



Sunset

Friday, 17 November 2017

Headlines

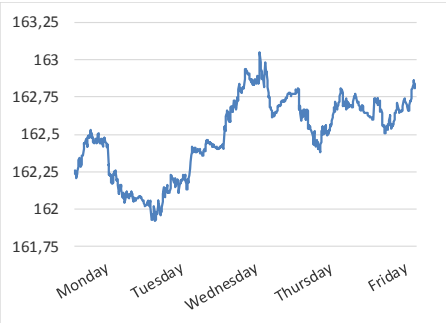
- **European equities** trade near opening levels as yesterday's risk rebound already ran out of steam. US stock markets opened up to 0.3% lower.
- **US housing data rebounded more than forecast in October.** Housing starts rose by 13.7% M/M (vs 5.6% M/M consensus). Building permits increased by 5.9% M/M (vs 2% M/M forecast). In both cases, September data were upwardly revised.
- **Germany's would-be coalition partners resumed talks on Friday after all-night negotiations failed to produce a breakthrough,** with Chancellor Angela Merkel's conservatives saying they would compromise further on climate change policies to secure a deal.
- **Portugal has made an early repayment of €2.78bn to the International Monetary Fund** with the aim of paying back costly bailout loans ahead of schedule as the country's borrowing costs fall in debt markets.
- **ECB President Draghi** said in a speech in Frankfurt that with the decision to extend QE at a slower monthly pace, **the signalling effect of asset purchases has "naturally increased in prominence relative to the duration effect."**
- **Turkish President Erdogan lashed out at the central bank,** saying a lack of government intervention in monetary policy had left Turkey saddled with high inflation and facing a potential slowdown in investment.

Rates

Core bonds gain ground ahead of the weekend

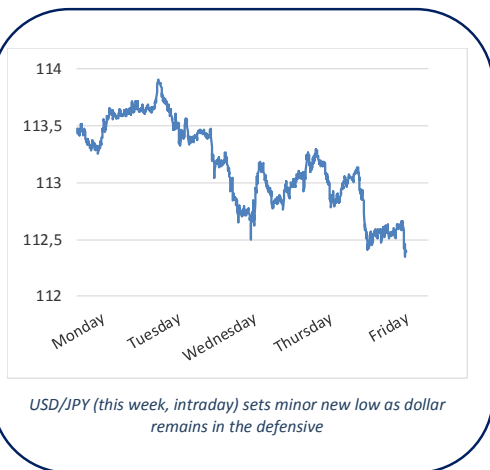
Global core bonds eke out some gains today going into the weekend. Next week's volumes will probably be lower than usual because of the US Thanksgiving week. US Treasuries outperformed this morning during Asian trading hours as headlines about Special Counsel Mueller's subpoena outweighed progress on US tax reforms. Trading slowed to a trickle in the European session. Stocks failed to extend yesterday's risk rebound and treaded water. Eco calendars in EMU and US couldn't lure investors into setting up directional trades with only second tier, but stronger, US housing data on the agenda. **The Mueller headlines took centre stage again once US investors entered trading, pushing core bonds to intraday highs at the time of writing.** ECB president Draghi said that effects of past low inflation in wage formation should not be persistent, but his comments didn't affect dealings with ECB policy tied for at least another 9 months.

At the time of writing, the US yield curve flattens with yield changes ranging between +0.5 bps (2-yr) and -2.5 bps (30-yr). The German yield curve bull flattens with yields 0.5 bps (2-yr) to 1.5 bps (30-yr) lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany range between -1 bp and +1 bp with Greece slightly underperforming (+3 bps).



