



Sunrise

Wednesday, 11 January 2017

Rates: Will Trump hold on to his fiscal plans?

President-elect Trump's first press conference since his election victory will get much attention. Markets will especially focus on details about his fiscal plans. If he sticks to the expansionary fiscal line, it could bring the reflation-trade back alive (negative US Treasuries). Backtracking on some of his initial plans will bring 125-09 (T-Note future) resistance back in sight.

Currencies: Dollar going nowhere

Yesterday, the dollar hovered sideways as there were no important eco data. Today's eco calendar is again thin. So, currency traders will look for clues in a speech of president elect-Trump. Will the president-elect give more fuel to the reflation trade? Or will the Trump-rally (including the rise of the dollar) take a breather?

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** had a sideways session that left main indices narrowly mixed in the close with a new high for the **NASDAQ**. **Asian equities** trade firm with China underperforming. Cyclical outperform.
- The World Bank said **global growth would accelerate slightly** (from 2.3% to 2.7%) as recovering oil and commodity prices ease pressures on emerging-market commodity exporters and painful recessions in Brazil and Russia come to an end.
- The **Minneapolis Fed** voted to keep the discount rate unchanged ahead of the Fed's December policy-setting meeting, suggesting that its governor Kashkari was not convinced of a FF hike. It classifies him in the camp of the ultra-doves
- **Richmond Federal Reserve President Jeffrey Lacker**, one of the U.S. central bank's most hawkish governors will retire from his post in October. His successor is not known yet.
- **Crude oil fell again sharply yesterday** on news Libya may not respect the OPEC production agreement and as US shale oil producers are raising output on higher prices.
- **The Turkish lira has hit a record overnight**, weakening towards EUR/TRY 4.10 and USD/TRY 3.9 as investors continue to fret over the country's economic and political outlook. Is the Lira collapsing or will the central bank take more stringent measures to prevent it?
- **Today's calendar is thin**, but traders are uneasy for surprises as president elect Trump holds his first press conference. **Portugal** issues a new 2027 bond via syndication, the US issues a new 10-yr Note and so does Germany.

Rates

Bonds move sideways awaiting Trump's speech

Sideways trading awaiting Trump

	US yield	-1d
2	1,19	0,00
5	1,88	0,00
10	2,38	0,01
30	2,97	0,00

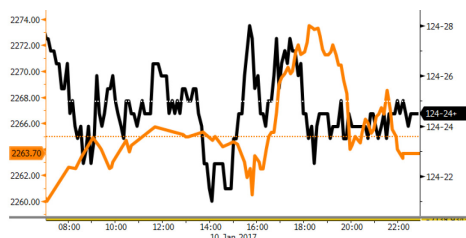
	DE yield	-1d
2	-0,72	0,01
5	-0,47	0,02
10	0,36	0,08
30	1,06	0,00

Trump, Trump and Trump

Yesterday, markets waited in vain for some theme to trade on, but didn't find it. So, sentiment driven, directionless, thin trading was name of the game with maybe positioning for supply slightly affecting the curve. In a daily perspective, US yields ended 0.4 bps (2-yr) to 1.1 bp (10-yr) higher, slightly bear steepening the curve. German yields rose by 0.3 bps (30-yr) to 1.6 bps (5-yr), changing the curve erratically. On intra-EMU bond markets, 10-yr yield spreads versus Germany ended nearly unchanged with Portugal underperforming (+7 bps) ahead of a new 10-yr syndicated benchmark deal. Regarding economic releases, French production for November was unusually strong, but the surprise of the day was the surging US small business sentiment, still a Trump effect. Neither are market movers and consequently didn't affect trading. The auctions went well, with a strong US 3-yr auction the eye-catcher, but couldn't stir much fuss. Oil and equities traded sideways till mid US session when oil fell sharply (see headlines), but it had surprisingly little lasting effect on US Treasuries and equities, which basically stayed sideways oriented to close the session little changed.

