



Sunrise

Tuesday, 17 October 2017

Rates: More outperformance German Bund?

Today's eco calendar contains German ZEW investor sentiment and US industrial production. Risks are on the downside of expectations. Central bank speakers are a wildcard, especially at the ECB side with the rapidly approaching October 26 ECB-meeting in mind. The Bund's outperformance vs the US Note future is expected to last.

Currencies: Dollar gets the benefit of the doubt, for now.

The dollar was supported by a rising interest rate differential yesterday following speculation about the next Fed chair (Taylor). Today's eco data probably won't change the overall picture for the dollar or the euro. Event risk is omnipresent. A negative event might weigh on USD/JPY. The Catalan deadline might inspire some investor caution on the euro.

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	→

- **All three major US indices** held on to their gains (+0.3%) and **closed at record levels**. Netflix Q3 earnings were strong. Overnight risk sentiment remains positive with most Asian indices posting similar gains.
- **Theresa May is backing away from a Brussels showdown over Brexit** this week after Angela Merkel warned her that the EU would not start discussing a transition deal with Britain until she put more money on the table.
- **The Reserve Bank of Australia has warned that any further increases in the currency would hurt growth** while again flagging ongoing resistance to joining peer central banks in normalising interest rates.
- **New Zealand inflation accelerated more than economists expected in the third quarter (0.5% Q/Q & 1.9% Y/Y)**, fanned by more expensive food and housing costs, while underlying price pressures remained benign.
- **Brent traded near a two-week high** as Kurdish authorities halted oil output at two deposits amid clashes with Iraqi forces near Kirkuk. Iraq took control of government buildings, oil fields, a refinery and a military base. The US isn't happy but isn't taking sides, Trump said.
- **European foreign ministers attacked President Trump's decision to pull his administration's backing for the Iranian nuclear agreement**, calling the move a serious mistake that could lead to a military confrontation with Tehran.
- **Today's eco calendar** contains German ZEW investor sentiment, UK inflation data and US industrial production. Several central bankers speak, Germany taps the market and Q3 earnings season accelerates.

Rates

Significant outperformance German Bund

	US yield	-1d
2	1,54	0,04
5	1,95	0,05
10	2,30	0,03
30	2,82	0,02

	DE yield	-1d
2	-0,74	-0,01
5	-0,34	-0,03
10	0,37	-0,03
30	1,25	-0,04

US industrial production still distorted

German ZEW near all-time highs,

Disconnect between Bund and US Note future

German Bunds (higher) significantly outperformed US Treasuries (lower) yesterday. Fed chairwoman Yellen reiterated over the weekend confidence that inflation will move to target next year, warranting more gradual rate hikes. Her message slightly weighted on US Treasuries as did the only eco item on yesterday's agenda. The US empire manufacturing for October beat consensus, matching the highest level since 2009. **Some European election-related uncertainty might have been at play as well** with the (expected) Austrian shift to the right, the (unexpected) outcome of German regional election (Lower Saxony) and the lasting political deadlock between Spain and Catalunya.

At the end of the session, the German yield curve bull flattened with yields 1.2 bps (2-yr) to 3.6 bps (30-yr) lower. The US yield curve ended 1.8 bps (30-yr) to 5 bps (5-yr) higher. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended unchanged with Portugal underperforming (-3 bps) and Greece & Italy outperforming (-2 bps).

German ZEW and US IP on the agenda

Today's eco calendar contains German ZEW investor sentiment and US industrial production data. Both the current situation and expectations indices of German ZEW are expected to increase in October, respectively from 87.9 to 88.5 and from 17 to 20. We side with consensus for the current assessment even as the indicator is near all-time highs because the German Dax reached multiple record highs during the reporting period and because all economic indicators point in the right direction. **A difficult government coalition ahead might weigh on the forward looking and market-relevant expectations index.** US industrial production is expected to rise by 0.3% M/M in September, following a 0.9% M/M decline in August. **Risks might be on the downside as manufacturing could still be distorted by the impact from Hurricanes Harvey and Irma.** ECB Constancio and ECB Praet are scheduled to speak, but both talked recently, so their comments probably won't have any market impact unless they elaborate of the future of APP. Philly Fed Harker normally won't touch on monetary policy.



