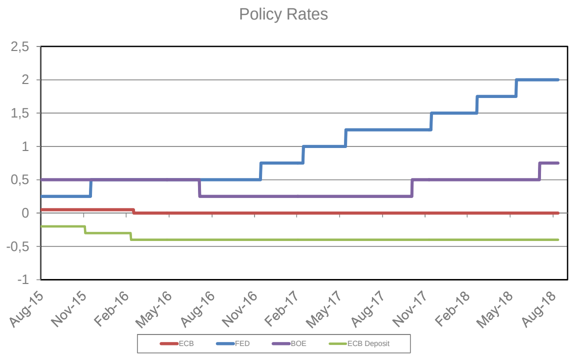
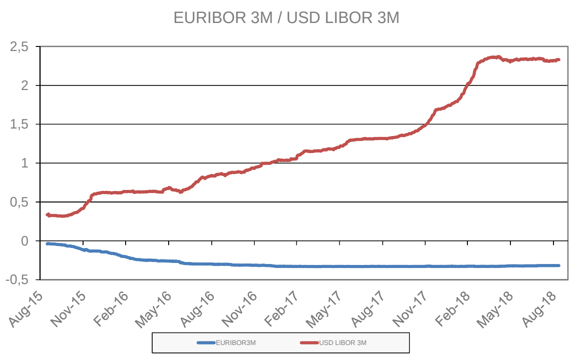
Wednesday, 12 September 2018

Markets

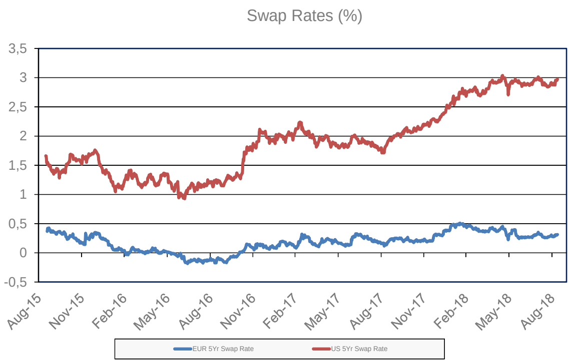
Rates



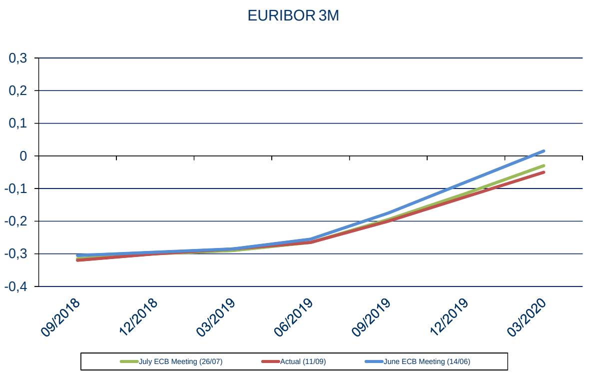
At the latest meetings, both the Fed and ECB held rates stable. The BoE seized the (data)moment and increased rates in August by 25 bps.



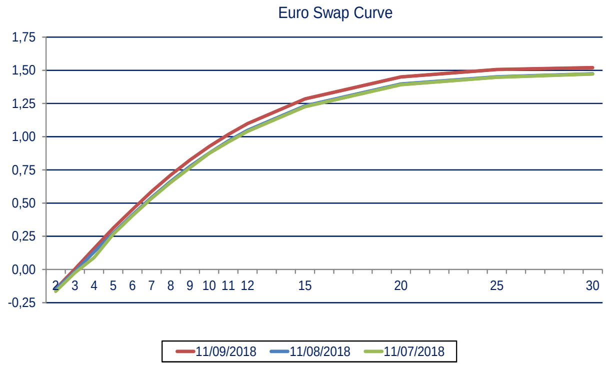
The US 3M libor rate stabilizes around 2.35% after the surge at the start of the year because of higher US bill supply, repatriation of US tax money and adapting to a faster Fed tightening cycle.

