Sunset

Thursday, 29 September 2016

Headlines

- **European shares opened significantly higher**, supported by the Opec deal, but sentiment weakened somewhat during the session. US **Equities opened slightly lower** following two session of strong gains.
- **Fed's Harker said today he would have been very comfortable with a rate hike in September**, but there were disagreements among colleagues. **Harker added that a December rate hike would be appropriate if things continue on the trajectory he anticipates.**
- **German consumer prices rose by 0.5% Y/Y in August,** up from 0.3% Y/Y in July, the strongest annual rate since May 2015. Upward price pressures were based in food and energy and package holidays. **Spanish inflation turned positive for the first time in more than two years**, picking up from -0.3% Y/Y to 0.1% Y/Y.
- **US initial jobless claims rose only marginally in the week ending the 24th of September**, from 251 000 to 254 000, while an increase to 260 000 was forecast. **Continuing claims** dropped to a new cyclical low of 2 062 000. The Labour Department said there were no special factors and no states were estimated.
- **The deputy governor of Ireland's central bank sounded upbeat over the state of the Irish economy**, suggesting growth continues to hover around 5 per cent, but highlighted the threats posed by Brexit and fragile bank balance sheets.
- **European Commission's economic confidence jumped this month to its highest level since the start of the year**, boosted by an improvement in manufacturing and retail confidence.

Rates

Core bonds withstand higher oil prices

German Bund: retest of previous high

Global core bonds lost some ground today. Losses are contained given yesterday's evening oil rebound. At the time of writing, the German yield curve bear steepens with yields 0.4 bps (2-yr) to 3.4 bps (30-yr) higher. The US yield curve shifts in similar fashion with yields 0.8 bps (2-yr) to 2.3 bps (30-yr) higher. **On intra-EMU bond markets**, Ireland (-2 bps), Portugal (-4 bps) and Greece (-5 bps) outperform. The Greek economy minister sounded optimistic following the approval of an omnibus bill earlier this week in parliament. According to him, it paves the way for a positive bailout review around Christmas opening the door to further debt relief and the inclusion of Greek government bonds in the PSPP-programme.

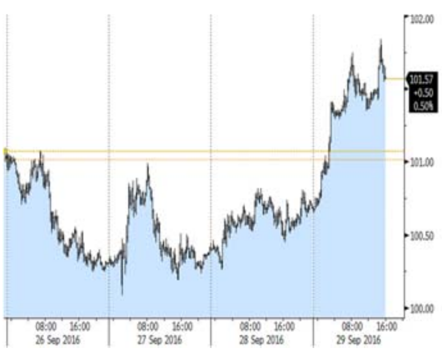
Intraday, core bonds hardly lost ground despite yesterday's late surge in oil prices following the unexpected OPEC agreement and despite the strong equity market opening. The Bund, US Note future, Brent crude and stocks traded with a minor downward bias going into the US trading session. EC confidence indicators improved more than expected while German inflation printed in line with expectations. As usual, EMU eco data passed by unnoticed. US weekly claims printed once more at historically low levels. Simultaneously with the release, hawkish **Fed governors George and Lockhart** reiterated their call for a short term rate hike pulling US Treasuries marginally lower. Earlier on the day, **Philly Fed Harker** also said that he wanted to raise rates sooner rather than later.

The **Italian debt agency** sold a new 5-yr BTP (€4B 0.35% Nov2021) and tapped the on the run 10-yr BTP (€2.5B 1.25% Dec2026). The combined amount sold was the maximum of the intended €5.5-6.5B range with a mediocre 1.35 bid cover. Additionally, they raised €2B by tapping a floating rate note.

Currencies

Dollar cautiously higher on post-OPEC risk rebound

Today, higher core bond yields in the wake of the OPEC production cut were slightly supportive for the dollar. The US eco data were also constructive. That said, the progress of the US currency still remained modest. EUR/USD trades in the low 1.12 area. The gains of USD/JPY are more substantial (101.65).