T-note future (orange) & German Bund (black)(intraday): Unusual disconnect with significant outperformance Bund



German DAX continues its record run

More outperformance German Bund?

R2	163,43	-1d
R1	162,19	
BUND	162,42	0,44
S1	160,49	
S2	159,80	

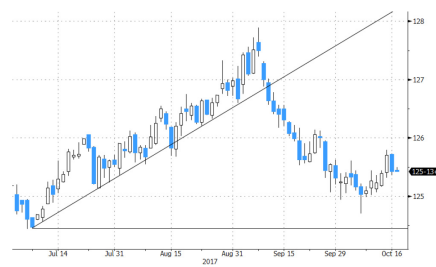
Most Asian stock markets eke out gains in line with the US yesterday. The US Note future loses marginally ground while Brent crude stabilizes. We expect a neutral opening for the Bund though.

Today's eco calendar contains German ZEW investor sentiment and US industrial production. Risks are on the downside of expectations (positive core bonds), but they aren't the most important eco figures for trading. The German Finanzagentur holds a Schatz auction (€4bn 0% 2019) today. Total bids averaged €5.95B at the previous 4 Schatz auctions. We expect plain vanilla demand. Central bank speakers are a wildcard, especially at the ECB side with **the rapidly approaching October 26 ECB-meeting in mind.** We expect an extension from December 2017 to June 2018, while lowering the monthly amount of purchases from €60 bn to €30 bn starting in January. Recent rumours suggests halving the pace of purchases, but a 9-month extension instead of 6 months. Markets reacted in dovish way to these rumours as they suggest that a first rate hike is still far away. The Bund's outperformance vs the US Note future is expected to last.

Technically, the German Bund broke above the 162 mark, implying a full retracement towards the contract high. European election outcomes (Germany, Austria, Catalonia) and ECB rumours caused outperformance vs the US Note future. **We hold a sell-on-upticks strategy both in the US Note future (entry around 126), but put it on hold for the Bund.**



German Bund: Break above 162 suggests retracement towards September high



US Note future: underperformance vs Bund. Consolidation pattern still in place

Currencies

USD gets benefit of the doubt, for now.

Rumours of a rising chance of John Taylor becoming the next Fed chairman support the dollar

The dollar held up well yesterday despite Friday's 'soft' US CPI data. Catalan uncertainty weighed on Spanish assets, but the impact on other European markets, including the euro, was limited. The dollar profited slightly from a very strong Empire manufacturing survey. Later in US dealing, USD yields and the dollar jumped higher on headlines that economist John Taylor made a good impression on President Trump in a meeting last week. EUR/USD closed the session at 1.1796. This time, the gain of USD/JPY was more substantial. The pair finished the day at 112.19 (from 111.89).

Dollar maintains yesterday's gain, but continues trading in well-known territory against the euro and the yen.

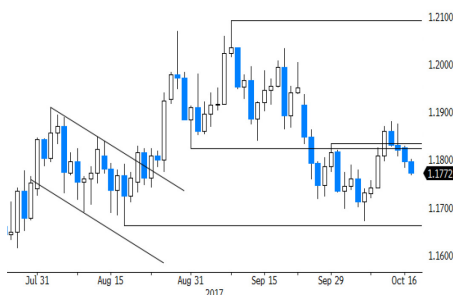
Overnight, Asian equities continue their established uptrend as major WS indices closed again at record levels yesterday evening. **Headlines on all kinds of political event risk are omnipresent** (North Korea again warned on a nuclear war, tensions in the Nafta negotiations between the US and Mexico, the dispute in Northern Iraq, Catalonia, Brexit), **but they don't derail the global equity rally**. USD/JPY trades in the 112.10/15 area. So, the pair fails to extend the gains after yesterday's 'Taylor headlines'. EUR/USD is trading marginally lower in the 1.1770 area.

Today, the ZEW investors sentiment in Germany and EMU CPI (final) will be published in Europe. In the US, import prices, industrial production and the NAHB Housing index will be published. EMU CPI data are expected unchanged from the preliminary reading. ZEW confidence is expect to rise further. The current conditions index might near record levels. **Even so, the report is usually only of intraday significance for FX trading, at best**. US import prices are expected to rise 0.6% M/M and 2.6% Y/Y (from 2.1%). Industrial production is expected to rebound modestly (0.3% M/M) after a setback in August. The NAHB housing index is expected stable at 64. We don't expect today's US data to really change fortunes for the dollar. A bigger than expected rise in import prices might be marginally USD supportive. On the other hand we keep an eye at the housing data. Of late some indicators suggested a potential loss of momentum in the sector.

