



# Sunset

Friday, 24 March 2017

## Headlines

- **US stocks open positively with the Nasdaq outperforming (0.57%)**, apparently confident that the House will pass the health care act today. **European equities** are narrowly mixed.
- **The euro zone economy is sparkling according to the latest PMI's**, growing at a pace that easily explains the hints from some ECB policymakers of a pull-back from their easy-money regime. The composite PMI unexpectedly increased from 56 to 56.7 (vs 55.8 expected), the joint highest reading since Q1 2011.
- **US businesses boosted their orders for long-lasting manufactured goods in February for a second month running** (1.7% m/m from 2.3% m/m in January). **A closely-watched gauge that tracks investment spending was also better than expected** (1.0% m/m from -0.3% m/m in January).
- **St. Louis Fed Bullard said that the Fed should be allowing the balance sheet to normalize naturally now by ending its reinvestment policy**. Normalizing the BS during relatively good times is a good idea in case the Fed is forced to resort to BS policy in a future downturn, he added. There is no urgency to raise rates, according to Bullard.
- **ECB chief economist Praet stood by the ECB's pledge to keep its policy easy** after comments by other rate-setters raised questions about the bank's next moves. He also took on euro-hostile movements, saying they were misleading people and hiding the fact that reverting to the old currency would involve huge costs for the population at large.
- **The Bank of Russia signalled a new easing cycle may be in sight after unexpectedly reducing borrowing costs from 10% to 9.75%** for the first time since September, breaking with guidance last month that called into question its room for rate decreases in the first half.

## Rates

### Stellar EMU PMI's, but waiting game continues

**Global core bonds traded with a small upward bias today, ignoring mixed eco data.** EMU PMI's recorded another monthly increase, matching the highest level since Q1 2011. US durables goods orders also surprised on the upside, but the forward looking capital goods orders component disappointed. Neither eco report triggered market reaction. **Investors await the outcome of the vote in the US House of Representatives on the Republican plan to dismantle Obamacare.** Failure to push the bill through could signal problems ahead for his economic agenda and might falter markets' faith in the reflation trade. In that case, we expect more of Tuesday's risk off scenes with higher US Treasuries and a test of 2.3% support in the US 10-yr yield. The market reaction in case of a "no-vote" will probably be bigger than the relief rally (lower US Treasuries) in case of a "yes-vote". St. Louis Fed governor Bullard confirmed that he's rate projections are the lowest in the Fed's dot plot, but advocates halting the Fed's reinvestment policy to shrink the balance sheet starting H2 2017.



US Note future (intraday, this week): waiting on outcome bill to dismantle Obamacare

At the time of writing, changes on the German yield curve range between -2 bps (10-yr) and +0.3 bps (2-yr). Changes on the US yield curve vary between +0.5 bps (2-yr) and -0.9 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus German narrowed up to 3 bps (Portugal). Portugal recorded its smallest budget deficit (-2.1% of GDP) in 40 years.

## Currencies

### USD remains in wait-and-see modus

Today, major USD cross rates were in a wait-and-see modus, as investors counted down to the vote on the US healthcare bill. EUR/USD gained slightly ground in European morning trading on strong EMU PMI's. The US durable orders were OK, but without a USD reaction. EUR/USD is again trading in the 1.08 area. USD/JPY is changing hands in the low 111 area.

