

Rates: German 10-yr yield tests 0.5% resistance

The German 10-yr yield tested 0.5% resistance yesterday, but a break didn't occur (yet). Some second tier eco data are scheduled for release, but we expect more technically-inspired and sentiment-driven trading. Cycle tops in US yields seem ready for a test going into next week's FOMC meeting.

Currencies: Dollar going nowhere as trade tensions are easing, for now.

Yesterday, major USD cross rates mostly held tight ranges. Sentiment on risk wasn't too bad. The dollar didn't attract any additional safe haven flows. High US interest rates also didn't help the dollar. More consolidation might be on the cards ahead of the Fed meeting. Sterling traders keep a close eye at the EU summit in Salzburg.

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 equity markets** continued the positive risk sentiment yesterday with all major indices in green except for NASDAQ (-0.08%). **Asian markets** opened mixed today with Japan outperforming and China currently printing losses.
- At the EU-27 summit in Salzburg yesterday, **UK PM May addressed fellow EU leaders to drop "unacceptable" Brexit demands**. EC President Juncker stated that a Brexit-deal is still far away. The summit continues today.
- US Secretary of State, **Mike Pompeo, has invited North Korea's foreign minister to resume talks** after Pyongyang stated it was willing to close key missile facilities. The aim is to reach full denuclearization by 2021.
- **Argentina's economy shrank 4.0% in the second quarter** this year, the most in four years. The year-on-year GDP falls to -4.2%, compared to -3.6% in Q1. Neighbours **Brazil kept their benchmark rate steady at 6.5%**, as expected.
- PM of Japan, **Shinzo Abe, won a ruling party leadership vote for the third straight time**. Abe now starts a 3rd term as head of the ruling Liberal Democratic party, setting him on track to become Japan's longest-serving premier.
- **China's PM Li Keqiang said his country will continue to open up markets**, especially in the financial sector. Moreover, it will cut the average tariff rates on imports from the majority of its trading partners.
- **Today's eco calendar** contains the Philadelphia Fed Business Outlook and Jobless Claims in the **US**. Consumer Confidence is released for the **EMU**. ECB's chief economist Praet speaks today, as does Bundesbank President Weidman.

Rates

German 10-yr yield tests 0.5% resistance, no break yet

	US yield	-1d
2	2,79	-0,01
5	2,94	0,00
10	3,06	0,01
30	3,21	0,01

	DE yield	-1d
2	-0,53	0,00
5	-0,10	0,00
10	0,49	0,01
30	1,14	0,01

Global core bond weakness initially persisted yesterday. Both the Bund and the US Note future reached in an intraday low as **UK CPI inflation unexpectedly rose to its fastest pace in 6 months.** The move in the Bund coincided with **a test by the German 10-yr yield of the upper bound of the 0.3%-0.5% trading range.**

The test was rejected in absence of big eco/event news. **BTP's suffered a small setback** as 5SM Di Maio is reported looking for a bigger deficit (2.5% of GDP) than eyed by FM Tria and Lega Salvini. Core bonds found a better bid at the start of US trading, but the move lacked momentum. The German yield curve steepened with yield changes ranging between -0.5 bps (2-yr) and +1.4 bps (30-yr). The US yield curve steepened as well with daily yield differences between -0.8 bps (2-yr) and +0.8 bps (30-yr). 10-yr yield spread changes vs Germany widened slightly with Italy (+5 bps) underperforming.

Asian stock markets opened positively this morning, but sentiment is dwindling with most indices now just below water. Brent crude oil approaches the \$80/barrel mark again, but the US note future is flat. We expect a neutral opening for the Bund.

Today's eco calendar contains US weekly jobless claims, which are expected to hover near multidecade lows (210k), **and Philly Fed Business outlook.** The latter is expected to rebound (18 from 11.9) following an exceptional crash in August. This week's disappointing empire manufacturing survey and the lingering US/Chinese trade conflict at the start of the month probably limit a bigger bounce than consensus forecasts. ECB Praet, whose views align with the one's from ECB president and hawkish Bundesbank president Weidmann speak. Overall, we expect more sentiment-driven and technically-inspired trading.

Tuesday's technical breaks in US yields suggest a test of the cycle highs in the run-up to next week's FOMC meeting. US yields started a nice upleg after September payrolls showed wage growth accelerating at its fastest pace this expansion. Other US eco data point to a continuation of current strong growth with more and more signs of additional inflationary pressures. This caused a repositioning higher in US yields, anticipating a longer US Fed tightening cycle, our long favoured scenario. The German 10-yr yield followed the US 10-yr yield higher and is testing the 0.5% upper bound of the 0.3%-0.5% sideways range. ECB's veiled upbeat comments on EMU inflation and the relief rally in Italian BTP's play an additional role.



German 10-yr yield: First test of 0.5% resistance failed. Not out of the woods yet.



US 10-yr yield: Clearance of 3% paves way for test of cycle high

Currencies

R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1673	0,0006
S1	1,1510	
S2	1,1448	

R2	0,9033	-1d
R1	0,8968	
EUR/GBP	0,8881	0,0006
S1	0,8628	
S2	0,8548	

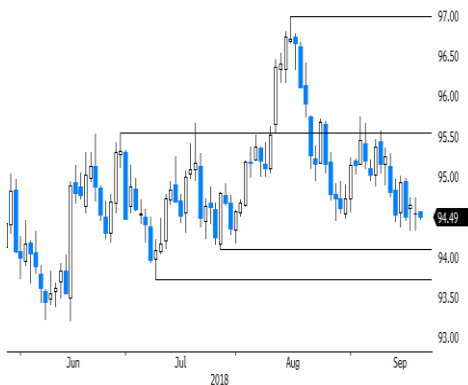
USD going nowhere as trade tensions are ‘easing’

On Wednesday, the dollar continued an inconclusive trading pattern. Markets reacted muted to the ‘escalation’ in the US-China trade conflict with no meaningful safe haven bid for the dollar. US housing data were mixed and aren’t the focus for USD trading. **US/German interest rate differentials held near a multi-year peak**, but the spread hardly moved. EUR/USD came again close to the 1.1720 area but a test of the 1.1733 resistance still didn’t occur. Sentiment on Italy turned more neutral and was no support for EUR/USD anymore. EUR/USD closed the session little changed at 1.1673. USD/JPY ended the day at 112.28, from 112.36.