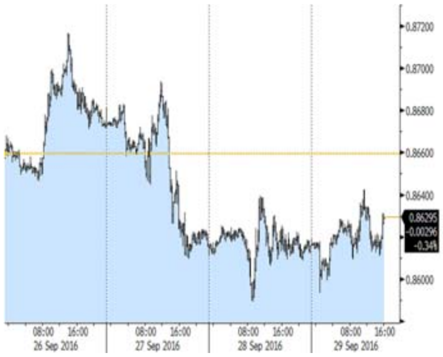
USD/JPY (this week): USD rebounds off recent highs

The OPEC decision to cut production supported Asian equities. Regional indices gain about 0.5% to 1.0%. Yesterday evening, the rise of the oil price had only a limited impact on EUR/USD and USD/JPY. EUR/USD was still hardly change this morning (1.1235 area). The prospect of higher inflation, higher core bond yields and the rise in equities supported USD/JPY. The pair rebounded to the 101.75 area at the start of the European session. Commodity related currencies like the CAD, NOK and AUD remained well bid but additional gains were modest.

European equities opened with gains of 1%+. Indices stayed well in positive territory, but there were no follow-through gains. In fact, equities, bond yields and also major currency cross rates showed again hardly any intraday price dynamics. **The data also failed to inspire the trading dynamics.** German regional CPI data were higher than expected. This resulted in domestic CPI of 0.7% Y/Y, but the HICP still came out in line with expectations at 0.5% Y/Y. The confidence data of the EC were also stronger than expected. Initially, the data and the developments in other markets had very little impact on EUR/USD. The pair hovered in a tight 1.1210/30 range. USD/JPY found a new ST equilibrium in the 101.50 area.

In the US, the jobless claims remained very low at 254 000. The continuing claims declined substantially. Q2 Growth was revised marginally higher than expected and the August trade deficit was smaller than expected. More or less at the same time, Fed George repeated her view that ‘it’s time for a rate hike’. **The combination of decent US eco data and hawkish Fed speak caused some modest intraday USD gains.** EUR/USD dropped again to the 1.12 area. USD/JPY set a minor intraday top north of 101.80, but failed to extend the rally. The pair trades at 101.60. **So, at the end of the day, the rise in core bond yields and the risk-on sentiment post-OPEC was slightly positive for the dollar.**

Sterling captured in order-driven sideways trading



EUR/GBP: sterling stays away from recent 'extremes'

For the second consecutive day, sterling trading was order-driven with only modest intraday swings. **The UK lending data were not too bad. Especially consumer credit is holding reasonable strong.** Even so, the data had again very little direct impact on sterling trading. The UK currency also didn't really profit from the higher oil price or the constructive risk sentiment. EUR/GBP hovered sideways in the lower half of the 0.86 big figure (currently 0.8625). Cable showed a slight intraday downtrend, but this was mostly dollar strength (GBP/USD currently 1.3000). **In a broader perspective, sterling holds off the recent lows, but still doesn't succeed a meaningful/sustained rebound. The technical picture of the UK currency remains fragile.**

16:00 CET	Daily EMU spread changes (bps)								
	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.58%			-0.12%			0.45%		
Greece	#VALUE!	#VALUE!	#VALUE!	8.26%	837	-4.8	#VALUE!	#VALUE!	#VALUE!
Portugal	1.84%	242	-6.2	3.31%	343	-4.5	4.23%	378	-4.8
Italy	0.27%	85	1.3	1.22%	133	0.4	2.26%	181	-0.1
Spain	0.06%	64	-0.5	0.92%	104	-0.4	2.02%	157	-0.5
Ireland	#VALUE!	#VALUE!	#VALUE!	0.33%	45	-2.5	1.17%	72	-2.0
Belgium	-0.49%	9	-0.7	0.13%	25	0.0	1.07%	63	0.3
France	-0.44%	14	-0.6	0.19%	31	-0.1	0.98%	53	0.0
Austria	-0.48%	10	-0.5	0.10%	22	0.0	0.78%	33	0.0
Netherlands	-0.47%	11	0.1	0.00%	12	0.1	0.52%	7	0.0
Finland	-0.51%	7	-0.8	0.03%	14	-0.2	0.53%	8	-0.6
US	1.14%	172	-1.5	1.58%	170	-2.0	2.31%	186	-1.7
UK	0.20%	78	0.4	0.72%	84	1.3	1.43%	98	0.6

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