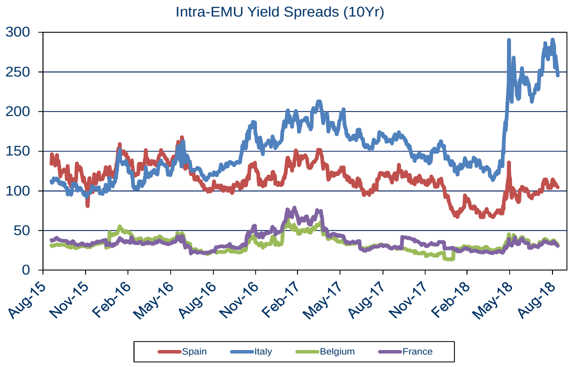


The US 5-yr swap is retesting 3%, triggered by the unexpectedly strong economic boost coming from fiscal stimulus. Its European counterpart has stabilized after it corrected lower due to the ECB's "lower for longer" interest rates.



In June, the ECB pulled the plug on the money market. If anything, the Euribor 3M strip curve flattened further. Markets currently expect positive rates only by mid-2020.

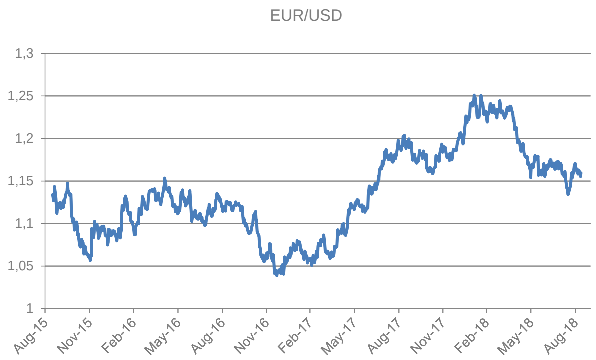


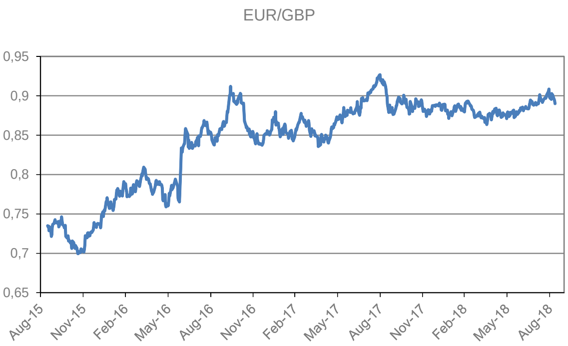


The EMU swap curve bear steepened marginally following an obvious flattening caused by the dovish ECB guidance on rates and risk aversion related to the US-Chinese trade conflict.

Spreads eased from the Italian (and Spanish) political turmoil. However, for Italy the genie is out of the bottle. Markets cautiously await the government's deficit spending intentions.

Currencies

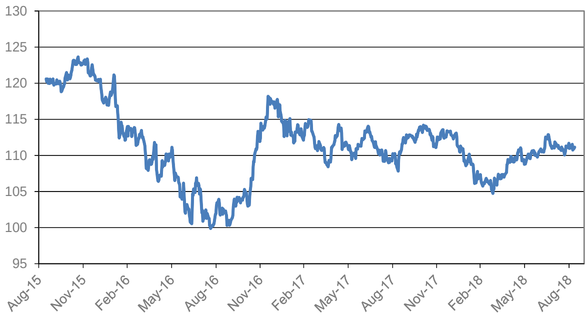




EUR/USD recovered from the 1.1550 breach mid-August (USD strength following EM stress). For now, the pair is blocked within a tight 1.15/18 consolidation pattern.

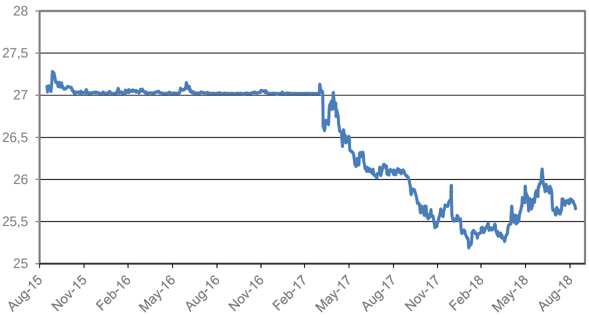
As the deadline approaches, sterling is increasingly sensitive to Brexit. However, real Brexit progress has yet to be made and keeps the pound in the defensive.

