0%
<b>Germany</b>			
08:00	<b>Trade Balance (Jul)</b>	<b>23.7b</b>	<b>24.9b</b>
08:00	Exports SA MoM (Jul)	0.4%	0.2%
08:00	Imports SA MoM (Jul)	0.5%	1.1%
<b>France</b>			
08:45	Budget Balance YTD (Jul)	--	-61.8b
08:45	Industrial Production MoM / YoY (Jul)	0.3% / 1.0%	-0.8%/-1.3%
08:45	Manufacturing Production MoM / YoY (Jul)	0.7% / 1.8%	-1.2%/-1.5%
<b>Spain</b>			
09:00	Industrial Production MoM / YoY (Jul)	0.0% / 0.4%	0.2% / 0.8%
<b>Norway</b>			
10:00	CPI MoM / YoY (Aug)	-0.3%/4.2%	0.6%/4.4%
10:00	CPI Underlying MoM / YoY (Aug)	-0.4%/3.4%	0.7%/3.7%
<b>Events</b>			
09:00	<b>Euro-Area Finance Chiefs, Central Bankers Meet in Bratislava</b>		
09SEP-10SEP	<b>EU Finance Chiefs, Central Bankers in Bratislava Sept. 9-10</b>		
13:00	ECB's Rimsevics Speaks in Riga		
13:45	Fed's Rosengren to Deliver Economic Forecast in Boston		
15:30	Fed's Kaplan Speaks in Austin, Texas		



# Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	1,61	0,07	US	0,77	0,04	DOW	18480	18479,91
DE	-0,05	0,07	DE	-0,64	0,02	NASDAQ	for Exch - NQI	#VALUE!
BE	0,18	0,08	BE	-0,58	0,03	NIKKEI	16966	16965,76
UK	0,77	0,09	UK	0,13	0,05	DAX	10675,29	10675,29
JP	-0,01	0,03	JP	-0,19	0,00	DJ euro-50	3084	3083,54

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,337	0,017
3y	-0,212	1,068	0,463	Euribor-1	-0,37	0,00	Libor-1 USD	0,27	0,27
5y	-0,135	1,177	0,541	Euribor-3	-0,30	0,00	Libor-3 USD	0,38	0,38
10y	0,305	1,437	0,808	Euribor-6	-0,20	0,00	Libor-6 USD	0,52	0,52

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1281	0,0030	EUR/JPY	115,15	0,79		185,6311	1337,51	49,52
USD/JPY	102,11	0,44	EUR/GBP	0,846	0,0033	-1d	3,16	-9,49	0,79
GBP/USD	1,3325	-0,0021	EUR/CHF	1,096	0,0060				
AUD/USD	0,7651	-0,0046	EUR/SEK	9,5075	0,02				
USD/CAD	1,2914	0,0045	EUR/NOK	9,2135	0,02				

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