

Wednesday, 17 July 2019

Rates: Strong retail sales vs Fed comments

US Treasuries underperformed German Bunds yesterday even if part of the losses, inflicted by strong US retail sales, were eventually undone by Fed comments and signs of short term fatigue on the stock market. Trading will remain sentiment-driven and technical in nature today in absence of big eco data/events.

Currencies: Dollar keeps benefit of the doubt. Sterling drops below important support

EUR/USD declined on a soft ZEW confidence while US retail sales printed strong. Fed's Powell confirming the case for a July rate cut had less impact on the dollar than on US yields. Today, data will probably be of second tier significance for FX trading. EUR/USD 1.1181 remains a key support. Sterling is losing further ground as Brexit fears are mounting 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	↗

- **Wall Street** closed a choppy session in red after US president Trump raised the tariff threat again. The Nasdaq underperformed (-0.43%). **Asian markets** are trading mixed with Korea (up to -1.8%) underperforming.
- **President Trump** said they "have a long way to go" on trade with **China**, adding he could still impose additional tariffs on \$325 bn worth of Chinese imports although agreeing not to do so during the G20-summit in late-June.
- **Powell** said the Fed still expects solid growth but "carefully monitors" downside risks. He added that some FOMC members flagged concerns about a longer lasting inflation shortfall, echoing his congressional testimony last week.
- **The European Parliament** confirmed Germany's Ursula von der Leyen as next president of the European Commission with a narrow majority of 9 votes. She now faces the task to assemble a balanced college of commissioners.
- **PM candidate Boris Johnson** wants to hold an early general election, according to The Times. Senior allies of Johnson told the newspaper he wants to benefit from the division within the Labour Party.
- **The US and Japan** might thrash out a trade deal by September that would give the US agriculture a better access to the market in return for reduced tariffs on Japanese cars, industry sources said.
- **Today's event calendar** contains US housing data and inflation figures in the UK. The Fed releases its Beige Book. G7 finance ministers and central bank heads meet. The first high-profile non-bank earnings are due. Germany issues bonds.

Rates

Strong US retail sales vs soft Fed comments

	US yield	-1d
2	1.85	0.02
5	1.86	0.02
10	2.10	-0.01
30	2.61	0.00

	DE yield	-1d
2	-0.73	0.00
5	-0.59	0.00
10	-0.24	0.00
30	0.34	0.01

Core bonds ended mixed yesterday with the US Note future underperforming the German Bund. US Treasuries eventually pared part of the intraday losses inflicted by **strong June US retail sales**. The intraday rebound occurred as **US stock markets showed short term signs of fatigue** and after **Fed Chair Powell highlighted the growing importance of global developments on monetary policy**. Markets considered this as a clear hint of near term Fed action given the current outperformance of the US economy compared to other parts of the world. Non-voting **Dallas Fed Kaplan** – in a shift compared to his June dots – argued in favour of a tactical rate cut because of the duration of the US yield curve inversion. Voting **Chicago Fed Evans** reiterated his case for two rate cuts this year. US yields added 0.2 bps (30-yr) to 2.4 bps (5-yr) in a daily perspective. Changes on the German yield curve varied between -0.1 bp (2-yr) and +0.7 bps (10-yr). 10-yr yield spread changes vs Germany narrowed by up to 4 bps with **Greece (-7 bps) outperforming after the successful launch of a new 7-yr syndicated benchmark (€2.5bn 1.875% Jul2026)**.

Asian stock markets are mixed this morning with South Korea underperforming. US President **Trump showed that a trade pact with China isn't a done deal yet**, by again suggesting that he could slap the country with more tariffs. On a more positive note, Reuters reports on a possible small trade deal between the US and Japan by September. Core bonds edge higher.