USD/JPY



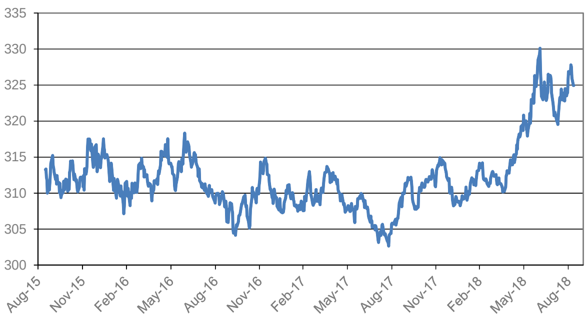
USD/JPY oscillates around the well-known 111-level as overall risk aversion triggers safe haven flights to both currencies and keeps the pair balanced.

EUR/CZK



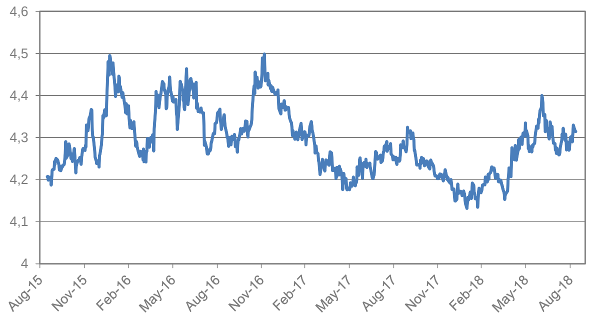
The Czech central bank increased rates in August and is expected to do so again in September. The Czech koruna strengthened as markets are anticipating to a central bank committed to policy normalisation.

EUR/HUF



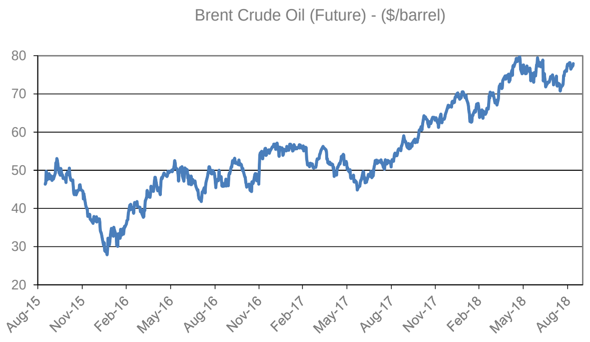
EUR/HUF left the 305-315 trading range and found higher ground following Orban's election victory and during the emerging market turmoil. Despite a slightly less dovish NBH (guidance) stance, rate hikes are still far off.

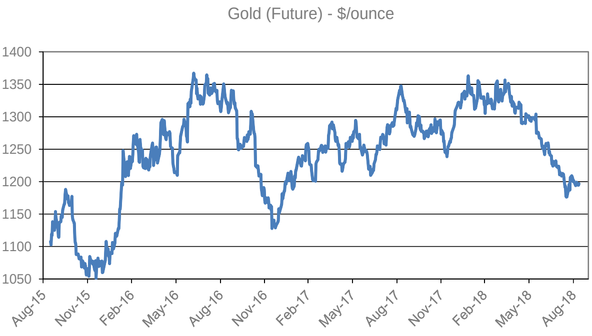
EUR/PLN



The zloty took a hit as the dollar firmed on the back of many emerging market currencies. Furthermore, the NBP has no intention at all to normalize policy any time soon.

