Sunrise

Tuesday, 24 October 2017

Rates: Bearish engulfing pattern in S&P 500

Today's eco calendar is interesting with EMU PMI's. We expect them to remain strong. Investors might remain in wait-and-see mode ahead of Thursday's ECB meeting. Risk sentiment on stock markets is a wildcard for trading. The US S&P 500 showed a bearish engulfing pattern. More prolonged equity losses could support bonds via safe haven flows.

Currencies: dollar and euro locked show no clear trend on multiple event risk

Yesterday, the dollar gained a few ticks against the euro, but USD/JPY failed to hold above 114. Investors are cautious to place directional bets in EUR/USD and USD/JPY as there is plenty of event risk in EMU (ECB, Catalonia) and the US (replacement of Yellen, tax reform). EUR/GBP dropped to the 0.89 area awaiting further progress in the Brexit negotiations.

Calendar

Headlines

S&P	↘
Eurostoxx 50	→
Nikkei	↗
Oil	↘
CRB	→
Gold	→
2 yr US	→
10 yr US	→
2yr DE	→
10 yr DE	↘
EUR/USD	↘
USD/JPY	→
EUR/GBP	→

- **US equities corrected lower yesterday** with main indices recording losses between -0.25% and -0.65%. **Risk sentiment on Asian stock markets is more positive overnight** with gains of around 0.5%.
- **Japanese manufacturing activity expanded in October at a slower pace than the previous month** as output and new orders growth eased in a sign final demand is moderating, the preliminary PMI showed (52.5 from 52.9).
- **The Chinese Communist party was set to confirm Xi Jinping's status as its most powerful ruler since Mao Zedong** by formally writing his name into the party constitution. The close of a party congress in Beijing formally marks the beginning of Mr Xi's **second five-year term as party general secretary.**
- **New Zealand's new government** will raise the minimum wage, prioritize regional economic development and **reform the central bank's legislation,** Prime Minister-elect Ardern said. NZD/USD drops back to 0.6950.
- **Merkel's CDU have raised the alarm** over €100bn-worth of spending promises made by the three parties in talks to form the next German government, **warning they could blow apart the country's treasured balanced budget.**
- **Republicans will decide in coming days whether to embrace or set aside a bipartisan health bill** that has gained traction in Congress, a decision potentially made harder by Trump who praises the effort but opposes the bill itself.
- **Today's eco calendar contains EMU PMI's and US Richmond Fed manufacturing index.** The US starts its end-of-month refinancing operation and the ECB publishes its Bank Lending Survey.

Rates

Tiny upward bias core bonds

Core bonds eke out modest gains in uneventful trading

No impact of political issues on peripheral bonds

Core bonds only recouped a small portion of Friday's steep losses in the opening session of the week. German Bunds eked out small gains in the European opening before shifting fast in sideways trading mode. **EMU consumer sentiment,** the only release of importance, was slightly stronger than expected, setting a new cycle high, but markets shrugged it, as expected, off. Weakening equities in the US session brought a mild bid in US Treasuries, but it wasn't enough to trigger a rally. **The wait-and-see attitude of bond markets is no surprise. Not only was the eco calendar unattractive, but investors stayed also side-lined as Thursday's ECB meeting looms.**

	US yield	-1d
2	1,56	-0,01
5	2,00	-0,02
10	2,37	-0,02
30	2,89	-0,01

In a daily perspective, US yields declined between 1.2 bps (2-yr) and 2.2 bps (5yr). The German yield curve shifted 1.1 bp lower (2-yr) to 2.3 (5-yr) bps. **Peripheral 10-yr yield spreads versus Germany** narrowed fractionally (1 to 2 bps). **Political issues were once more largely ignored.** Tensions between Spain and Catalunya increased in the weekend, "traditional" parties were decimated by the populist/ultra-right wing parties in Czech parliamentary elections and parties in favour of more autonomy gained in referendums in Northern Italy.

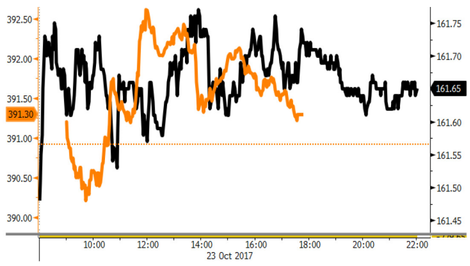
PMI business confidence in focus.

