



Wednesday, 10 October 2018

Rates: Focus turns to supply and US price data

Supply operations and US price data take centre stage today and tomorrow. Are investors already willing to absorb US (today and tomorrow) and Italian (tomorrow) bonds or do they remain sidelined expecting the upleg in yields to continue? US PPI and CPI data are expected to remain above the Fed's 2% inflation target, warranting a continuation of the rate hike cycle.

Currencies: EUR/USD resists EM/Italian uncertainty, at least for now

EUR/USD set a minor short-term correction low yesterday as global risk-off and uncertainty on the Italian budget weighed. However, losses were reversed later. Markets look out whether US auctions will raise US rates further today, potentially causing new USD gains. Sterling rallies as investor see Brexit progress in the run-up to next week's EU summit.

Calendar

Headlines

- **US equity markets** were mixed yesterday, with most indices closing the trading day with (limited) losses. Nasdaq outperformed. **Asian markets** are mixed with Japan bouncing back after yesterday's losses and China underperforming.
- **Italy's budget joint committee has disapproved the government's budget proposal.** It said the growth targets (1.5% in 2019) are too ambitious and optimistic. They can now ask the government to review the targets.
- **US President Trump will soon present a list of measures to tackle the federal government's big budget deficit,** his chief economist said. The deficit expanded to an estimated \$782bn, i.a. under influence of Trump's \$1,5 trillion tax cut.
- **Hurricane Michael is set to enter Florida tonight.** The category 4 storm is currently storming through the Gulf of Mexico, causing to shut more offshore oil platforms in the US. Around 40% of crude production in the area is already lost.
- **Officials from both the EU and the UK said progress have been made** on overcoming two of the final obstacles, Irish border and the overall Brexit deal. In addition, up to 40 Labour MPs said to be prepared to back a Chequers-like deal.
- **US Treasury secretary, Steve Mnuchin, has warned China not to engage in competitive devaluations of the Chinese yuan** to offer rebuttal in the trade war. The Treasury will soon release its regular report on currency issues.
- **Today's eco calendar** contains US September's PPI's. The **UK** releases Industrial Production and GDP data today. BoE's Haldane and Fed's Evans are scheduled to speak. The US holds 3- and 10-yr Note auctions.

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	↘

Rates

US Treasury market ready to absorb supply?

	US yield	-1d
2	2,89	0,00
5	3,06	-0,01
10	3,21	-0,03
30	3,37	-0,04

	DE yield	-1d
2	-0,53	0,02
5	-0,05	0,02
10	0,55	0,02
30	1,17	0,01

US Treasuries and German Bunds had a similar intraday trading pattern. They lost some ground in the early stages of European trading, but turned north during the US session. **Moves were technically insignificant and we didn't find a real driver. The correlation with Italian markets or stock markets was absent yesterday and even the other way around** with Italian BTP futures and main equity indices following the same intraday journey as Bunds (first lower, then recovering). **That's rather strange from a risk point of view.** The US yield curve bull flattened with yields up to 3.6 bps lower (30-yr). Intraday US yield changes take into account Monday's absence (Columbus Day). German yields increased by 0.8 bps (30-yr) to 2 bps (10-yr) with the belly of the curve underperforming the wings. 10-yr yield spread changes vs Germany ended broadly unchanged with Italy (-11 bps) and Greece (-8 bps) outperforming.

Asian stock markets are mixed overnight with Korea underperforming, returning from a national holiday. The US Note future treads water in a very tight range despite an avalanche of headlines (see above). We expect a neutral opening for the Bund as well.

Today's eco calendar contains US PPI data. Markets are rather sensitive to pride developments these days. Consensus expects a 0.2% M/M and 2.7% Y/Y increase. **The US Treasury starts its mid-month refinancing operation with a \$36bn 3-yr Note auction and a \$23bn 10-yr Note auction. US Treasuries could lose some ground in the run-up to the auction.** It will be interesting to see how strong demand is. Are buyers already interested following the latest increase in yields or do they expect the upleg to continue and stay sidelined for a while? **We'd still shun BTP's despite yesterday's intraday rebound.** The parliamentary budget watchdog indicated that next year's growth forecast (1.5%) is several points too high, suggesting that the 2.4% deficit target is unrealistic. The watchdog has no blocking powers, but hands more ammo to the EU which is also at odds with the Italian proposals. **Tomorrow's BTP auctions are an important gauge for appetite.** Technical pictures of European equity markets remain heavy, lining up for a test of key support as we approach the start of Q3 earnings season. The Bund's performance so far this week has been rather disappointing given these risk factors. **From a technical point of view**, the US 10-yr yield broke key resistance earlier this month, suggesting more upward potential medium term. Next resistance levels are 3.32% and 3.79% (50% and 62% retracement from 2007-2016 decline).