Trump at last holds press conference instead of a tweet

The EMU and US eco calendars are empty besides the Spanish production data for November. Attention goes to the press conference of president-elect Donald Trump, but we are not aware of the exact timing. Markets have high expectations about the changes in taxation, investment infrastructure and (de)regulation, but other issues like immigration and protectionism may be tackled too. Markets anticipated a much easier fiscal policy via lower taxation and higher infrastructure spending. Will Trump be able to satisfy high expectations?



T-Note future (black) and S&P future (orange) (intraday): Perfect sideways trading session, leaving both little changed on the day



Oil price drops sharply for second day on signs US shale output will rise and Libya may ignore OPEC production agreement

R2	165,48	-1d
R1	164,90	
BUND	163,13	-0,04
S1	162,62	
S2	159,91	

Germany, Portugal and US tap market

The German Finanzagentur issues a new 10-yr Bund (€5B 0.25% Feb2027). Grey market trading suggests that the bond will be priced with a 5.2 bps pick-up in ASW spread terms compared to the previous 10-yr benchmark (0% Aug2026). That corresponds with a 9 bps pick in yield terms. Total bids at the previous 4 Bund auctions averaged €4.35B, suggesting that it will be hard to get the auction covered although we add that demand is generally somewhat stronger at the start of the year. **The Portuguese debt agency announced the planned syndicated sale of a new 10-yr benchmark (Apr2027).** The transaction will likely be done today. Portugal intends to issue between €14 and €16B treasury bonds this year.

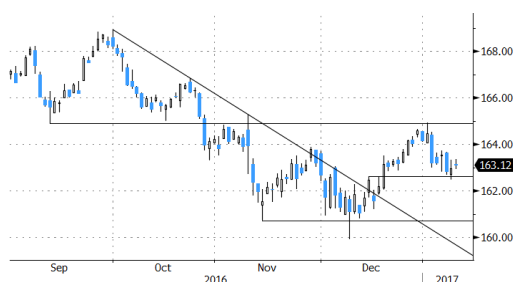
The US Treasury started its mid-month refinancing operation with a very good \$24B 3-yr Note auction which stopped through the 1:00 PM bid side with a strong bid cover (2.97). Bidding details were a little mixed (strong indirect bid, disappointing direct), but decent overall. **Today, the US Treasury holds a \$20B 10-yr Note auction. Currently, the WI trades around 2.39%.**

Will Trump hold on to his fiscal stimulus plans?

Overnight, Asian stock markets trade positive with China underperforming. The US Note future and Brent crude stabilize, suggesting a neutral opening for the Bund.

Today's eco calendar remains uneventful, but president-elect Trump's first press conference since his election victory will get much attention. Markets will especially pay attention to details about his fiscal plans. If he sticks to the expansionary fiscal line, it could bring the reflation-trade back alive (negative US Treasuries). Backtracking on some of his initial plans will bring 125-09 resistance back in sight. Heavy supply in EMU and US is a minor negative for core bonds this week. Oil prices and general risk sentiment could influence sentiment ahead of Trump's speech.

Medium term, we expect US markets to further align with the Fed's scenario of 3 rate hikes this year. We hold our negative bias for US Treasuries with entry levels around 125-09 (tested after payrolls). In EMU, **the German Bund bounced into 164.9 resistance at the start of the year and fell prey to profit taking on higher German inflation data.** As the underlying economic picture in EMU improves further, we also expect more downside in the Bund despite the ECB's bond buying programme.



German Bund: Sell-off after test of 164.90 resistance on the back of higher inflation readings



US Note future: failed test of 125-09 triggered new selling after strong payrolls

Currencies

Dollar looking for new guidance

Dollar hovered sideways in listless session

On Tuesday, USD trading was technical in nature in absence of important (eco) news. Both USD/EUR and USD/JPY hovered in a sideways range. At the end of the session, the dollar traded still marginally lower against the yen, but regained some ground against the euro after Monday's setback. EUR/USD finished the day at 1.0554 (from 1.0574). USD/JPY closed the session at 115.77 (from 116.03).