EMU PMI still pointing to above trend growth

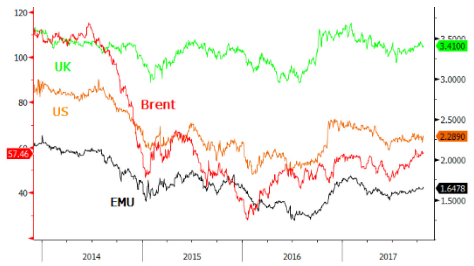
Upside risks US PMI

	DE yield	-1d
2	-0,73	-0,01
5	-0,30	-0,02
10	0,43	-0,02
30	1,29	-0,02

October EMU and US PMI business surveys will be released today. A slight decline in EMU confidence is expected. **The expected moderation, from a high level, suggests still above trend growth. Looking at the details,** manufacturing confidence reached a cycle high at 58.1 in September, up from 57.4 in August and is now expected to have moderated to 57.8 in October. Services PMI rose to 55.8 in September from 54.7 in August, but is a bit below the cycle highs of 56.4, reached in April. The stronger euro is probably why a slight decline in manufacturing confidence is expected, even if in past months it had no noticeable impact on sentiment. **We see no reasons to expect a meaningful decline in confidence.** As the ECB meeting nears, we suspect that the market reaction will be modest even in case of a deviation from consensus. **The US manufacturing PMI** is expected to have increased in October to 53.5 from 53.1 in September (weak dollar effect?), while the services PMI is expected virtually unchanged at 55.2. The US PMI's have in recent months underperformed similar US ISM surveys. **Therefore, we put the risks on the upside of consensus, but once more without much market impact.**



Bund (black) & EuroStoxx (orange) (intraday): Dull sideways trading (with positive bias)



5-yr/5-yr inflation expectations have broadly stabilized in 2017 after a dip in 2016, but are still rather low in longer term horizon

Potential bearish engulfing in S&P 500

R2	163,43	-1d
R1	162,19	
BUND	161,68	0,24
S1	160,49	
S2	159,80	

Most Asian stock markets eke out small gains overnight despite yesterday's correction lower on WS. China underperforms. The US Note future and Brent crude give no indication for the start of European dealings. So we expect a neutral opening for the Bund.

Today's eco calendar is interesting with EMU PMI's. We expect them to remain strong. European investors might decide to take a wait-and-see attitude though with Thursday's ECB meeting looming on the horizon. Investors are possibly too complacent about a 9-month extension, ignoring the risk of a shorter lifetime for APP. **Risk sentiment on stock markets is a wildcard for trading. The US S&P 500 showed a potential bearish engulfing pattern yesterday** after first setting a new all-time high. A more prolonged correction can support core bonds via safe haven flows. **Fed President Trump is expected to announce the new Fed chair in the near future.** It is probably a run-off between Powell and Taylor. Nominating Powell will have no impact on trading given the continuity of current policy. **Nominating Taylor will probably cause a hawkish repositioning (negative US Treasuries).** The US Treasury starts its end-of-month refinancing operation tonight with a $26B 2-yr Note auction. The WI currently trades around 1.58%.

Technically, the German Bund trades sideways since this Summer's rally ended early September. The US Note future completely retraced the Summer move with the US 5-yr yield moving above the 2% mark and the US 10-yr yield testing 2.4% resistance. Progress in the US tax reform debate boosted the reflation trade. **More specific news is probably needed to cause a break higher, which we eventually expect to come.**

German Bund: Counting down to ECB meeting

US Note future: Consolidation pattern still in place

Currencies

Dollar trading mixed, holding recent ranges

Euro drifting further below 1.18 mark

Post-Abe weakness short-lived

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1749	-0,0035
S1	1,1662	
S2	1,1311	

Trading on global FX markets showed no clear dynamics at the start of the new week. The dollar gained a few ticks against the euro. Investors are reluctant to add euro longs ahead of the ECB meeting and given the uncertainty on Spain. The initial weakening of the yen after the Abe election victory petered out very soon. Equity weakness during the US session pushed the pair further south. EUR/USD finished the session at 1.1749 (from 1.1784). USD/JPY closed at 113.43 (from 113.52).