Today's eco calendar contains isn't very enticing with **final EMU CPI data and US housing figures**. **A 30-yr German Bund auction** might get some additional attention following last week's disappointing debt sale at a similar tenor. Weakness is a negative for the Bund. **Q2 earnings** are a wildcard as is **the Fed's Beige Book**, the preparatory document for the key July 31 policy meeting. The latter won't alter market thinking though with a 25 bps rate cut fully discounted. **We continue to argue in favour of consolidation in German/US yields in the near term with main eco data printed, ECB/Fed action priced in and Summer trading conditions kicking in**. The German 10-yr yield last week's bounced higher after reaching a new all-time low around the ECB's deposit rate (-0.4%). First resistance appears around -0.03%/-0.13%. We expect range trading in this band. The US 10-yr yield managed to hold north of 2% after an intense test end of June/early July. First, small, resistance lures around 2.17%, with 2.33% being the more high profile test.



German 10-yr yield bounced off new all-time low around the ECB's deposit rate (-0.4%)



US 10-yr yield manages to retake 2.01% in last instance. Consolidation ahead?

Currencies

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1211	-0.0047
S1	1.1110	
S2	1.0864	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.9036	0.0041
S1	0.8500	
S2	0.8314	

Sterling drops below important technical levels

End week and on Monday, **EUR/USD failed to take out first resistance near 1.1285** even as Fed's Powell kept the door open for a July rate cut. Yesterday, **EUR/USD declined further in the 1.12 figure**. The move was partially dollar strength supported by solid US retail sales. A pinch of euro weakness was also in play as German ZEW confidence disappointed again. Late in the session, US yields reversed most intra-day gains as Fed's Powell reiterated its dovish message from last week. Still the dollar maintained most gains. EUR/USD closed at 1.1211 (from 1.1258). USD/JPY held north of 108 to close at 108.25 (from 107.91)

This morning, Asian equities mostly show modest losses, in line with WS yesterday. Trade tensions resurfaced as a (minor?) factor for trading as US president Trump reiterated the US can still impose tariffs on \$ 325 bln of Chinese goods. **The direct impact on the dollar is limited**. EUR/USD hovers in the 1.1210/15 area. USD/JPY is losing marginal ground (108.15 area). USD/CNY is still going nowhere (6.88 area).

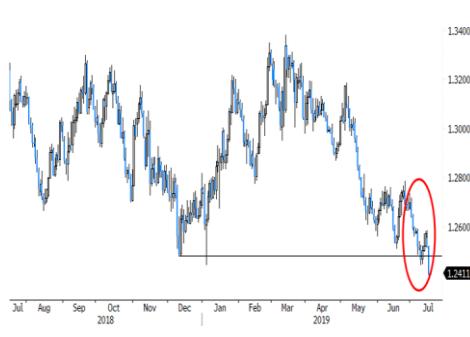
The eco calendar is only moderately interesting **today** with the final EMU CPI's (expected 1.2% headline, 1.1% Core). In the US, housing starts and permits will be published. US housing data recently had only a limited impact on FX. There is a slight chance of an upward revision to the EMU CPI, but it probably won't change fortunes for the euro in a profound way. The global risk sentiment looks like easing a bit as the record rally of US equities ran into resistance yesterday. If this would lead to lower core yields it might be a slight USD negative. Still, we see no big case for EUR/USD to break out of the 1.1285/1.1181 ST range.

Global picture: EUR/USD drifted lower in the 1.11/1.14 range but rebounded from recent lows after Powell paved the way for a July rate cut. A rebound to the 1.13 would further ease the downside momentum. With the most important eco data before the FOMC July meeting printed, we expect more range trading near current levels.

Sterling declined further as both candidates to become UK PM hardened their stance for talks with the EU. EUR/GBP settled north of 0.90. Cable dropped below the 1.2440 support. Brexit remains key for sterling trading, but **UK CPI data** are interesting, too. Headline CPI is expected unchanged at 2.0% (core to rise to 1.8%). CPI's probably won't change markets' view that the BoE will likely be forced to cut rates due to the growing negative impact of Brexit on the UK economy. Sterling probably remains in the defensive. EUR/GBP 0.91 area is the next key reference.



