Sunrise

Wednesday, 25 January 2017

Rates: Minor downward bias?

We expect a strong, but near consensus, German Ifo-reading today. In combination with supply, this could trigger a new test of key Bund support (162.62-47 area). During US dealings, risk sentiment was the key driver over the past sessions. The US Note future trades in the 122-14+ - 125-09 sideways range. We expect a move towards the lower bound of the range.

Currencies: Dollar rebounds, but move not really convincing yet

Yesterday, the dollar rebounded against the euro and the yen as the risk-on rally in the US resumed. However, the gains remain modest. The focus for USD trading remains on the execution of the pro-growth agenda of the Trump administration. Will the dollar be able to leave the recent low behind?

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 ended a strong session with new highs for S&P and NASDAQ,** raising hopes that the Trump reflation trade may still continue. Asian equities trade modestly positive, with Japan outperforming (profit from weaker yen).
- **UK PM May will this week table fast-track legislation** to keep her Brexit plan on track after suffering a defeat in the UK Supreme Court. It would give her full authority to invoke Article 50, the EU treaty's divorce clause, at her discretion.
- **US President Trump** is set to announce plans to expedite construction of a wall along the Mexican border, and is preparing orders that ban people from countries deemed a terror risk from entering the U.S. as well as suspend the U.S. refugee program.
- The **Australian dollar (AUD/USD 0.7537)** was the big loser among Asian currencies today, down 0.5 per cent at $0.7541 after Q4 inflation data (0.5% Q/Q and 1.5% Y/Y) fell short of economists' expectations.
- The pace of **Taiwanese GDP growth quickened in Q4 of 2016**, by 2.58%, although this was below market forecasts. South Korean GDP rose slightly more than expected in Q4 (0.4% Q/Q, 2.3% Y/Y), but the pace slowed versus Q3.
- **Copper** rose to its highest level since early December, closing at $5,943 a tonne on the LME yesterday. **Gold** (1205$) is down for the second session in a row. **Brent crude** is little changed at $55.29 a barrel.
- **The Japanese trade surplus** was bigger than expected as exports rose by 5.4% while imports declined 2.6%. The yen stabilized after losing ground yesterday
- **Today**, attention turns on **Donald Trump's new decisions**, the **ruling of the Italian Constitutional Court** (1-1:30 PM CET) and the **IFO business sentiment** report. **ECB Weidmann** speaks .

Rates

Gentle slide lower accelerates as equities/USD rally

Dull bond trading session turns out outright negative on risk-on

German and US curves bear steepened

Greece profits slightly from ESM debt relief

	US yield	-1d
2	1,22	0,07
5	1,93	0,06
10	2,47	0,07
30	3,06	0,07

Yesterday, global core bonds traded with a downward bias. European risk sentiment was slightly constructive, EMU PMI data remained strong in January (composite 54.3) and the supply calendar was heavy (Dutch, Spanish, French and US issuance). Stronger US data (Richmond Fed survey and Markit PMI) primed slightly disappointing existing home sales. **The first slide lower stopped around the time of the US releases. A new, stronger, selling wave kicked in when US equities and the dollar rallied. US Treasuries recorded decent losses in the close, effectively reversing Tuesday's gains. The US 2-yr Note auction wasn't bad, but could turn the tide. S&P and NASDAQ set new all-time highs. Oil played no meaningful role. In a daily perspective,** the German yield curve shifted 1.4 bps (2-yr) to 4.6 bps (10-yr) higher. Changes on the US yield curve varied between +4.9 bps (2-yr) and +7 bps (5-yr). **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany ended nearly unchanged with Spain (+3 bps; supply) and Portugal (+3 bps) slightly underperforming. Greece outperformed (-8 bps) on the ESM's modest debt reduction measures.

Thin calendar

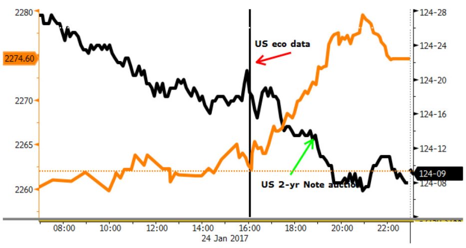
IFO, sole key eco release: Strong, but not stronger than expected.

