



## Sunrise

Tuesday, 18 July 2017

### Rates: Some risk aversion after Obamacare fiasco

US Senate Republicans abandoned their effort to dismantle Obamacare because of a lack of support which hurts risk sentiment. Core bonds could trade with a small upward bias. Partly because of US political risk and partly because of Thursday's ECB meeting.

### Currencies: EUR/USD jumps north of 1.15 resistance

Overnight, the dollar was hit across the board as the repeal of Obamacare has become highly unlikely in the near future. EUR/USD cleared the 1.15 barrier. USD/JPY dropped to the 112 area. Today's eco data will only be of second tier importance. The technical picture for the dollar is worsening further.

### 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	↘

- **American trading** was fairly uneventful and thus **flat** yesterday. **On dollar weakness overnight, Asian stocks began declining**, but later on recovered some of the losses.
- **New Zealand's CPI fell to 1.7% Y/Y in Q2 from 2.2% in Q1**. The **RBNZ had projected inflation to be 2.1% (consensus 1.9%)**, and didn't expect a drop to 1.7% until Q4. The main reason for the undershooting is the oil price decline.
- The **meeting minutes of the Australian central bank** were positive on the economy overall and included a statement that the **neutral interest rate has declined to around 3.5%**, about 2 percentage points above the current level.
- **Home prices surged in China's smaller cities** while property values declined in Beijing and Shanghai in June. **Restrictions in bigger cities are spurring buying in smaller ones**, underscoring the challenge China faces to cool asset bubbles.
- **Two more Republican senators have decided not to vote in favour of the new American health care plan**, effectively killing the legislation in its current form.
- There is **not a lot on the eco-calendar**. UK **CPI data** will likely attract the most attention. On the other side of the channel, the German and EMU **ZEW survey** is on the agenda as is the **ECB Bank Lending Survey**.

# Rates

## Countdown to ECB policy meeting

**Global core bonds traded yesterday with a minor upward bias in an uneventful European session, that was defined by its thinness of trading.** European stock markets were volatile, but couldn't influence the Bund's performance. EMU eco data (final CPI inflation) also failed to trigger a market reaction ahead of Thursday's ECB meeting. Many investors turn more cautious ahead of that meeting. Will Draghi downplay some of his hawkish interpreted comments in Sintra or will he confirm them? The latter could spark unwanted market volatility as an official announcement on QE tapering is only expected in September.

### Uneventful holiday trading of core bonds

	US yield	-1d
2	1,36	0,00
5	1,85	-0,01
10	2,31	-0,02
30	2,89	-0,02

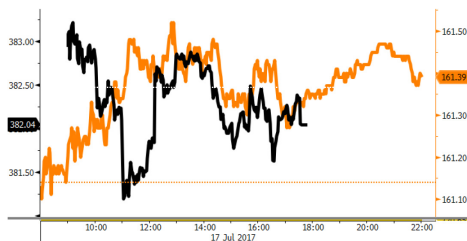
	DE yield	-1d
2	-0,62	-0,01
5	-0,11	-0,02
10	0,58	-0,02
30	1,32	-0,01

**Core bonds painted an intraday topping off pattern during US dealings** despite a weaker-than-expected US Empire Manufacturing index. A JPM report arguing in favour of a Fed balance sheet announcement at the July 26 FOMC meeting might have played a role. We only expect such an announcement at the September meeting.

**At the end of the session,** the German yield curve dropped up to 1.4 bps lower with the belly of the curve outperforming the wings. **Changes on the US yield curve** varied between flat (2-yr) and -1.8 bps (10-yr). **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany narrowed up to 4 bps (Spain/Italy).

## Thin eco calendar

**Today's eco calendar remains unattractive.** In the US, import prices (June) and the NAHB homebuilders' sentiment (July) won't be able to give the market firm direction, **while the EMU calendar contains only the German ZEW economic sentiment survey for July.** The latter is expected to have stabilized in both the current situation (88) and the expectations subcomponents (18). The ZEW is correlated rather well with the equity markets. As these are only slightly below the levels of a month ago, **we have no reasons to distance us from the consensus outcome.** On the **event calendar** are Q3 US earnings reports (see calendar), the Riksbank Minutes and the ECB bank lending survey. These are interesting, but likely of minor importance as traders eye already Thursday's ECB meeting.