German 10-yr bounced into 62% retracement (0.57%)



US 10-yr yield's technical break opens new band with upper bound at 3.79%

Currencies

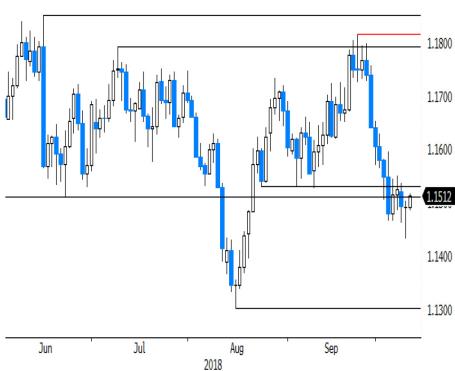
R2	1,2155	-1d
R1	1,1996	
EUR/USD	1,1491	-0,0001
S1	1,1510	
S2	1,1448	

R2	0,91	-1d
R1	0,9052	
EUR/GBP	0,8743	-0,0035
S1	0,8628	
S2	0,8548	

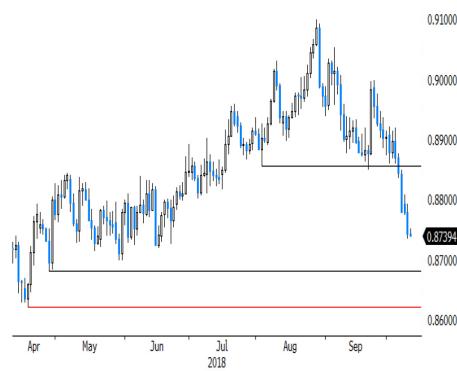
EUR/USD resists global/Italian uncertainty, for now

Yesterday, uncertainty on EM and on Italy remained the main drivers for FX trading. Asian equities stayed under pressure. Ongoing **political noise on the Italian budget weighed on European sentiment even as Fin Min** Tria tried to de-dramatize the tensions with the EU. Global stress eased slightly in US dealings, but sentiment stayed fragile. **President Trump reiterated the Fed was going too fast in raising rates**. The direct impact of his comments on the dollar was modest. At that time, US yields were already off the cycle peak and the USD rally eased. EUR/USD dropped temporarily below the 1.1460 support intraday, but closed little changed at 1.1491. USD/JPY also drifted further south and finished at 112.96. **Overnight**, Asian equities are trading mixed to marginally stronger. US Fin Min Mnuchin indicated that the US will take depreciation of the yuan into account in the US-China trade talks. The CNY, but also the likes of the INR and the IDR are holding near recent lows, but with no additional losses. **The IMF warned** on risks to global stability due to pressure on EM and a deterioration in trade relations. The fund also sees stretched asset valuations. Asian markets are in some kind of wait-and-see modus. EUR/USD hovers again in the 1.15 area. USD/JPY trades in the 113 area. **Today**, there are mostly second tier data in EMU and the US. US PPI is interesting, but the focus is on tomorrow's CPI's. **We also keep a close eye at the auctions of 3 & 10Y US Treasuries**. A mediocre result might reactivate the mechanisms of higher US yields, a strong dollar and global market volatility. The 'Italian issue' also isn't solved yet. Recently, we had a cautious yet positive USD bias. Losses in EUR/USD were modest given ongoing tensions on Italy. However, there was no obvious trigger for a EUR/USD rebound. We keep our cautious euro-negative/USD bias. EUR/USD might drift lower in the 1.1550/1.13 band. The USD/JPY uptrend looks blocked by the risk-off, despite higher core/US yields.

