Sunset

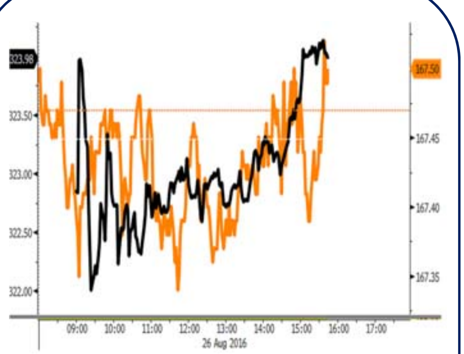
Friday, 26 August 2016

Headlines

- **European shares reversed early losses** to trade slightly higher. **US Equities opened in positive territory** too, ahead of Yellen's Jackson Hole speech.
- **The second estimate of UK Q2 GDP confirmed the first estimate, showing a growth rate of 0.6% Q/Q.** The details were more surprising. Private consumption remained strong, but also business investments surprised on the upside, while net exports were a significant drag on growth.
- **Euro area inflation expectations in surveys have become less dependent on the ECB's target and more on its shorter-term projections**, posing a potential risk to the ECB's credibility, an ECB research paper showed.
- Ahead of Yellen's speech, **gold rebounds** today, rising almost 1% to $1330/ounce. **Brent crude oil** reversed early losses, trading around $49.5/barrel. **Iran** said today, it will help other oil producers stabilise the world market so long as fellow OPEC members recognise its right to regain lost market share.
- **At 16:00 pm CET Fed Chairwoman Yellen will start her speech at the Jackson Hole Symposium**. The Symposium will continue tomorrow.

Rates

Core bond motionless ahead of Yellen's speech



Bund future (black) and EuroStoxx (orange) (intraday): Sideways trading ahead of yellen:

Core bonds opened near yesterday's closing levels and held a tight sideways range ahead of the speech of Fed chairwoman Yellen. At the time of closure of our report (15:30) the US yields were 0.8 bp (2-yr) to 1.4 bp (30) lower while German bonds were 0.3 bp higher (2-yr) to 1.1 bp (lower (30-yr).

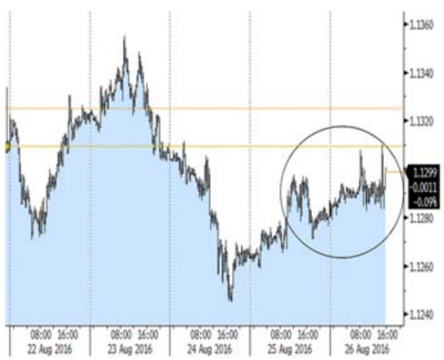
Intra-day, the moves are too small to be attributed to one or another report or event. French and German consumer confidence increased slightly with German confidence matching the cycle high. The French consumer sentiment is near those highs. The reports contrast with the EMU consumer confidence earlier this week that deteriorated in August. EMU M3 money supply slowed to 4.8% Y/Y in July from 5% Y/Y in June. The lending data showed little changes. The year on year figures virtually stabilized at low levels and the pulse seems to be easing too. So these figures might be a concern for ECB policymakers. **St-Louis Fed Bullard said in a Bloomberg interview** that he is agnostic on when the Fed will hike, it could be this year. However, more important, he said the US is in a low growth low productivity regime in which rates are near neutral rates and so doesn't see a reason to hike more than once. He doesn't favour negative rates in the case of recession. He said somewhat lower rates combined with QE and forward guidance may do the trick. **Atlanta Fed Lockhart** remained cautious but could see one hike if the economy remains on course. As markets were attending chairwoman's Yellen speech, investors didn't react to these regional Fed bank comments.

Currencies

Countdown to Yellen continues

Today, trading in the major currency cross rates was still paralysed as investors didn't want to hold much directional exposure ahead of Yellen's speech at Jackson Hole at 16.00 CET. EUR/USD (1.1300 area) and USD/JPY (100.30) area) were locked in extremely tight ranges.

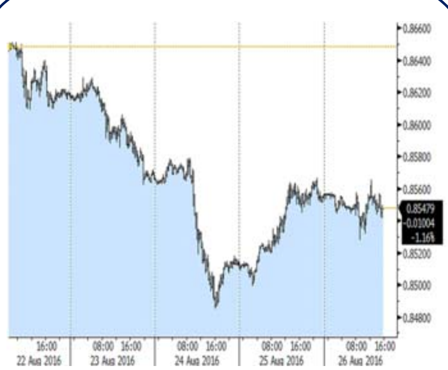
Overnight, Japan July CPI came out slightly softer than expected. Headline inflation was unchanged at -0.4 Y/Y. Core inflation (ex Fresh food) declined 0.5% Y/Y. The data keep the BOJ under pressure to consider further easing next month. However, **the hope on more easing still didn't weaken the yen. USD/JPY was paralysed in the mid 100 area**. **USD/JPY and EUR/USD (1.1285) were locked in lethargy ahead of Yellen's speech.**



EUR/USD (1 wk):Awaiting Yellen Jackson Hole speech

European markets understandably also didn't find a clear directional trend in the run-up to Yellen's speech at Jackson Hole. European equities opened in negative territory and then drifted sideways mostly marginally below yesterday's close. European yields changes were close to non-existent. The EMU M3 money supply and lending data showed a rather lacklustre rise in credit in the region (see news section). Evidently, this report also wasn't enough to inspire any directional price action. EUR/USD didn't go anywhere, hovering in a very tight range mostly just below 1.13. Same story for USD/JPY in the mid 100 area.