Eco data will probably only be of second tier importance

Dollar extends cautious rebound

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1796	-0,0024
S1	1,1662	
S2	1,1311	



EUR/USD: resumes gradual decline, but no important technical level within reach



USD/JPY holding tight ranges

Yesterday, the dollar made marginally progress against the euro and the yen supported by a rising interest rate differential and by speculation that the chances of John Taylor are rising to become Fed chairman. For now, the latter it is nothing more than speculation and rumours.

Today's data probably won't give clear guidance for USD trading. **Political event risk remains plentiful (cf supra). These risks had only a very limited impact on markets and in particular on the FX markets until now. We assume that a flaring up of one of these uncertainties is a potential negative for USD/JPY. Catalonia might create some uncertainty on European markets and for the euro as the next political deadline (Thursday) nears. Yesterday**, we started the week with a neutral-to-tentatively negative bias for EUR/USD. We maintain this call. Even after yesterday's 'Taylor-driven rebound', we are not convinced on the USD/JPY performance.

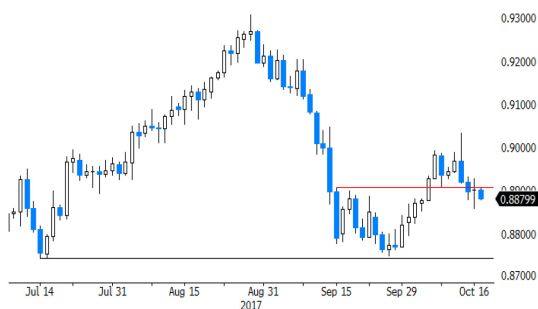
From a technical point of view, EUR/USD dropped below the 1.1823/ 1.2070 consolidation pattern, but no real test of the **1.1662 support occurred. Last week, the pair even returned (temporary?) above the 1.1823 previous range bottom**, which was disappointing for EUR/USD bears. We maintain a cautious sell-on upticks bias. However, the pair needs to drop below 1.1670/62 support to really give comfort to EUR/USD bears. **The USD/JPY momentum was constructive in September.** The pair regained 110.67/95 (previous resistance), a short-term positive. The 114.49 correction top is the next important resistance. The rally clearly lost momentum last week. A break beyond 114.49 looks ever more difficult.

Focus turns to price data and to the BoE

The **focus for sterling trading remained on Brexit yesterday**. UK PM May went to Brussels and met EU commission president Juncker and EU Chief Brexit negotiator Barnier. Sterling initially gained a few tics on the announcement of the Brussels' trip, hoping on a positive outcome. However, this hope was torpedoed by comments from 'sources close to the UK government'. According to these rumours, Brexit negotiations were heading for a catastrophic breakdown unless the EU signalled it would allow to move to talks on trade and the transition period. **The statement after the dinner didn't bring any concrete news, but talks were said to have been constructive. The impact on sterling was very limited. EUR/GBP finished the session at 0.8901. Cable closed at 1.3251, but this was partially due to USD strength.**

Sterling is trading with a slightly positive bias this morning after yesterday's meeting between UK PM May and EU Commission president Juncker. Brexit will remain on the radar, but the focus might temporary turn to the UK eco data. UK price data will be published today. Headline inflation is expected to rise to 3.0%. This might reinforce the case for a BoE rate hike in the coming months. **BoE's Carney, Ramsden and Tenreyro will also appear before the UK Parliament's Treasury committee.** The tone of the appearance/assessment might be balanced even if the BoE considers a modest tightening of policy in the near future. **Even so, today's events might be slight supportive for sterling in a daily perspective .**

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8901	0,0003
S1	0,8743	
S2	0,8657	



EUR/GBP rebound loses momentum. CPI data might temporary support sterling



GBP/USD consolidation as USD and sterling are in slightly better shape, at least short term

EUR/GBP staged a strong uptrend since April to set a top at 0.9307 late August. **UK price data** and hawkish BoE comments reinforced a sterling rebound. Medium term, we maintain a **EUR/GBP buy-on-dips approach as we expect the mix of euro strength and sterling softness to persist**. The prospect of (limited) withdrawal of BoE stimulus triggered a good sterling countermove, but **this rebound has run its course**. EUR/GBP supports at 0.8743 and 0.8652 are difficult to break. **We look to buy EUR/GBP on dips. 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 the 50% retracement of the recent countermove**.