Yesterday, sterling rebounded further. Markets saw growing signs that at least a partial/temporary Brexit agreement could be reached ahead of next week's EU summit. EUR/GBP declined further in the 0.87 big figure and finished the day at 0.8742. **Today**, UK trade balance and production data are expected soft, but the focus remains on Brexit. Hope on Brexit progress supports a positive GBP-momentum. In a day-to-day perspective, there is no need to row against this tide. Next question remains whether May can secure approval in the UK parliament.



EUR/USD: euro limits losses despite ongoing tensions on EM and on Italy



EUR/GBP: sterling supported by hope on Brexit progress ahead of next week's EU summit

Calendar

Wednesday, 10 October		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	0.0%
14:30	PPI Final Demand MoM/YoY (Sep)	0.2%/2.7%	-0.1%/2.8%
14:30	PPI Ex Food and Energy MoM/YoY (Sep)	0.2%/2.5%	-0.1%/2.3%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Sep)	0.2%	0.1%/2.9%
16:00	Wholesale Inventories MoM (Aug F)	0.8%	0.8%
16:00	Wholesale Trade Sales MoM (Aug)	--	0.0%
Japan			
08:00	Machine Tool Orders YoY (Sep P)	--	5.1%
UK			
10:30	Trade Balance (Aug)	-£1200	-£111
10:30	Industrial Production MoM/YoY (Aug)	0.1%/1.0%	0.1%/0.9%
10:30	Construction Output SA MoM/YoY (Aug)	-0.5%/1.2%	0.5%/3.5%
10:30	GDP MoM/3M-3M Change (Aug)	0.1%/0.6%	0.3%/0.6%
10:30	Index of Services MoM/3M-3M (Aug)	0.1%/0.5%	0.3%/0.6%
France			
08:45	Industrial Production MoM/YoY (Aug)	0.1%/1.5%	0.7%/1.8%
Italy			
10:00	Industrial Production MoM/WDA YoY (Aug)	0.8%/-1.5%	-1.8%/-1.3%
China			
10OCT-15OCT	Money Supply M2 YoY (Sep)	8.3%	8.2%
10OCT-15OCT	New Yuan Loans CNY (Sep)	1358.7b	1280.0b
Norway			
08:00	CPI MoM/YoY (Sep)	0.4%/3.3%	-0.4%/3.4%
08:00	CPI Underlying MoM/YoY (Sep)	0.3%/1.8%	-0.5%/1.9%
Events			
03:10	Fed's Williams Speaks on Recent Monetary Policy Developments		
04:30	Fed's Williams, Indonesia Cen. Bank's Warjiyo speak to press		
11:00	BoE's Haldane speaks in London		
11:30	Germany to Sell EUR3 Bln 0.25% 2028 Bonds		
17:30	US to Sell USD36 BLN 3-Year Notes		
18:15	Fed's Evans Speaks on Economy and Monetary Policy		
19:00	US to Sell USD23 Bln 10-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
US	3,21	-0,03	US	2,89	0,00	DOW	26430,57	-56,21
DE	0,55	0,02	DE	-0,53	0,02	NASDAQ	7738,016	2,07
BE	0,91	0,02	BE	-0,45	0,01	NIKKEI	23506,04	36,65
UK	1,72	0,04	UK	0,92	0,04	DAX	11977,22	30,06
JP	0,16	-0,01	JP	-0,12	0,00	DJ euro-50	3321,79	12,07
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d
3y	0,10	3,15	1,36	Eonia	-0,3650	0,0000		
5y	0,43	3,18	1,55	Euribor-1	-0,3710	0,0000	Libor-1	2,2841
10y	1,07	3,25	1,78	Euribor-3	-0,3180	0,0000	Libor-3	2,4143
				Euribor-6	-0,2680	-0,0010	Libor-6	2,6260
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1491	-0,0001	EUR/JPY	129,8	-0,32	CRB	200,37	0,61
USD/JPY	112,96	-0,27	EUR/GBP	0,8743	-0,0035	Gold	1191,50	2,90
GBP/USD	1,3143	0,0053	EUR/CHF	1,1399	-0,0006	Brent	85,00	1,09
AUD/USD	0,7103	0,0025	EUR/SEK	10,4626	0,0211			
USD/CAD	1,2946	-0,0019	EUR/NOK	9,5005	-0,0100			

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