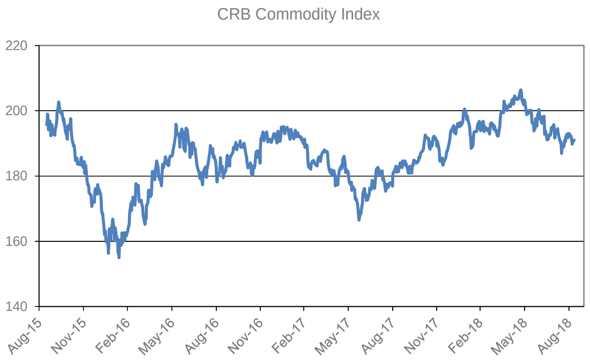
Others

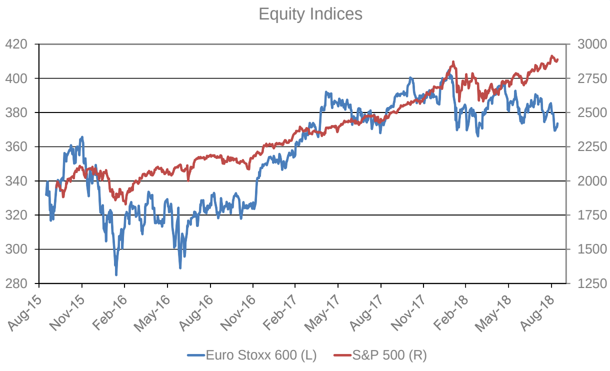




Despite OPEC's decision to ramp up supply, oil prices have risen due to tightening global supply as Iranian exports decline following US sanctions and hurricanes threatening offshore rigs.

The drop of the gold price shows tentative signs of stabilising with the USD rally halting for now and volatility on global equity markets protecting the downside rather well.



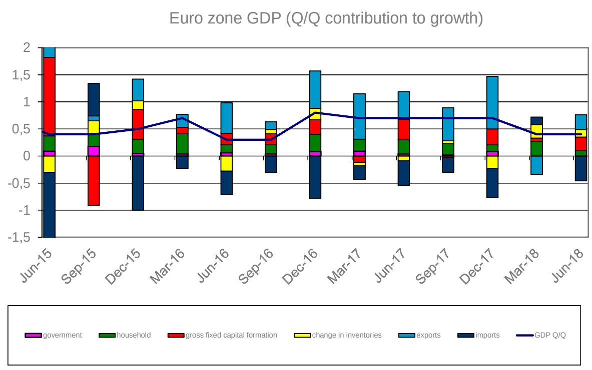


Commodity prices show tentative signs of stabilizing after trending further south, asserting the typical inverse relation with a stronger dollar. Commodities are especially vulnerable to the trade war developments.

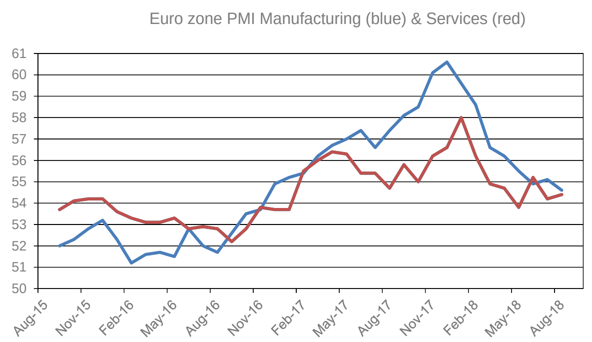
European and US stock markets show some divergence lately, suggesting an asymmetric impact of trade war tensions and highlighting a split in economic performance.

Economic Overview

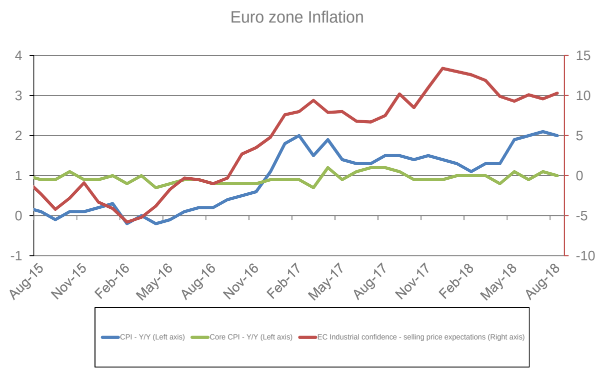
Eurozone



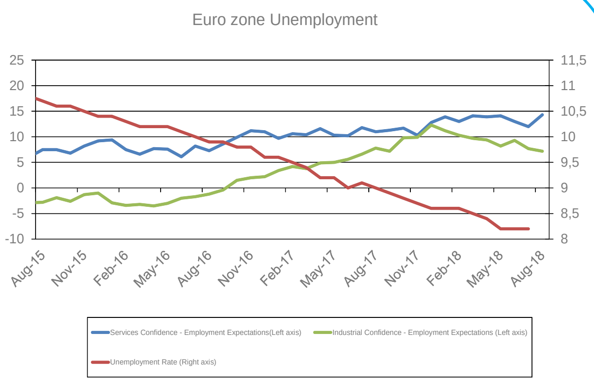
EMU growth reached 0.4% Q/Q and 2.1% Y/Y in Q2 2018, down from 2.5% Y/Y in Q1 as slack remained omnipresent. Growth momentum peaked in 2017. However, it should remain above trend in coming years.