Dollar trading marginally up overnight despite stronger commodities

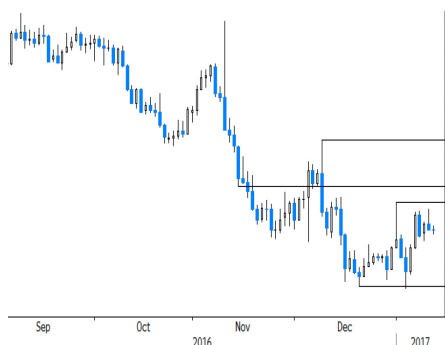
Overnight, most Asian equities are trading positively, with China being the exception. Despite the rise in commodities and commodity related assets, the dollar is trading marginally stronger. USD/JPY hovers in the 116 area. EUR/USD drifted back south and is currently trading in the mid 1.05 area.

Eco calendar is again thin.

Today, the eco calendars in EMU and the US are again almost empty. So, the market focus will be on a press conference of president-elect Donald Trump. We don't know its exact timing. Markets have high expectations about the changes in taxation, investment infrastructure and (de)regulation, but other issues like immigration and protectionism may be tackled too. Markets anticipated a much easier fiscal policy via lower taxation and higher infrastructure spending. Will Trump be able to satisfy the high expectations? **If he fails to do so, there is room for some further USD correction.** On Friday, a decent US payrolls report put a temporary floor under the USD correction. Most Fed comments at the end of last week were also moderately hawkish/USD supportive. However, a modest dollar correction resumed on Monday and the US currency basically drifted sideways yesterday, awaiting new guidance. We don't think that recent US softness will mark the start of a trend reversal, but **the USD momentum clearly eased and the correction can still go a bit further.** In this respect, we keep an eye on the interest rate developments as spreads between the US and Europe show signs of topping out.

The speech of president-elect Trump is a wildcard

R2	1,0874	-1d
R1	1,0653	
EUR/USD	1,0559	-0,0037
S1	1,0341	
S2	1,0000	



EUR/USD: consolidation continues ahead of Trump press briefing



USD/JPY: holding in the lower area of a short-term consolidation pattern

Global context: EUR/USD touched a new multi-year low at 1.0341 last week. **After the Trump rally, there is a lot of good USD news discounted. Interest rate differentials between the dollar and the euro remain very high, but didn't widen anymore of late, slowing the rise of the dollar.** The big absolute interest rate support should provide a solid USD floor as long as US data are good and there are no profound doubts on the ability of the Trump-administration to

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execute its pro-growth agenda. **A buy the dollar on dips strategy remains preferred. EUR/USD 1.0653/70 is a first resistance. A return north of 1.0874 would question the USD positive momentum.** On the downside, **EUR/USD 1.0341 is still the first key support. A test of parity remains possible MT.**

USD/JPY started a correction last week and the pair is still slightly in the defensive. 114.74/115.07 marks a first support. A break below that level would be a short-term negative. We stay USD/JPY positive long-term, but are in no hurry to rush in right now. An equity correction or a further decline in core yields might be a short-term negatives for USD/JPY. The 118.60/66 resistance is a tough area to break short-term.

Sterling correction halts, for now...

R2	0,9047	-1d
R1	0,8851	
EUR/GBP	0,8686	-0,0038
S1	0,8450	
S2	0,8304	

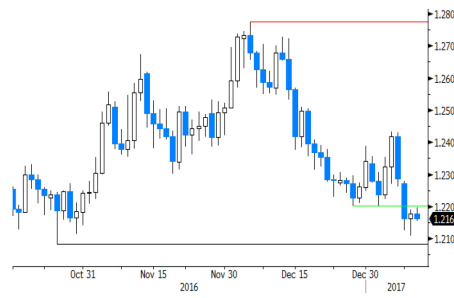
On Tuesday, sterling initially remained under pressure extending Monday's decline on Brexit comments from PM May. **EUR/GBP extended its rally north of 0.87 and touched a new intraday top in the 0.8760/65 area.** Later in the session, EUR/GBP turned again below the 0.87 barrier in technical trading. The pair closed the session at 0.8667 (from 0.8694). The decline of cable also halted. The pair closed the session at 1.2177 (from 1.2163). **So, sterling entered calmer waters as the Brexit tensions returned to the background.**