	DE yield	-1d
2	-0,67	0,02
5	-0,42	0,04
10	0,43	0,07
30	1,17	0,05

The **EMU calendar contains the German IFO, French INSEE and Belgian NBB business sentiment surveys.** The IFO expectations and current assessment sub-indices are expected to have improved slightly in January. The German manufacturing PMI improved sharply in January, but the services PMI eased. The IFO survey covers a larger part of German businesses than the manufacturing PMI. All in all, we expect a strong report, but **once more we see little room for a surprise on the upside.** The German cycle is already well advanced and we see slight early signs of a softening of domestic demand.

ECB Lautenschläger wants to start winding down QE soon.

Sabine Lautenschläger, the most hawkish ECB executive board member signalled that the **ECB should soon start to wind down its bond-purchase program, a move that might trigger volatility in markets.** *"I am...optimistic that we can soon turn to the question of an exit"* from easy-money policies as all preconditions for a stable rise in inflation exist. The ECB *"shouldn't abruptly stop loose monetary policy, but slowly cut the dose, such a policy has to be reduced gradually".* She called on her colleagues to prepare to start talks on the subject. Lautenschläger currently represents a very small minority in the governing council, but her remarks show that the discussions may start later this year.



T-Note future (black) and S&P future (orange) (intraday): All of Monday's gains lost, showing bond sentiment remains shaky.

Nasdaq (and S&P) spurt to new highs, raising hopes that Trump effect has more legs.

R2	164,90	-1d
R1	164,45	
BUND	162,42	-0,71
S1	160,72	
S2	159,91	

Germany and US tap the market

The German Finanzagentur taps the on the run 30-yr Bund (€1B 2.5% Aug2046). Total bids averaged €1.4B at the previous 30-yr Bund auctions. We expect a plain vanilla auction. **The US Treasury started its end-of-month refinancing operation with an improved $26B 2-yr Note auction.** The auction stopped with a slight tail, but the bid cover (2.68) was about average and significantly increased from last month (2.44). Bidding details were mixed overall, but with a solid indirect bid. **Today, the US Treasury continues its refinancing operation with a $15B 2-yr FRN auction and a $34B 5-yr Note auction.** Currently, the WI of the latter trades around 1.93%.

Minor downward bias today?

Overnight, Asian stock markets trade modestly higher with Japan outperforming on yesterday's yen weakness. The US Note future and Brent crude move sideways, suggesting a neutral opening for the Bund.

Today's eco calendar only contains German Ifo and bond supply. We expect a strong, but near consensus, Ifo-reading. In combination with bond supply, **this could trigger a new test of key Bund support (162.62-47 area). During US dealings,** risk sentiment was the key driver over the past three sessions. The US Note future trades in the 122-14+ - 125-09 sideways range. We expect a move towards the lower bound of the range.

Longer term, we hold our negative views on both German Bund and US Note future on the back of accelerating growth and inflation. US investors still have to adapt to the Fed's 2017 rate hike scenario (3 hikes) while European investors might face another "recalibration" of the ECB's APP-programme in H2 2017. ECB Lautenschlager opened the debate yesterday (see above) and ECB Weidmann, who is scheduled to speak today, might echo her comments.

German Bund: failed test of 162.62-47 support?

US Note future: 125-09 resistance 'unbreakable'

Currencies

Dollar still looking for a more solid bottom

Dollar succeeds late session rebound as pro-growth, risk on trade resumes

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0718	-0,0020
S1	1,0341	
S2	1,0000	

Yesterday trading in the major dollar cross rates was initially confined to tight ranges as there was little high profile news. Later in these session, (US) equities resumed the pro-growth rally on good corporate results and on the hope that Donald Trump will execute his pro-growth agenda. Yields and the dollar trended higher, but the gains of the US currency remained modest. EUR/USD closed the session at 1.0731 (from 1.0765). USD/JPY finished the session at 113.79 (from 112.781).

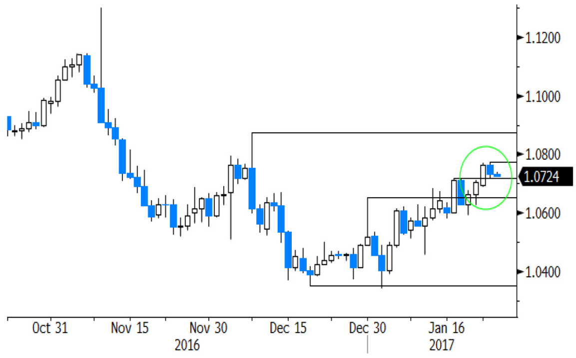
Dollar fails to extend gains in Asia this morning despite global risk-on trade

This morning, the risk-on trade continues. Equities and commodities resume their uptrend. Japanese exports rose 5.4% Y/Y in December, the first positive Y/Y-figure in more than a year, resulting in a bigger-than-expected trade surplus. The rise in USD/JPY (and in the dollar overall) remains rather modest. USD/JPY filled offers just below 114 early this morning, but the gains could not be extended. The pair trades currently again in the 113.65/70 area. EUR/USD trades in the 1.0725 area, near yesterday's closing levels. The Aussie dollar doesn't profit from higher commodity prices as the Australian inflation report was softer than expected. AUD/USD trades in the 0.7530 area.