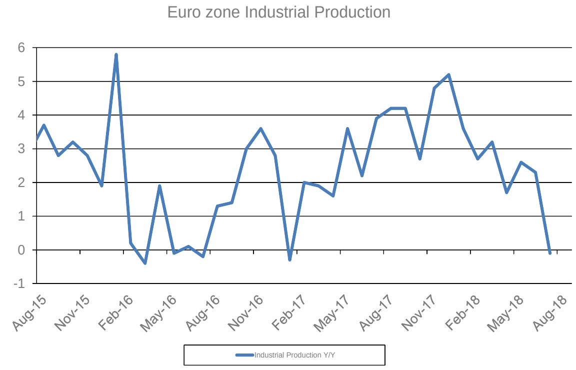
Manufacturing PMI continued its decline to 54.6, suggesting ongoing trade war fears. Services PMI increased slightly in August, from 54.2 to 54.4.



Both EMU headline and core inflation edged lower to 2.0% Y/Y and 1.0% in August. Oil effects are likely to keep headline inflation also higher in the coming months. Core inflation however indicates the ECB is still far off target.

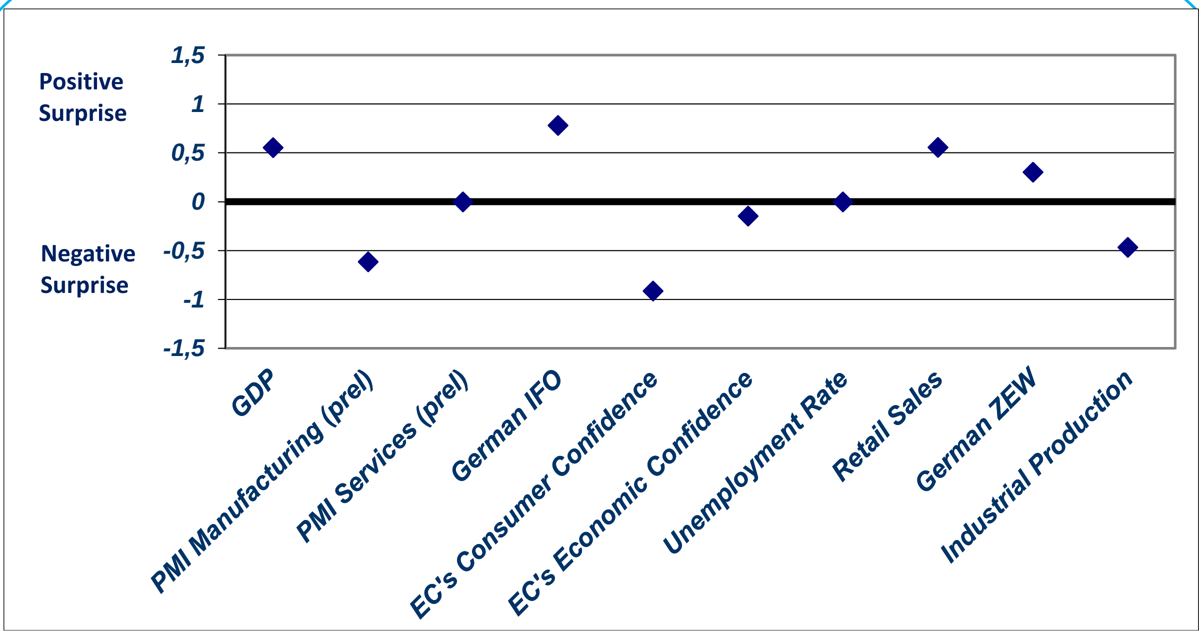


The euro zone unemployment rate stabilizes recently at 8.2% in July, the lowest level since November 2008. However, surveys (PMI sub-indicators amongst others) suggest that future decline is likely.