Bund future (orange) and EuroStoxx (black) (intraday): Bund traded with minor upward bias in uneventful session



Brent oil takes a pause and looks unable to test the \$50/barrel threshold.

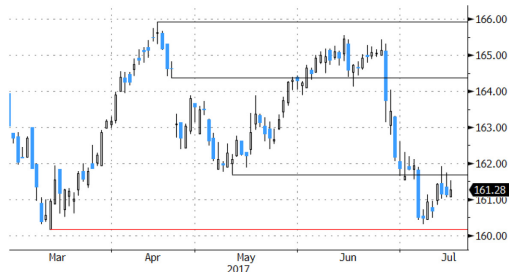
R2	164,13	-1d
R1	161,68	
<b>BUND</b>	161,4	0,14
S1	160,17	
S2	159,1	

### Some risk aversion after Obamacare fiasco

**Overnight**, most Asian stock markets lose around 0.5%. US Senate Republicans abandoned their effort to dismantle Obamacare because of a lack of support which hurts risk sentiment. The dollar took a significant hit, but gains in the US Note future remain modest. **We nevertheless expect a stronger opening for the Bund as well.**

**Today's eco calendar** remains razor thin with only German ZEW and US import prices (and NAHB survey). American price indices could impact markets somewhat, given Yellen's subtle inflation warning last week. However, Friday's disappointing CPI readings left no permanent traces on bond markets and import prices are always less important than CPI. Q2 earnings reports are a wildcard and could influence markets via risk sentiment. **Overall, we expect trading to remain confined to tight ranges. If any, core bonds could trade with a small upward bias. Partly because of US political risk and partly because of Thursday's ECB meeting.** We don't expect the ECB to change the wording of the statement while Draghi will have to explain his (hawkishly interpreted) Sintra comments in more detail. We think that an announcement on winding down asset purchases will only come in September, when a new inflation report is available. **On intra-EMU bond markets**, Greece is rumoured to return to return to capital markets this week.

**From a technical point of view**, the T-Note remained above the key 124-12/01+ support area while the German Bund fell below similar support at 161.68/58. Next support stands at 160.17. If broken, this could point to a full retracement towards 158.89. **We hold our longer term sell-on-upticks strategy in both the Bund and US Note future as markets reposition for a new stage in the global monetary cycle: policy normalisation. The peak of central bank dovishness is behind us.**



German Bund: Sell-off pushed the Bund below the 161.68/58 support, making the technical picture bearish



US Note future: Some cracks in technical picture, but the 124/12/01+ key support remained out of sight

# Currencies

## EUR/USD clears 1.1489/1.15 resistance

*Yesterday, the dollar held close to recent lows*

*Overnight the dollar fell off a cliff as the repeal of Obamacare has become unlikely*

*Aussie dollar jumps to 2-year high after RBA Minutes*

R2	1,1616	-1d
R1	1,15	
EUR/USD	1,1478	0,0008
S1	1,1119	
S2	1,0839	

*Eco data: still second tier*

*Dollar fights uphill battle*

On Monday, the dollar remained on the defensive after recent soft US price data, but the moves were modest as there was no high profile news. EUR/USD settled close to the recent top, but there was no trigger for a test. USD/JPY even tried a cautious intraday rebound but closed the session little changed at 112.63.