EUR/USD nears 1.1181 support area



GBP/USD: cable drops below 1.2440 support

Calendar

Wednesday, 17 July		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-2.4%
14:30	Housing Starts Total/MoM (Jun)	1260k/-0.7%	1269k/-0.9%
14:30	Building Permits Total/MoM (Jun)	1300k/0.1%	1299kR/0.7%R
Canada			
14:30	CPI NSA MoM/YoY (Jun)	-0.3%/2.0%	0.4%/2.4%
14:30	CPI Core YoY (Jun)	1.8%	1.8%
UK			
10:30	CPIH YoY (Jun)	1.9%	1.9%
10:30	CPI MoM/YoY (Jun)	0%/2%	0.3%/2%
10:30	CPI Core YoY (Jun)	1.8%	1.7%
10:30	RPI MoM/YoY (Jun)	0.1%/2.9%	0.3%/3%
10:30	RPI Ex Mort Int. Payments (YoY) (Jun)	2.9%	3%
10:30	PPI Input NSA MoM/YoY (Jun)	-0.5%/0.3%	0%/1.3%
10:30	PPI Output NSA MoM/YoY (Jun)	0.1%/1.7%	0.3%/1.8%
10:30	PPI Output Core NSA MoM/YoY (Jun)	0.1%/1.7%	0.1%/2%
10:30	House Price Index YoY (May)	1.3%	1.4%
EMU			
08:00	EU27 New Car Registrations (Jun)	--	0.1%
11:00	Construction Output MoM/YoY (May)	--/--	-0.8%/3.9%
11:00	CPI Core YoY (Jun F)	1.1%	1.1%
11:00	CPI MoM/YoY (Jun F)	0.1/1.2%	0.1%/1.2%
Italy			
10:00	Industrial Sales MoM/WDA YoY (May)	--/--	-1%/-0.7%
10:00	Industrial Orders MoM/NSA YoY (May)	--/--	-2.4%-0.2%
Events			
2019Q2 earnings	Bank of America (12:45), eBay (tentative), Netflix (aft-mkt), Alcoa (aft-mkt), IBM (aft-mkt) ...		
11:30	Germany to Sell 1 Billion Euros of 1.25% 2048 Bonds		
12:30	G7 finance ministers and central bank chiefs meet		
19:30	Fed's George Discusses Economic Outlook (voter)		
20:00	U.S. Federal Reserve Releases Beige Book		

	<u>Close</u>	<u>-1d</u>		<u>2-year</u>	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2.10	-0.01		US	1.85	0.02	DOW	27335.63	-23.53
DE	-0.24	0.00		DE	-0.73	0.00	NASDAQ	8222.797	-35.39
BE	0.08	0.00		BE	-0.64	0.01	NIKKEI	21469.18	-66.07
UK	0.82	0.00		UK	0.59	0.01	DAX	12430.97	43.63
JP	-0.13	-0.01		JP	-0.19	-0.01	DJ euro-50	3521.36	19.14
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.38	1.83	0.79	Eonia	-0.3700	-0.0020			
5y	-0.24	1.85	0.85	Euribor-1	-0.3950	-0.0020	Libor-1	2.3141	0.0000
10y	0.18	2.04	1.01	Euribor-3	-0.3670	-0.0040	Libor-3	2.3033	0.0000
				Euribor-6	-0.3500	-0.0070	Libor-6	2.2171	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1211	-0.0047		EUR/JPY	121.35	-0.14	CRB	180.08	-3.00
USD/JPY	108.24	0.33		EUR/GBP	0.9036	0.0041	Gold	1411.20	-2.30
GBP/USD	1.2407	-0.0109		EUR/CHF	1.1074	-0.0010	Brent	64.35	-2.13
AUD/USD	0.7012	-0.0027		EUR/SEK	10.5268	-0.0070			
USD/CAD	1.3088	0.0039		EUR/NOK	9.612	-0.0020			

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