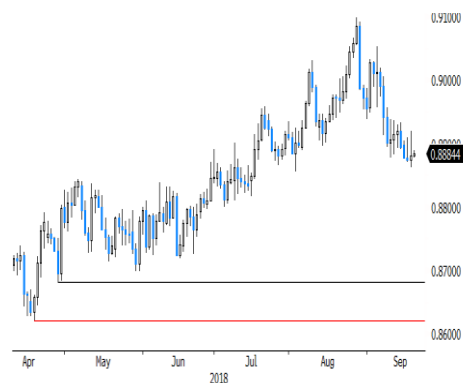
Overnight, Asian equities are trading mixed to slightly lower. Trade is moving to the background as a driver for trading. Pressure on most EM currencies is easing (slightly). For now, there are few high profile data or events to provide clear guidance. The Kiwi dollar extended this week’s rebound supported by stronger than expected Q2 growth (1.0% Q/Q and 2.8% Y/Y). NZD/USD is trading in the mid 0.66 area.

Today, the calendar is moderately interesting with the EC consumer confidence in EMU. In the US the jobless claims, Philly Fed business outlook and existing home sales will be published. The data probably won’t change the positive view on the US economy but are no market movers. **So, global risk sentiment and interest rate developments will continue to guide USD trading**. Sentiment is neutral/cautious. Will the dollar get any additional support as (US) interest rates are keeping an upward bias going into next week’s Fed decision? Markets are embracing the scenario of two additional Fed hikes this year. Short-term, we keep a neutral bias on EUR/USD until it becomes clear which narrative will prevail as driver for FX trading. 1.1733/50/91 resistance is the first topside reference. EUR/USD 1.1525/30 is a first intermediate support.

Yesterday, EUR/GBP remained locked in a tight range close to, mostly slightly below 0.89. US CPI was higher than expected, but with no lasting support for sterling. Brexit headlines remained diffuse. Today, **August retail sales** are expected to decline slightly after strong July sales. **Markets will keep a close eye on the comments coming from the EU Summit in Salzburg**. For now, there are still **few indications that the EU/UK will be able to unlock the Brexit stalemate**. A surprise is always possible, but for now we don’t anticipate high profile sterling positive news.



USD making little progress despite solid interest rate support



EUR/GBP: sterling rebound stalls as there is no sign that the Brexit stalemate will be unlocked

Calendar

Thursday, 20 September		Consensus	Previous
US			
14:30	Philadelphia Fed Business Outlook (Sep)	18.0	11.9
14:30	Initial Jobless Claims	210k	204k
14:30	Continuing Claims	1705k	1696k
16:00	Existing Home Sales Total/MoM (Aug)	5.36m/0.4%	5.34m/-0.7%
Japan			
09:00	Convenience Store Sales YoY (Aug)	--	0.1%
UK			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Aug)	-0.2%/2.4%	0.9%/3.7%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Aug)	-0.2%/2.3%	0.7%/3.5%
EMU			
16:00	Consumer Confidence (Sep A)	-2.0	-1.9
Belgium			
15:00	Consumer Confidence Index (Sep)	--	-3
Norway			
10:00	Deposit Rates	0.75%	0.50%
Switzerland			
09:30	SNB Sight Deposit Interest Rate	-0.75%	-0.75%
09:30	SNB 3-Month Libor Lower Target Range	-1.25%	-1.25%
09:30	SNB 3-Month Libor Upper Target Range	-0.25%	-0.25%
Events			
09:00	Riksbank's Skingsley Gives Speech		
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
17:15	Bundesbank President Jens Weidmann Speaks in Freiburg, Germany		
19:20	ECB's Praet Speaks in New York		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3,06	0,01	US	2,79	-0,01	DOW	26405,76	158,80	
DE	0,49	0,01	DE	-0,53	0,00	NASDAQ	7950,038	-6,07	
BE	0,81	0,01	BE	-0,44	0,00	NIKKEI	23674,93	2,41	
UK	1,61	0,04	UK	0,84	0,02	DAX	12219,02	61,35	
JP	0,12	0,00	JP	-0,10	0,00	DJ euro-50	3368,56	10,10	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,03	3,03	1,29	Eonia	-0,3650	0,0020	Libor-1	2,1653	0,0000
5y	0,35	3,06	1,46	Euribor-1	-0,3710	0,0010	Libor-3	2,3375	0,0000
10y	0,98	3,12	1,68	Euribor-3	-0,3180	0,0010	Libor-6	2,5679	0,0000
				Euribor-6	-0,2670	0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1673	0,0006	EUR/JPY	131,06	-0,02	CRB	191,77	1,21	
USD/JPY	112,28	-0,08	EUR/GBP	0,8881	0,0006	Gold	1208,30	5,40	
GBP/USD	1,3144	-0,0004	EUR/CHF	1,1290	0,0035	Brent	79,40	0,37	
AUD/USD	0,7263	0,0044	EUR/SEK	10,3577	-0,0378				
USD/CAD	1,2927	-0,0047	EUR/NOK	9,5151	-0,0032				

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