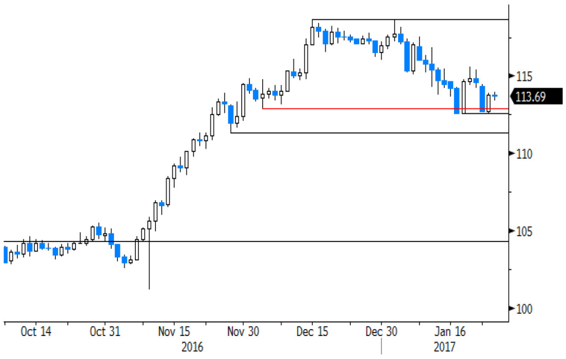
German IFO expected to be solid

Execution of Trump's pro-growth agenda will probably remain the driver from USD trading

Today, the German IFO business survey is expected to have improved slightly in January. We expect a solid report, but there is probably **little room for a material upward surprise.** The direct impact on the euro will probably be limited. **The roll-out of the pro-growth agenda of the Trump administration remains a key driver for global trading.** The risk-on trade resumed yesterday as the focus turned to infrastructure projects rather than issues of protectionism. **Today, president Trump might address issues of boarder security.** These issues are more neutral for markets and for the dollar. If he unveils further plans on deregulation or tax incentives, this might be more supportive for equities and for the dollar. On the EMU side, we look for **the reaction to comments from ECB's Lautenschlaeger as she hinted that conditions in EMU are falling in place to gradually prepare for reducing policy stimulation.** If her comments push European yields higher, it might temper the rise of the dollar against the euro. After all, the context looks moderately USD positive, but the price moves of both EUR/USD and USD/JPY are not really convincing. So we still look for confirmation that the recent top (EUR/USD)/bottom (USD/JPY) will be a solid floor for the dollar.



EUR/USD: dollar decline slows, but no real rebound yet



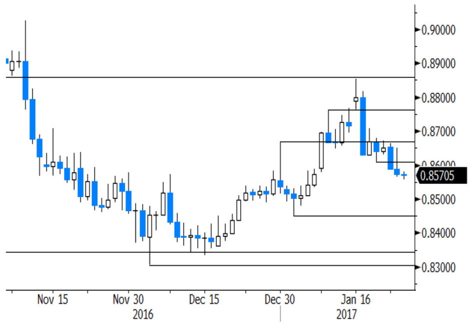
Global context: EUR/USD touched a multi-year low (1.0341) early this month. **After the Trump rally, plenty of good USD news was discounted while US/EMU rate differentials narrowed (correction), causing a dollar correction. Longer-term,** the absolute interest rate support should provide a USD floor if US data remain good and as long as there are no profound doubts on Trump's pro-growth policy. **The day-to-day USD momentum deteriorated as EUR/USD rebounded north of 1.0685/1.0719. A return above 1.0874 would question the USD positive outlook.** On the downside, **EUR/USD 1.0341 is the first key support.** USD/JPY is trading well off the post-Trump highs (118.60/66). The pair tries to rebound off the 112.57/53 reaction low, but the jury is still out whether this can be sustained. USD/JPY 111.16 (38% retracement of the 99.02/118.66 rally) is a tough support. An equity correction or a decline in core bond yields would be short-term negatives for USD/JPY

Sterling holds strong

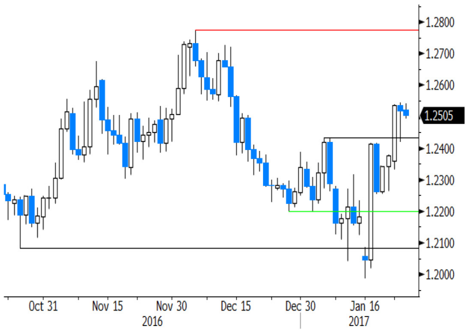
R2	0,9047	-1d
R1	0,8881	
EUR/GBP	0,8573	-0,0027
S1	0,8450	
S2	0,8304	

Yesterday, the High Court ruled that UK PM May needs an act of Parliament to trigger article 50 and formally start the Brexit procedure. **Sterling lost temporary ground after the announcement of the ruling.** Markets apparently concluded that the ruling contains a risk of delaying/complicating the start of the Brexit procedure. However, sterling again proved quite resilient. The UK currency reversed the earlier losses as risk sentiment turned positive later in the session. EUR/GBP closed the session at 0.8572 (from 0.8588). Cable spiked temporary back below the 1.25 mark, but closed the session at 1.2520, holding near the recent correction top.