Today, the UK calendar contained the production, the trade balance and the, construction output data besides the monthly NIESR GDP estimate for September. Of late, UK activity data were very good, but had hardly an impact on sterling trading. For the trade balance, there is again a substantial widening of the deficit expected. If confirmed, it is a slightly sterling negative. BoE governor Carney will be heard by the Parliament's Treasury select committee. The hearing will address financial stability issues and not monetary policy. Even so, the BoE governor might still face some tough questions on monetary policy. High profile headlines on a rift regarding Brexit might also be slightly negative for sterling.

Sterling held strong in November and December, but lost some momentum in the second half of last month. EUR/GBP held a sideways trading pattern in the 0.85 area. Uncertainty on the next steps in the Brexit debate are again weighing on sterling in the run-up to the end of March article 50 deadline. We prefer a buy-on-dips strategy for EUR/GBP. If the break beyond 0.8668 is confirmed, it would improve the EUR/GBP picture.



EUR/GBP tries to hold north of 0.8668 previous resistance



GBP/USD: holding near the recent lows

Calendar

Wednesday, 11 Jan		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	0.1%
Japan			
00:50	Official Reserve Assets (Dec)	A \$1216B--	\$1219.3b
06:00	Leading Index CI (Nov P)	A 102.7	100.8
06:00	Coincident Index (Nov P)	A 115.1	113.5
UK			
10:30	Visible Trade Balance GBP/Mn (Nov)	-£11150	-£9711
10:30	Industrial Production MoM / YoY (Nov)	1.0%/0.7%	-1.3%/-1.1%
10:30	Manufacturing Production MoM / YoY (Nov)	0.5%/0.4%	-0.9%/-0.4%
10:30	Construction Output SA MoM / SA YoY (Nov)	0.2%/2.0%	-0.6%/0.7%
16:00	NIESR GDP Estimate (Dec)	0.5%	0.4%
Spain			
09:00	Industrial Production MoM (Nov)	0.4%/1%	0.1%/0.5%
Events			
11:30	Germany to Sell €5B 2027 Bonds		
19:00	US to sell \$20B 10-yr Notes		
Press conference Donald Trump			

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,38	0,01		US	1,19	0,00		DOW	19855,53	-31,85
DE	0,36	0,08		DE	-0,72	0,01		NASDAQ	5551,818	20,00
BE	0,70	0,02		BE	-0,61	0,01		NIKKEI	19364,67	63,23
UK	1,36	0,03		UK	0,20	0,02		DAX	11583,3	19,31
JP	0,07	0,01		JP	-0,25	-0,01		DJ euro-50	3306,21	-2,76
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	-0,09	1,68	0,71	Eonia	-0,3510	0,0000				
5y	0,11	1,93	0,91	Euribor-1	-0,3720	-0,0010		Libor-1	0,7633	0,0000
10y	0,71	2,26	1,32	Euribor-3	-0,3240	-0,0020		Libor-3	1,0148	0,0047
				Euribor-6	-0,2320	-0,0020		Libor-6	1,3316	0,0072
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0559	-0,0037		EUR/JPY	122,47	-0,17		CRB	191,14	0,53
USD/JPY	115,99	0,24		EUR/GBP	0,8686	-0,0038		Gold	1189,50	2,70
GBP/USD	1,2156	0,0011		EUR/CHF	1,0732	-0,0009		Brent	53,77	-1,16
AUD/USD	0,7391	0,0030		EUR/SEK	9,5754	0,0019				
USD/CAD	1,3231	0,0007		EUR/NOK	9,0766	0,0194				

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