



Sunrise

Thursday, 15 February 2018

Rates: Higher CPI sends US 10-yr yield to new cycle high

The global core bond sell-off accelerated yesterday on higher-than-expected US CPI data. US yields set new cycle highs for tenors up to 10-yr. The 10-yr yield closes in on key resistance around 3.05% (2014 high). Today's heavy US eco calendar might set the stage for more losses. Not that much good news is probably needed to do so.

Currencies: Risk rebound hammers dollar

The dollar showed remarkable swings. Higher US CPI and disappointing retail sales attracted bottom fishers in the equities. This equity rebound caused sharp USD selling across the board, even in USD/JPY. The move continues this morning. For now, this repositioning develops independent from the data. For now, the dollar is a falling knife...

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	↗

- **Traditional market correlations disappeared after yesterday's combination of higher US inflation and disappointing retail sales.** US yields added up to 9 bps, the dollar fainted and US equities skyrocketed (>+1%). Several Asian markets are closed this morning for lunar New Year; the others gain ground as well.
- **Oil prices extended gains**, pushed up by a weak dollar and by comments from Saudi Arabia that it would rather see an undersupplied market than end a deal with OPEC and Russia to withhold production.
- **Japan's Finance Minister Aso says the yen isn't rising or falling abruptly enough for us to intervene now.** He couldn't change recent yen strength. USD/JPY dropped towards 106.50.
- **Australian employment data printed very close to expectations** with a 16k net job creation and a stabilization of the unemployment rate 5.5%. Underlying figures disappointed somewhat as full time jobs were shed (-49.8k).
- **Jacob Zuma resigned as President of South Africa**, reluctantly heeding orders by the ruling ANC to bring an end to his nine scandal-plagued years in power.
- **A bipartisan Senate plan** to protect young illegal immigrants from deportation and pour billions of dollars into border security appeared headed toward a Senate **showdown on Thursday**.
- **Today's eco calendar heats up in the US** with empire manufacturing, weekly jobless claims, PPI inflation, Philly Fed business outlook and industrial production. Spain and France tap the bond market.

Rates

US Treasuries sell-off on higher US CPI

	US yield	-1d
2	2,16	0,06
5	2,66	0,09
10	2,90	0,07
30	3,16	0,05

	DE yield	-1d
2	-0,57	0,01
5	0,10	0,01
10	0,76	0,01
30	1,40	0,02

Core bonds whipsawed around opening levels until the release of US eco data. Both headline (0.5% M/M & 2.1% Y/Y) and core CPI (0.3% M/M & 1.8% Y/Y) beat consensus and trumped disappointing retail sales (-0.3% M/M). The core bond sell-off regained vigor following a three trading days pause with US Treasuries underperforming German Bunds. Traditional market correlations remain loose with the dollar selling off and US stocks gaining more than 1%.

US yields shifted 5.1 bps (30-yr) to 9 bps (5-yr) higher with the belly of the curve underperforming the wings and **new cycle highs for tenors up to 10-year**. The German yield curve bear steepened with daily changes ranging between +0.6 bps (2-yr) and +1.8 bps (30-yr). 10-yr yield spread changes vs Germany ended narrowly mixed with Greece underperforming (+8 bps), and Portugal (-6 bps) & Italy (-3 bps) outperforming.

The US Note future continues trading near yesterday's sell-off low with Asian markets (who aren't closed for Lunar NY) copying WS gains. Brent crude returned above \$65/barrel. We expect a weaker opening for the Bund.

Today's eco calendar heats up in the US with several releases (empire manufacturing, PPI, Philly Fed business outlook, industrial production, weekly claims). **Yesterday's new selling bout suggests that core bonds markets don't need much good news to cede more ground. Especially as the US 10-yr yield (>2.9%) is now within reach of key resistance (3.05%; 2014 high) and as oil and stock markets gain momentum. We expect more losses for the US Note future and the Bund.**

Strong growth momentum, rising inflation (expectations) and the global turn towards monetary policy normalization are structurally negative factors for core bonds medium term. US and German yields cleared resistance levels earlier this year and moved towards next targets. The trading band for the US 10-yr yield is 2.64%-3.05%. The German 10-yr yield's trading band is 0.62%-1.06%. Correction towards the lower bounds could be used to put up short positions in the Bund and the US Note future.



German 10-yr yield entered new trading band (0.62%-1.06%). We hold an upward bias



US 10-yr yield sets new cycle high after high CPI data. 3.05% resistance within reach

Currencies

Risk-rally hammers USD, despite higher US yields

R2	1,2643	-1d
R1	1,2537	
EUR/USD	1,2451	0,0099
S1	1,1713	
S2	1,1554	

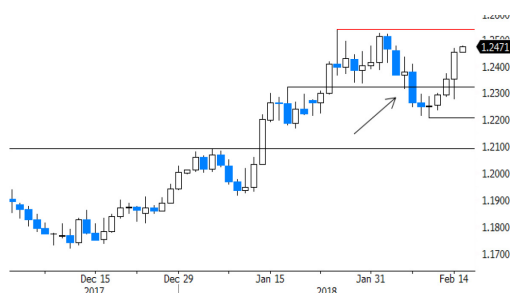
R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8894	0,0004
S1	0,8690	
S2	0,8657	

The dollar made some wild and very remarkable swings yesterday. US CPI printed higher than expected, but retail sales posted at big miss. US yields and the dollar jumped higher immediately after the release. US yields held their gains setting new cycle peaks, but the dollar reversed course soon. An initial decline in equities attracted bottom fishers and kick-started an impressive risk-rebound, despite poor retail sales. This risk rally also hammered the dollar. EUR/USD jumped from the high 1.22 area to close the session at 1.2451. Even USD/JPY remained under pressure despite higher core yields and the equity rally! USD/JPY finished the session at 107.01. The 'usual correlations' didn't work at all.