Calendar

Tuesday, 17 October		Consensus	Previous
US			
14:30	Import Price Index MoM / YoY (Sep)	0.5%/2.6%	0.6%/2.1%
14:30	Import Price Index ex Petroleum MoM (Sep)	0.1%	0.3%
14:30	Export Price Index MoM / YoY (Sep)	0.5%/--	0.6%/2.3%
15:15	Industrial Production MoM (Sep)	0.3%	-0.9%
15:15	Capacity Utilization (Sep)	76.2%	76.1%
15:15	Manufacturing (SIC) Production (Sep)	0.2%	-0.3%
16:00	NAHB Housing Market Index (Oct)	64	64
UK			
10:30	CPIH YoY (Sep)	2.8%	2.7%
10:30	CPI MoM / YoY (Sep)	0.3%/3.0%	0.6%/2.9%
10:30	CPI Core YoY (Sep)	2.7%	2.7%
10:30	RPI MoM / YoY (Sep)	0.3%/4.0%	0.7%/3.9%
10:30	PPI Input NSA MoM / YoY (Sep)	1.2%/8.2%	1.6%/7.6%
10:30	PPI Output NSA MoM / YoY (Sep)	0.2%/3.3%	0.4%/3.4%
10:30	PPI Output Core NSA MoM / YoY (Sep)	0.1%/2.6%	0.2%/2.5%
10:30	House Price Index YoY (Aug)	5.4%	5.1%
EMU			
11:00	CPI MoM / YoY (Sep F)	0.4%/1.5%	0.3%/1.5%
11:00	CPI Core YoY (Sep F)	1.1%	1.1%
11:00	ZEW Survey Expectations (Oct)	--	31.7
Germany			
11:00	ZEW Survey Current Situation (Oct)	88.5	87.9
11:00	ZEW Survey Expectations (Oct)	20.0	17.0
Events			
Q3 earnings	Johnson & Johnson (12:40), Morgan Stanley (13:00), Goldman Sachs (13:30),...		
10:00	ECB's Constancio Speaks at Conference in Lisbon		
10:15	BOE's Carney, Ramsden and Tenreyro Testify to Lawmakers		
11:30	Germany to Sell €4 bn 0% 2019 Bonds		
11:30	ECB's Praet is Speaking at a panel in Brussels		
19:00	Fed's Harker Speaks on Equitable Transit		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,30	0,03	US	1,54	0,04	DOW	22956,96	85,24	
DE	0,37	-0,03	DE	-0,74	-0,01	NASDAQ	6624,005	18,20	
BE	0,65	-0,03	BE	-0,58	-0,02	NIKKEI	21336,12	80,56	
UK	1,34	-0,03	UK	0,45	-0,02	DAX	13003,7	11,83	
JP	0,07	0,01	JP	-0,13	0,01	DJ euro-50	3606,27	1,72	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,08	1,91	0,94	Eonia	-0,3590	0,0000	Libor-1	1,2367	0,0000
5y	0,19	2,04	1,09	Euribor-1	-0,3710	0,0000	Libor-3	1,3533	0,0000
10y	0,84	2,28	1,36	Euribor-3	-0,3290	0,0000	Libor-6	1,5343	0,0000
				Euribor-6	-0,2740	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1796	-0,0024	EUR/JPY	132,35	0,14	CRB	184,62	-0,21	
USD/JPY	112,19	0,37	EUR/GBP	0,8901	0,0003	Gold	1303,00	-1,60	
GBP/USD	1,3251	-0,0034	EUR/CHF	1,1507	-0,0013	Brent	57,82	0,65	
AUD/USD	0,7851	-0,0036	EUR/SEK	9,5613	-0,0197				
USD/CAD	1,2518	0,0050	EUR/NOK	9,3161	-0,0052				

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