Today, the UK CBI trends orders are expected to stay at a good level. Selling prices are expected to rise further. If so, the report probably won't be negative for sterling. Of late, investors reduced sterling shorts. This process continued even as the UK High Court decided that UK PM May needs parliamentary approval to trigger Article 50. A positive global risk context is most often also a positive rather than a negative for sterling. **So, for now, it is too early to assume that the short-term sterling positive momentum will be reversed**. In a longer term perspective, **we still look to sell sterling into strength as long as there is no clear indication that the BoE will take action to fight rising inflation.** Given the strong day-to-day momentum of sterling there is no reason to row against the tide right now. EUR/GBP 0.8579 marks the 50% retracement of the 0.8304/0.8854 rebound. EUR/GBP 0.8515 is the 62% retracement level with a correction low coming in at 0.8451. This 0.8515/0.8451 area should provide a strong support.



EUR/GBP struggles to find a bottom



GBP/USD holding near the recent highs

Calendar

Wednesday, 25 Jan		Consensus	Previous
Japan			
00:50	Trade Balance Adjusted (Dec)	A ¥356.7b	¥536.1b
00:50	Exports YoY / Imports YoY (Dec)	A5.4%/-2.8%	-0.4%/-8.8%
UK			
12:00	CBI Trends Total Orders (Jan)	2	0
Germany			
10:00	IFO Business Climate (Jan)	111.3	111.0
10:00	**IFO Expectations (Jan)**	**105.8**	**105.6**
10:00	IFO Current Assessment (Jan)	117.0	116.6
France			
08:45	Business Confidence (Jan)	105	105
Belgium			
15:00	Business Confidence (Jan)	0.3	-0.2
Events			
Q4 earnings	Boeing (13;30), eBay (22:15), AT&T (Aft-mkt), QUALQOMM (Aft-mkt), Novartis,…		
11:30	Germany to Sell €1B 2046 Bonds		
14:15	ECB's Weidmann Speaks in Wiesbaden, Germany		
17:00	BOE's Carney Speaks in Wiesbaden, Germany		
19:00	US to Sell 5-yr Notes & 2-yr FRN Notes (17:30)		

10-year	td	-1d		**2-year**	td	-1d	**Stocks**	td	-1d
US	2,47	0,07		**US**	1,22	0,07	**DOW**	19912,71	112,86
DE	0,43	0,07		**DE**	-0,67	0,02	**NASDAQ**	5600,958	48,01
BE	0,74	0,05		**BE**	-0,54	0,01	**NIKKEI**	19057,5	269,51
UK	1,40	0,04		**UK**	0,18	0,02	**DAX**	11594,94	49,19
JP	0,08	0,02		**JP**	-0,21	0,03	**DJ euro-50**	3281,53	8,49
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	td	-1d
3y	-0,07	1,70	0,77	**Eonia**	-0,3530	0,0000			
5y	0,16	1,99	0,97	**Euribor-1**	-0,3720	0,0000	**Libor-1**	0,7711	-0,0042
10y	0,79	2,36	1,38	**Euribor-3**	-0,3280	-0,0010	**Libor-3**	1,0379	-0,0055
				Euribor-6	-0,2420	-0,0010	**Libor-6**	1,3524	-0,0058
Currencies	td	-1d		**Currencies**	td	-1d	**Commodities**	td	-1d
EUR/USD	1,0718	-0,0020		**EUR/JPY**	121,88	0,31	**CRB**	194,95	0,51
USD/JPY	113,71	0,49		**EUR/GBP**	0,8573	-0,0027	**Gold**	1205,90	-8,40
GBP/USD	1,2502	0,0017		**EUR/CHF**	1,0742	0,0013	**Brent**	55,33	-0,25
AUD/USD	0,7532	-0,0032		**EUR/SEK**	9,5012	0,0053			
USD/CAD	1,3148	-0,0095		**EUR/NOK**	8,969	-0,0163			

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