Overnight, the dollar came under broad pressure as divisions within the US Republicans make a repeal of Obamacare unlikely. This failure is reinforcing investor doubts on the ability of the Trump administration to execute profound reforms. EUR/USD jumped from 1.1480 to the 1.1538 area. USD/JPY dropped to the low 112 area. This uncertainty also weighs on Asian equities. The Aussie dollar outperforms on overall dollar weakness. In the minutes of the July meeting, the RBA didn't give concrete hints that it will raise rates soon. However, the bank is positive on the economy and the labour market and sees the neutral policy rate at 3.5%. AUD/USD jumped a full big figure and trades in the 0.79 area, the highest level in more than two years. The Kiwi dollar initially nosedived on lower than expected inflation, but rebounded on the overall USD-decline. NZD/USD trades around 0.7340.

Today, the eco calendar is modestly interesting. German ZEW investor confidence is expected little changed (88.0). In the US, import prices are expected to soften further. The NAHB housing index is expected unchanged at 67. Usually, these data are no markets movers. However, given the current negative USD momentum, a negative surprise might still cause some further repositioning away from the dollar.



The dollar remained in the defensive of late. Mediocre US wage growth, Yellen's focus on the recent setback in inflation and soft eco data made markets questioning the pace of future Fed normalisation and weighed on the USD. Initially, EUR/USD didn't retest the 1.1489/1.15 resistance, but this area was broken this morning. The move is clearly USD weakness rather than anything else. Thursday's ECB policy decision is an additional factor of uncertainty. We don't expect the ECB president to make a big announcement on policy normalisation. However, this is no guaranty for the EUR/USD rebound to halt. In a longer term perspective, the market discounts very little Fed policy normalisation. At some

point this might lend the dollar support. However, in a day-to-day perspective, there is no reason to try to catch the falling USD.

### USD: technical picture worsens further

End June, EUR/USD rebounded above the 1.1300/66 resistance. The payrolls and other recent data were not good enough to trigger a sustained USD rebound. Today, EUR/USD broke beyond the 1.1489/1.15 resistance. This break opens the door to the LT-correction tops at 1.1616/1.1714. A break would end the long consolidation that followed the sharp decline of EUR/USD in 2014/early 2015. **Such a key area is not easy to break. We don't preposition for a break, but the pressure is mounting.** Return action, below 1.13 would be a first indication of a loss in upside momentum. EUR/USD 1.1119/10 is the next important support.

**The USD/JPY rally** ran into **resistance** in early May and the pair returned lower in the 108.13/114.37 range. The post-Fed USD rebound pushed the pair above the **112.13 correction top, but follow-through gains remain modest. USD/JPY 114.37 resistance was tested, but for now the test is rejected. This at least suggests a pause in the recent USD/JPY uptrend.** We stay cautious on USD/JPY long positions despite the recent decent performance.

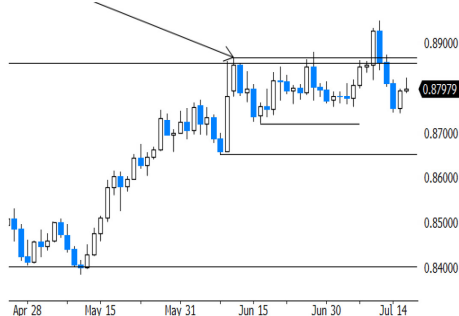
### UK inflation key for sterling trading

**Yesterday, last week's sterling rebound slowed and the UK currency even fell prey to a modest reversal.** There was no high profile story. Many headlines about discord within the UK government going into the next round of Brexit negotiations might have caused some sterling caution. Cable dropped off the correction top north of 1.31 and closed the session at 1.3055. EUR/GBP profited from sterling softness and EUR/USD strength and closed the session at 0.8793.

Overnight, the USD decline also affects cable and EUR/USD. The latter rebounded north of 0.88. Cable returned to the 1.31 area. **Later today, the focus for sterling trading will turn to the UK inflation.** Headline and core CPI are both expected unchanged at respectively 2.9% Y/Y and 2.6% Y/Y. Of late, the BoE sent quite some conflicting signals whether a rate hike could be needed in the near future. Headline inflation rising to 3.0% or more will reactivate this debate. However, we expect any support for sterling to remain modest and temporary. The BOE isn't at the eve of a protracted rate hike cycle.