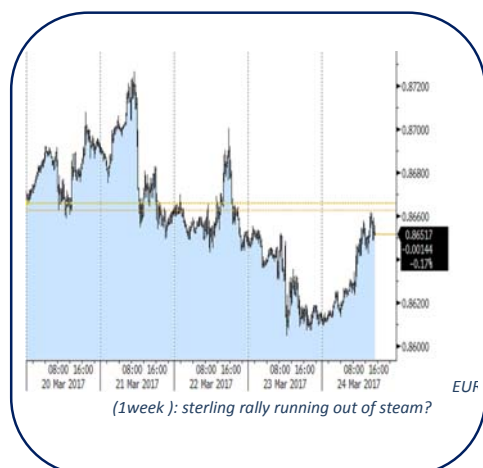
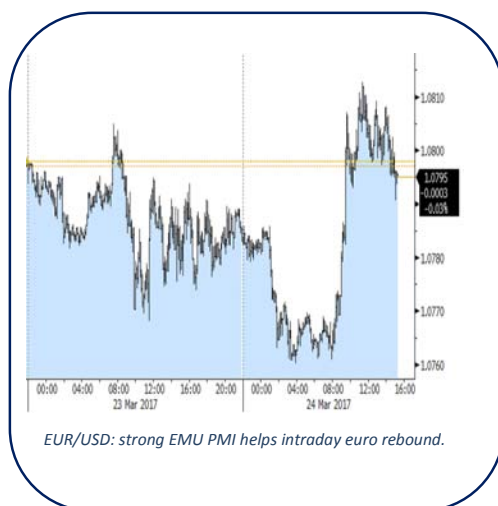
Overnight, markets saw a rising chance that the last changes to the healthcare Bill would secure enough support for the bill to pass the House vote. This supported risky assets (equities) in Asia.. USD/JPY rebounded from yesterday's lows and filled offer just below 111.50. The dollar also gained slightly ground against the euro and traded in the 1.0760/70 area. The dollar rebound was supported a slight rise of US yields.

The focus of global FX trading remained on the fate of the US healthcare bill/vote. However, the EMU data also played a minor role. The French and German PMI's were much stronger than expected resulting in an EMU composite PMI of 56.7 (vs 55.8 expected). The strong EMU PMU had little impact on European yields and on the interest rate differential between the US and Europe. However it propelled EUR/USD back to the 1.08 area. At the same time, global risk sentiment remained cautious ahead of the Trumpcare vote, pushing USD/JPY back to the 111 barrier, as some end of quarter yen buying might have been at work.

US durable orders were mixed with the headline figure printing marginally stronger than expected. The report had no lasting impact on the dollar. For now, FX and interest rate markets stay in wait-and see modus. Stock are better bid going into the vote. USD/JPY trades in the 111.20 area. EUR/USD is changing hands just below 1.08.

### Sterling rebound takes a breather

Overnight, dovish comments from BoE's Vlieghe caused some profit taking on the recent sterling rally. Admittedly most of the correction occurred in (thin) Asian trading. Cable settled in a tight range close to, mostly slightly below the 1.25 barrier in Europe. The rebound of EUR/GBP continued during the morning session due to broader euro gains after the strong EMU PMI's. EUR/GBP returned to about 0.8650. The BBA loans for home purchases were weaker than expected, but ignored.



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,31%			0,41%			1,16%		
Greece (2-10-20)	8,53%	884	13,9	7,40%	699	2,5	7,64%	649	3,1
Portugal	2,41%	272	-2,5	4,16%	374	-2,2	4,78%	363	0,3
Italy	0,91%	121	-2,6	2,25%	184	-0,3	3,35%	219	1,3
Spain	0,53%	84	-0,5	1,70%	128	-1,8	2,93%	177	-0,5
Ireland (4-10-30)	-0,14%	17	-0,2	1,08%	66	-0,8	2,14%	98	-0,9
Belgium	-0,04%	27	-0,7	0,89%	48	-0,7	1,87%	71	-1,9
France	0,13%	44	-3,6	1,01%	59	-2,1	1,98%	82	-2,3
Austria	-0,24%	7	-0,6	0,61%	20	0,3	1,52%	36	-0,2
Netherlands	-0,22%	9	0,2	0,65%	24	-0,5	1,24%	9	-0,2
Finland	-0,10%	21	-2,7	0,52%	10	0,0	1,33%	17	-0,9
US	1,94%	225	-0,1	2,41%	200	0,8	3,02%	186	0,7
UK	0,65%	95	1,6	1,21%	80	0,0	1,79%	63	0,2

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