Asian equities ignore WS correction

Dollar trades cautiously

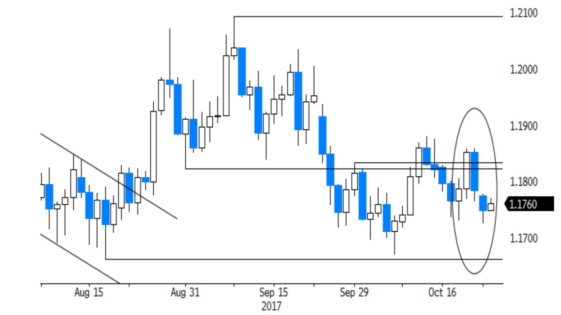
Kiwi dollar remains under pressure

Overnight, Asian equity indices are trading marginally stronger despite yesterday's correction on WS. The dollar trades slightly softer as the rise in core/US yields halted. USD/JPY hovers in the 113.25/50 area, near yesterday's intraday low. The euro remains resilient despite ongoing uncertainty on Spain. EUR/USD rebounds slightly and trades in the 1.1760 area. The kiwi dollar traded again volatile. NZD/USD returned temporary to the 0.70 area as the government wants to raise minimum wages. However, the gains evaporated as the New PM again referred to reforming the Reserve bank objective. NZD/USD trades near 0.6940.

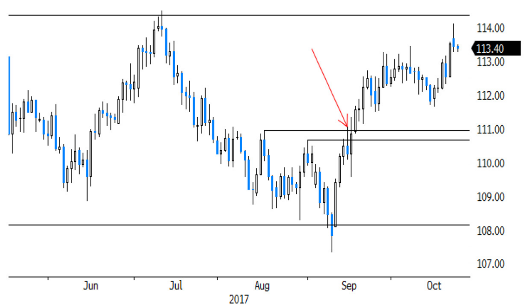
EMU and US PMI's unlike to change FX picture.

Multiple event risk might cause (intraday) swings

Today, EMU and US October PMI business surveys will be released. For the EMU, a slight decline is expected. **However, the report still should signal above trend growth.** As the ECB meeting nears, we suspect that even in case of a deviation from consensus, the market reaction will be modest. **The US manufacturing PMI** is expected to have increased in to 53.5 from 53.1 (weak dollar effect?). The services PMI is expected virtually unchanged at 55.2. The US PMI's recently underperformed similar US ISM surveys. **We put the risks on the upside of consensus, but don't expect a lasting impact on the dollar.**



EUR/USD: holding within established ranges going into ECB meeting



USD/JPY no test of the 114.50 resistance (yet?)

At the end of last week, the USD momentum improved as investors saw rising chances for a US tax reform, but the USD gains remained modest. Trading in the USD and the euro is paralysed as invent risk (ECB meeting, Spain in EMU; replacement Yellen, Tax reform in the US) makes investors cautious to place directional bets. **EUR/USD trades below the 1.18 barrier, but the euro remains resilient given the uncertainty on Spain.** For now, the dollar doesn't receive any meaningful additional interest rate support. We started the week with a cautious EUR/USD negative bias. We maintain that call going into the ECB policy decision on Thursday. **However, there is no sign that the dollar (EUR/USD and even USD/JPY) is ready for a technically significant move.**

From a technical point of view, EUR/USD dropped below the 1.1823/ 1.2070 consolidation pattern, but there was no sustained follow-through price action, which was disappointing for EUR/USD bears. We maintain a cautious sell-on upticks bias. The pair needs to drop below 1.1670/62 to give comfort to EUR/USD bears. **The USD/JPY momentum was positive in September.** The pair regained 110.67/95 resistance, a short-term positive. The 114.49 correction top is the next resistance. Sentiment improved further last week, but we still assume that a break beyond 114.49 will be difficult. Yesterday's failed return above 114 confirms this view.

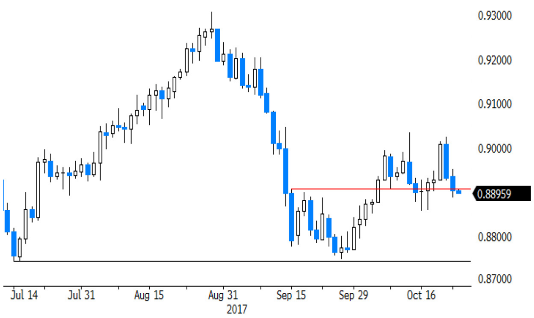
GBP off recent lows, but no clear trend

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8902	-0,0029
S1	0,8743	
S2	0,8657	

Yesterday, EUR/GBP was locked in an tight sideways range. The CBI business optimism and orders survey was weaker than expected, but triggered no additional sterling selling. There was also no 'new news' on Brexit either. EUR/GBP hovered in a tight range marginally north of 0.89, but dipped temporary lower with EUR/USD late in US dealings. The pair finished the day at 0.89. Cable showed no clear intraday trend and finished the session marginally stronger at 1.3198.