**From a technical point of view,** EUR/GBP recently set a minor top north of 0.8854/66 resistance (2017 top) and temporary broke above the 0.89 barrier but the move finally fell prey to profit taking (sterling short squeeze). A break below 0.8720 would suggest that upside momentum is easing. For now, we still see a sterling rebound as technical in nature and don't expect it to last very long. **We still look to buy EUR/GBP on more pronounced dips.**

R2	0,9142	-1d
R1	0,9049	
EUR/GBP	0,8793	0,0039
S1	0,8757	
S2	0,8652	



EUR/GBP topside test rejected, for now



GBP/USD: cable outperforms weak dollar and breaks above 1.3000/50 resistance. More to come?

# Calendar

Tuesday, 18 July		Consensus	Previous
<b>US</b>			
14:30	Import Price Index MoM / YoY (Jun)	-0.2%/1.3%	-0.3%/2.1%
14:30	Import Price Index ex Petroleum MoM (Jun)	0.2%	0.0%
14:30	Export Price Index MoM / YoY (Jun)	0.1%/--	-0.7%/1.4%
16:00	NAHB Housing Market Index (Jul)	67	67
<b>UK</b>			
<b>10:30</b>	<b>CPI MoM / YoY (Jun)</b>	<b>0.2%/2.9%</b>	<b>0.3%/2.9%</b>
<b>10:30</b>	<b>CPI Core YoY (Jun)</b>	<b>2.6%</b>	<b>2.6%</b>
10:30	PPI Input NSA MoM / YoY (Jun)	-0.9%/9.3%	-1.3%/11.6%
10:30	PPI Output NSA MoM / YoY (Jun)	0.1%/3.4%	0.1%/3.6%
10:30	House Price Index YoY (May)	3.0%	5.6%
<b>EMU</b>			
11:00	ZEW Survey Expectations (Jul)	--	37.7
<b>Germany</b>			
11:00	ZEW Survey Current Situation (Jul)	88.0	88.0
<b>11:00</b>	<b>ZEW Survey Expectations (Jul)</b>	<b>18.0</b>	<b>18.6</b>
<b>Events</b>			
Q2 earnings	Johnson & Johnson (12:40), Bank of America (12:45), Goldman Sachs (13:30),...		
03:30	RBA July Rate Meeting Minutes		
03:30	China June Property Prices		
09:30	Riksbank Minutes from July 3 Meeting		
<b>10:00</b>	<b>ECB Bank Lending Survey</b>		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,31	-0,02	US	1,36	0,00	DOW	21629,72	-8,02	
DE	0,58	-0,02	DE	-0,62	-0,01	NASDAQ	6314,431	1,97	
BE	0,86	-0,01	BE	-0,47	-0,01	NIKKEI	19999,91	-118,95	
UK	1,27	-0,04	UK	0,31	-0,02	DAX	12587,16	-44,56	
JP	0,07	-0,01	JP	-0,11	-0,01	DJ euro-50	3516,35	-9,59	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,01	1,72	0,75	Eonia	-0,3620	-0,0010	Libor-1	1,2261	0,0000
5y	0,31	1,92	0,94	Euribor-1	-0,3730	0,0000	Libor-3	1,3036	0,0000
10y	0,95	2,26	1,32	Euribor-3	-0,3300	0,0010	Libor-6	1,4560	0,0000
				Euribor-6	-0,2740	-0,0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1478	0,0008	EUR/JPY	129,28	0,21	CRB	175,88	-0,41	
USD/JPY	112,63	0,10	EUR/GBP	0,8793	0,0039	Gold	1233,70	6,20	
GBP/USD	1,3055	-0,0043	EUR/CHF	1,1052	0,0001	Brent	48,42	-0,49	
AUD/USD	0,7801	-0,0031	EUR/SEK	9,5153	-0,0129				
USD/CAD	1,2697	0,0053	EUR/NOK	9,3647	-0,0183				

## Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
<b>Dublin Research</b>		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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