Industrial production decreased -0.1% Y/Y, the worst performance since February 2017. Germany and Italy led the decline, showing weak production in manufacturing, mining and capital goods.

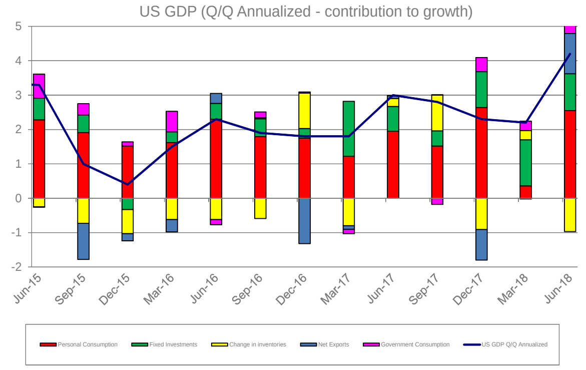
July retail sales slowed to 1.1% Y/Y, down from an upwardly revised 1.5% in June as electrical goods sales and internet orders disappointed.



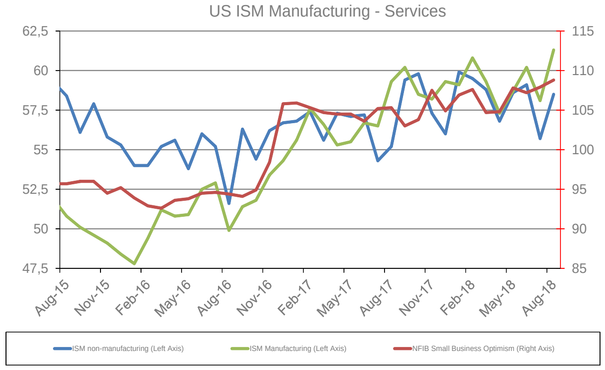
Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data.

Euro zone's data surprises were roughly balanced, in line with only moderate economic performance.

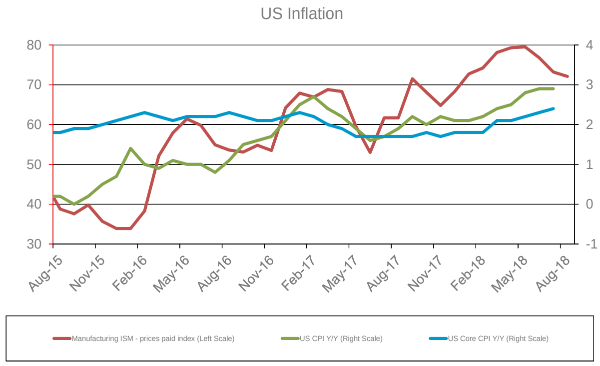
US



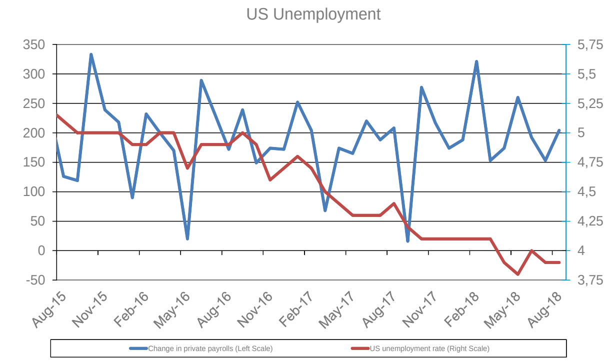
The US economy grew by a whopping 4.2% Q/Qa in Q2 2018. Personal consumption rebounded from a sloppy Q1. The negative contribution from inventories is expected to reverse in Q3.