In the US, the Q2 GDP growth was revised marginally lower to 1.1% Q/Q annualized. The Advance goods trade deficit was reported less negative than expected at $59.3 bln ($63 bln expected). Once again investors didn't react just hours before Yellen's speech. Equity momentum improved slightly in the last straight line to the Yellen speech. EUR/USD currently still trades near 1.1295. USD/JPY is marginally softer at 100.30. In the Yellen speech, **two items may especially affect markets**. First, will Yellen give a hint on a rate hike still in 2016, which is not discounted by the markets? We still see a decent chance for such a scenario. If so, it could be USD positive. **Second, we look out whether Yellen would offer arguments to reduce the natural FF rate level (currently at 3.%).**



EUR/GBP (1 wk) sterling also shifts in consolidation modus

Sterling going nowhere, as do most other markets

The intraday swings in cable and EUR/GBP were slightly wider than in the major USD cross rates. However, also cable and EUR/GBP didn't really go anywhere and developed an erratic trading pattern. UK Q2 GDP was confirmed at 0.6% Q/Q and 2.2% Y/Y. The details showed strong private consumption (0.9% Q/Q) and, maybe a bit more surprising, decent capital investment (1.4% Q/Q). The external sector (import/export) was again a negative for growth. We didn't see any lasting impact from the report on sterling trading. The UK currency traded with a slight positive bias early in the session, but ceded slightly ground later. Current levels of EUR/GBP (0.8555) and of cable (1.3210) are little different from this morning's starting levels.

News

Very gradual improvement in EMU lending continues

EMU Consumer credit (Y/Y): signs of a slowdown?

Growth in **euro zone M3 money supply** slowed unexpectedly in July, from 5.0% Y/Y to 4.8% Y/Y, while a stabilisation was expected. Despite the slowdown in the annual reading, the monthly flow of M3 accelerated to €59 billion from €41 billion in June. The slowdown was based in M1 (8.4% Y/Y from 8.7% Y/Y), despite strong growth in overnight deposits. **Looking at the lending data**, lending to the private sector accelerated to 1.3% Y/Y from 1.2% Y/Y due to a €35B monthly increase. Lending to non-financials accelerated compared with the previous month (€10B from €1B), but the annual rate of growth was unchanged at 1.3% Y/Y. Lending to households (adjusted for sales & securitisation) slowed to €9 billion from €16 billion in June, with the annual rate unchanged at 1.8% Y/Y. Lending for house purchases on the contrary picked up, accelerating to 2.3% Y/Y from 2.1% Y/Y. **Consumer credit however disappointed**, being flat in July from the previous month with the annual rate of growth slowing to 3.3% Y/Y from 3.5% Y/Y. **Overall, the M3 data show little new info. The very gradual improvement continues. Despite the ECB's bold easing measures, credit growth remains slow with the recovery unconvincing, especially given the extremely low rates and abundant liquidity.**

Friday, 26 August 2016

15:55 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,51%			-0,08%			0,44%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,03%	811	-1,7	#VALUE!	#VALUE!	#VALUE!
Portugal	1,84%	234	3,1	3,01%	309	3,6	3,84%	341	3,0
Italy	0,22%	72	-0,3	1,13%	120	0,0	2,15%	171	0,6
Spain	0,07%	58	2,2	0,93%	101	1,9	2,00%	156	2,8
Ireland	#VALUE!	#VALUE!	#VALUE!	0,41%	49	-0,3	1,18%	74	0,8
Belgium	-0,45%	6	0,2	0,14%	22	0,2	1,02%	58	1,3
France	-0,39%	11	0,2	0,16%	23	0,0	0,95%	51	1,6
Austria	-0,44%	7	-0,5	0,13%	21	-0,1	0,78%	34	1,9
Netherlands	-0,43%	7	-0,6	0,02%	10	-0,3	0,53%	9	0,0
Finland	-0,46%	5	-1,2	0,07%	15	-1,0	0,57%	13	0,0
US	1,15%	165	-0,8	1,56%	163	-1,0	2,23%	180	-1,4
UK	0,23%	73	0,4	0,56%	63	-1,0	1,26%	83	-0,2

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