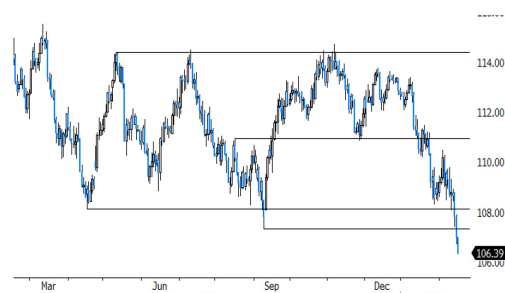
Positive risk sentiment and the dollar decline remain at play overnight. Several markets (China, Korea) are closed for the Lunar New year. Japanese equities remarkably joined the global risk rally despite a further decline of USD/JPY and poor December machine orders (-11.9% M/M). USD/JPY is trading in the mid 106 area. EUR/USD trades in the 1.2465 area holding near the overnight peak. The risk rally at least eased the decline of EUR/JPY. The pair hovers in the mid 132 area.

The US eco calendar is again well filled today with Empire manufacturing, Philly Fed business outlook, jobless claims, industrial production and, last but not least the PPI data. Sentiment indicators and activity data are expected to confirm decent growth. PPI is expected to rise 0.4% M/M, but decline from 2.6% to 2.5% on a yearly basis. Good eco data and/or an upward surprise in PPI might reinforce the rise in US yields. However, considering yesterday's price action, it is unlikely to change fortunes for the dollar. The repositioning on equity markets and technical considerations are probably more important. At least for now, risk sentiment correlates with a further decline of the dollar. In this move we also keep an eye at the technicals. EUR/USD is nearing the 1.2537 correction top. A break above this level would signal more trouble for the dollar. We don't see a fundamental reason for EUR/USD to already break this level, but this is not a good enough reason to row against the tide. The dollar is a falling knife. A return below 1.2206 would be a first sign, that the USD sell-off easing.

UK retail sales are expected to rebound 0.6% M/M and 2.4% Y/Y after a sharp setback in January. We doubt that even better than expected data will be a big help for sterling. EUR/GBP holds the 0.8690/0.9033 range, with intermediate resistance at 0.8930. We hold our view that the 0.8690 support won't be easy to break without big progress on Brexit.



EUR/USD nears ST range top



USD/JPY below 107.32 despite higher US yields and risk rebound.

Calendar

Thursday, 15 February		Consensus	Previous
US			
14:30	Empire Manufacturing (Feb)	18.0	17.7
14:30	Initial Jobless Claims	228k	221k
14:30	Continuing Claims	1925k	1923k
14:30	PPI Final Demand MoM / YoY (Jan)	0.4%/2.4%	0.0%/2.6%
14:30	PPI Ex Food and Energy MoM / YoY (Jan)	0.2%/2.0%	-0.1%/2.3%
14:30	Philadelphia Fed Business Outlook (Feb)	21.6	22.2
15:15	Industrial Production MoM (Jan)	0.2%	0.9%
15:15	Manufacturing (SIC) Production (Jan)	0.3%	0.1%
15:15	Capacity Utilization (Jan)	78.0%	77.9%
16:00	NAHB Housing Market Index (Feb)	72	72
EMU			
08:00	EU27 New Car Registrations (Jan)	--	-4.9%
11:00	Trade Balance SA (Dec)	22.3b	22.5b
France			
07:30	ILO Mainland Unemployment Rate (4Q)	A: 8.6%	9.4%
Belgium			
15:00	Trade Balance (Dec)	--	592.4m
Spain			
09:00	CPI EU Harmonised MoM / YoY (Jan F)	--/--	-1.5%/0.7%
Sweden			
09:30	Unemployment Rate SA (Jan)	6.5%	6.5%
Events			
09:15	ECB's Mersch Speaks in Paris		
10:30	Spain to Sell 0.45% 2022, 1.4% 2028 and 2.35% 2033 Bonds		
10:50	France to Sell 0% 2021, 0% 2023%, 6% 2025 OAT's + I/L OAT's		
11:45	ECB's Praet Participates in Panel Discussion in Paris		
13:00	ECB Lautenschlaeger speaks in Amsterdam		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	2,90	0,07		US	2,16	0,06	DOW	24893,49	253,04
DE	0,76	0,01		DE	-0,57	0,01	NASDAQ	7143,615	130,11
BE	1,02	-0,01		BE	-0,47	0,01	NIKKEI	21464,98	310,81
UK	1,64	0,02		UK	0,71	0,01	DAX	12339,16	142,66
JP	0,06	0,00		JP	-0,15	0,00	DJ euro-50	3369,83	28,90
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	0,09	2,58	1,19	Eonia	-0,3640	-0,0020			
5y	0,51	2,73	1,43	Euribor-1	-0,3690	0,0000	Libor-1	1,5875	0,0000
10y	1,16	2,92	1,71	Euribor-3	-0,3280	0,0010	Libor-3	1,8388	0,0000
				Euribor-6	-0,2760	0,0000	Libor-6	2,0572	0,0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,2451	0,0099		EUR/JPY	133,24	0,06	CRB	192,39	2,55
USD/JPY	107,01	-0,81		EUR/GBP	0,8894	0,0004	Gold	1358,00	27,60
GBP/USD	1,3999	0,0105		EUR/CHF	1,1572	0,0022	Brent	64,36	1,64
AUD/USD	0,7926	0,0067		EUR/SEK	9,9049	-0,0109			
USD/CAD	1,2493	-0,0099		EUR/NOK	9,7106	-0,0250			

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