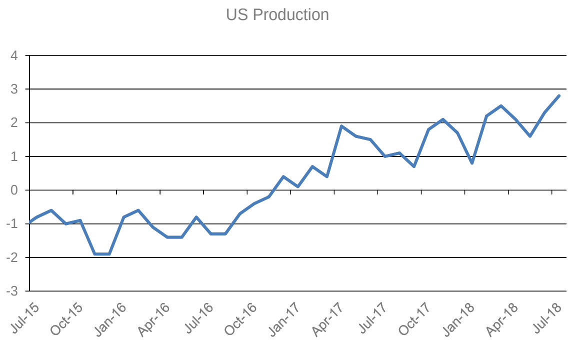
US Business sentiment indicators suggest ongoing economic strength as ISM's in August rebounded sharply from July's dip. NFIB optimism even set a record high (108.8).

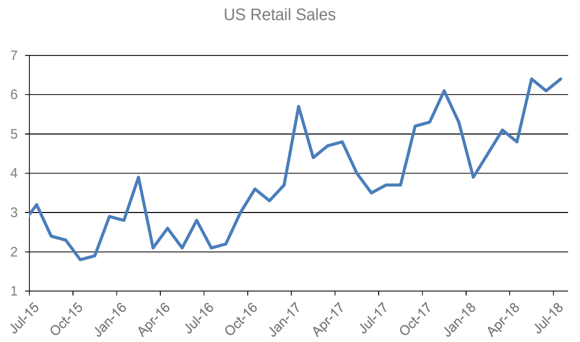


US headline CPI stabilized at 2.9% Y/Y in July. Core measures (2.4% Y/Y) trended further north of the 2.0%-target. However, for now the Fed holds on to its gradual approach.



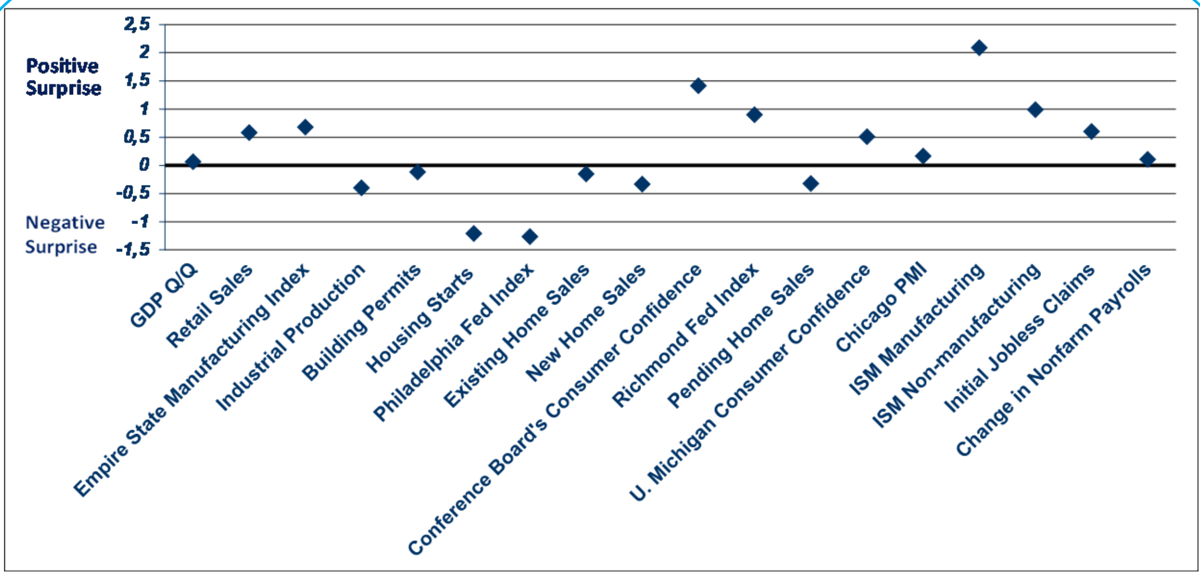
August payrolls (again) displayed ongoing strength on the US labour market. Wages picked up at the fastest pace since 2009 (2.9% Y/Y). Is labour market tightness (finally) kicking in?





US factory production recovered in June from May's decline (-0.8% M/M) and stabilized July with a mere 0.1% increase on a monthly basis.

Private consumption started Q3 on a decent note as headline US July retail sales rose 0.5% M/M. Core measures (excluding cars and or energy) picked up 0.6% M/M.



Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of US economic data.

US economic data: most recent data batch surprised markets positively and suggests strong economic performance going forward.

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