German Bund (intraday, this week): Heading to this week's high going into the weekend

Currencies

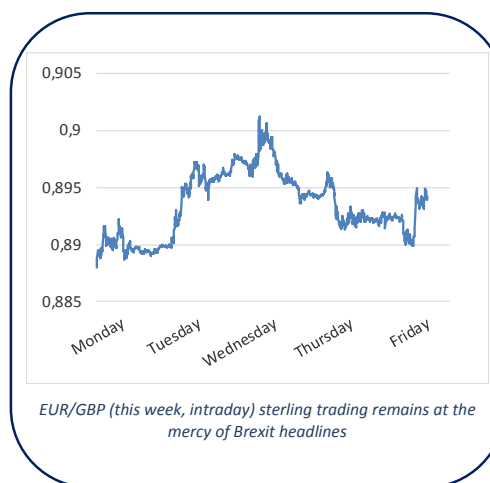


USD/JPY decline illustrates USD's bleak performance

European markets didn't know how to react to the diffuse news flow from the US. Risk sentiment remained fragile and the dollar stabilized after the overnight setback. Strong US housing data also couldn't provide a lasting support for the US currency. USD/JPY trades in the 112.50 area, within reach of the recent correction low. EUR/USD holds near the 1.18 level.

Asian markets showed a diffuse picture overnight as opening gains were partly undone later in the session. The dollar came under pressure on headlines that President Trump's election campaign received a subpoena of special Counsel Robert Mueller on the links between the campaign leaders and Russia. USD/JPY dropped from the 113+ area and set a minor new low for the week in the 112.40 area. EUR/USD returned north of 1.18.

There were no important eco data in Europe. European investors didn't know how to react to the mixed news flow from the US (tentative progress on the tax debate, deeper investigation on the Russia links of the Trump campaign team). European equities settled in wait-and see modus and so did core bonds and the dollar. EUR/USD and USD/JPY held tight ranges. Comments from ECB's Draghi in Frankfurt didn't change the market's view on the ECB's approach going forward. In the afternoon, US housing data beat consensus by a really big margin. Usually, these data have little impact on the dollar. This time, the dollar temporary gained a few ticks, but the gains couldn't be sustained. The dollar remained in the defensive going into the US equity market opening. EUR/USD trades again close to 1.18. USD/JPY hovers currently in the 1.1775 area. USD/JPY is setting minor new correction lows in the 112.35/40 area. The dollar didn't take out any important support levels today, but USD sentiment remains fragile.



GBP rebound halts as Brexit optimism looks premature

Already for quite some time, the Brexit story is a story of whether the glass is half full or half empty. Yesterday, markets saw indications that the glass is rather half full. Today, it was again half empty. On the side-lines of a meeting of EU leaders in Gothenburg, EU and UK officials had informal talks. Yesterday markets thought they had heard some positive signs. Today, markets were a bit 'unsettled' by comments from UK Brexit minister Davis as he indicated that it was now up to the EU to do some concessions. The news flow from Gothenburg also didn't suggest that big Brexit progress could be in the making. The issue on the Irish boarder also remains a potential roadblock. PM May and EU's Tusk finally came to an obvious conclusion: There is more work to be done!

EUR/GBP jumped back north from the low 0.89 area to the 0.8960 area late in the morning session (currently around 0.8945). Cable dropped from the mid 1.3250/60 area and trades currently around 1.3185. Brexit-related volatility will probably continue to affect sterling trading for some time to come. That said, for now sterling stays away from important support levels.

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,35%			0,37%			1,25%		
Greece (2-10-20)	2,89%	324	0,0	5,22%	486	3,1	5,90%	465	-1,1
Portugal	0,60%	95	-1,3	1,98%	162	1,3	3,32%	207	0,0
Italy	0,57%	92	-2,4	1,82%	146	-0,4	3,02%	177	0,2
Spain	0,38%	73	14,9	1,54%	117	0,6	2,83%	158	1,5
Ireland (4-10-30)	-0,22%	13	0,0	0,58%	22	0,2	1,79%	54	0,3
Belgium	-0,28%	6	0,3	0,58%	22	0,7	1,69%	44	0,6
France	-0,13%	22	0,2	0,71%	35	-0,4	1,73%	48	0,0
Austria	-0,26%	9	-0,6	0,50%	14	-0,5	1,51%	26	0,2
Netherlands	-0,40%	-6	-0,2	0,46%	10	-0,1	1,25%	0	-0,1
Finland	-0,27%	8	-2,0	0,52%	15	-0,2	1,33%	8	0,0
US	2,05%	239	-1,7	2,34%	198	-2,2	2,79%	154	-1,7
UK	0,77%	112	0,3	1,30%	94	0,3	1,86%	61	0,3

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