Today, there are no important UK eco data. The UK cabinet will meet to discuss the next steps in the Brexit negotiations. However, we don't expect any high profile news. Sterling trade with a slightly positive bias against the dollar and the euro this morning. We don't expect it to go far, unless the euro suffers from political uncertainty (Spain). The BoE probably won't have much room to raise rates beyond the expected November rate hike.

EUR/GBP staged a strong uptrend from April till late August and set a top at 0.9307. Rising UK inflation data and hawkish BoE comments triggered a sterling rebound, but it **has run its course.** EUR/GBP supports at 0.8743 and 0.8652 proved too difficult to break. **The recent rebound** above 0.89 improved the ST technical picture of EUR/GBP, but for now there were no convincing follow-through gains. **EUR/GBP 0.9026 is 50% retracement of the recent countermove.**



EUR/GBP: test of 0.9000 barrier rejected.

GBP/USD: consolidation within established range

Calendar

Tuesday, 24 October		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Oct P)	53.5	53.1
15:45	Markit US Services PMI (Oct P)	55.2	55.3
15:45	Markit US Composite PMI (Oct P)	--	54.8
16:00	**Richmond Fed Manufact. Index (Oct)**	**16**	**19**
Japan			
02:30	Nikkei Japan PMI Mfg (Oct P)	A 52.5	52.9
EMU			
10:00	**Markit Eurozone Manufacturing PMI (Oct P)**	**57.8**	**58.1**
10:00	**Markit Eurozone Services PMI (Oct P)**	**55.6**	**55.8**
10:00	**Markit Eurozone Composite PMI (Oct P)**	**56.5**	**56.7**
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Oct P)	60.0	60.6
09:30	Markit Germany Services PMI (Oct P)	55.5	55.6
09:30	Markit/BME Germany Composite PMI (Oct P)	57.5	57.7
France			
08:45	Business Confidence (Oct)	109	109
08:45	Manufacturing Confidence (Oct)	110	110
09:00	Markit France Manufacturing PMI (Oct P)	56	56.1
09:00	Markit France Services PMI (Oct P)	56.9	57.0
09:00	Markit France Composite PMI (Oct P)	57	57.1
Belgium			
15:00	Business Confidence (Oct)	-3	-3.5
Events			
Q3 Earnings	BASF (07:00), GM (13:30), Caterpillar (13:30), AT&T (Aft-mkt),…		
10:00	ECB Bank Lending Survey		
11:00	Euro Area Second Quarter Government Deficit / Debt		
19:00	**US to Sell $26 bn 2-yr Notes**		

10-year	Close	-1d		2-year	td	-1d	Stocks	Close	-1d
US	2,37	-0,02		US	1,56	-0,01	DOW	23273,96	-54,67
DE	0,43	-0,02		DE	-0,73	-0,01	NASDAQ	6586,826	-42,23
BE	0,69	-0,03		BE	-0,58	-0,01	NIKKEI	21805,17	108,52
UK	1,31	-0,02		UK	0,44	0,00	DAX	13003,14	11,86
JP	0,07	0,00		JP	-0,14	0,00	DJ euro-50	3608,87	3,78
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,06	1,92	0,91	Eonia	-0,3620	-0,0010			
5y	0,23	2,07	1,07	Euribor-1	-0,3730	0,0000	Libor-1	1,2379	0,0000
10y	0,89	2,34	1,35	Euribor-3	-0,3290	0,0000	Libor-3	1,3648	0,0000
				Euribor-6	-0,2740	0,0000	Libor-6	1,5549	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1749	-0,0035		EUR/JPY	133,28	-0,49	CRB	184,71	0,59
USD/JPY	113,43	-0,09		EUR/GBP	0,8902	-0,0029	Gold	1280,90	0,40
GBP/USD	1,3198	0,0008		EUR/CHF	1,1573	-0,0029	Brent	57,37	-0,38
AUD/USD	0,7807	-0,0010		EUR/SEK	9,635	0,0166			
USD/CAD	1,2647	0,0020		EUR/NOK	9,4022	-0,0057			

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