



**Wednesday, 12 September 2018**

### Rates: US 10-yr yield eyes 3%

Strong eco data, higher oil prices and heavy supply keep core bonds under downward pressure as trade tensions ease. The same factors remain at play today. The US 10-yr yield is closing in on the psychological 3% mark while the German 10-yr yield entered the upper part of its 0.3%-0.5% trading range.

### Currencies: dollar holding tight ranges

Yesterday, the euro took a strong start supported by ongoing positive investor sentiment on Italy. However, the positive momentum couldn't be sustained. EUR/USD (and most other major USD cross rates) are locked in tight ranges. For now, there is no trigger for a directional move. Sterling traders are pondering the chances of 'real brexit progress' in the near future.

### 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 **US equity markets** gained ground on Tuesday, with NASDAQ (+0.61 %) outperforming. **Asian markets** however, all started the day in red with losses over 0.50%. Trade war concerns still persist despite the positive US trade day.
- **The EU and the UK are preparing for a special November summit to sign the Brexit deal**, even though key issues remain unresolved. The date could be announced at the EU Salzburg summit of next week.
- Canada and the US are continuing talks over the renewal of Nafta. **Canada is ready to offer limited access to its dairy market**, but expects concessions from the US on how to settle future trade disputes and cultural protections in return.
- **Hungarian PM Orban faced the European Parliament yesterday**. He is accused of eroding democracy and neglecting EU laws. The EP wants to vote whether the country has to be punished, possibly by suspending Hungary's voting rights.
- **France and Germany's top economic advisers are urging for a revision of eurozone budget rules**. Both countries think current rules are unenforceable and may have worsened the sovereign debt crisis.
- **Oil prices extended gains after rising the most since June** as API data showed a drop in US inventories. Looming sanctions against Iran also raised expectations of tightening supply.
- **Today's US eco calendar** is rather empty, with only PPI numbers for August in the **US**. Fed's Brainard speaks in Detroit tonight and the Fed releases its beige book.

# Rates

## US 10y yield ready to test 3% mark?!

	US yield	-1d
2	2,74	0,03
5	2,86	0,04
10	2,98	0,04
30	3,12	0,04

	DE yield	-1d
2	-0,54	0,01
5	-0,14	0,02
10	0,43	0,03
30	1,11	0,02

Global core bonds extended losses yesterday with US Treasuries this time underperforming German Bunds. Initial weakness in the Bund mirrored Monday's action as BTP's continued rallying in the first trading hour. Eco data printed stronger-than-expected on both sides of the Atlantic (German ZEW & US NFIB Small Business Optimism). We can't attach a specific move to the releases, but they probably weighed on core bond sentiment in general. **US Treasuries ceded more ground ahead of the start of the US Treasury's mid-month refinancing operation. Brent crude's rally from \$77.5/barrel to \$79.5/barrel played as well.** US yields increased by 3.3 bps (2-yr) to 5 bps (7-yr) with the belly of curve underperforming the wings. The US 10-yr yield is narrowing in at the psychological 3% mark, which is first resistance. German yields added 0.7 bps (2-yr) to 2.9 bps (10-yr). The German 10-yr yield surpassed the mid-way point of its 0.3%/0.5%. 10-yr yield spread changes vs Germany barely changed with Greece outperforming.

**Asian stock markets** remain fragile this morning despite robustness of Wall Street yesterday evening. The US Note future and JPY are a tad higher, but we expect a neutral opening for the Bund.

**Today's eco calendar contains (outdated) EMU industrial production figures (July) and US August PPI data.** More indications of rising price pressures could weigh on US Treasuries. **Adding supply operation today & tomorrow (10y-30y) and a speech by Fed's Brainard could cause a test of the 3% mark (US 10y yield) today.** Brainard embraced sustaining strong labor market conditions and inflation around target. They warrant continued gradual rate hikes. From a modestly accommodative policy to a neutral one and afterwards toward modestly beyond neutral. **US Treasuries could in this context further underperform vs German Bunds especially as the rally in Italian BTP's (which hurt Bunds) seems to be slowing. Tomorrow's ECB meeting will probably be low key after the June policy decisions.** The ECB handed itself little room to manoeuvre until next Summer, but president Draghi could further stress early signs that inflation will pick up towards the ECB's goal. Hurricane Florence is about to hit the US Southeast coast on Thursday or Friday and might get more and more attention as well.

**Technically,** both the German 10-yr yield and the US 10-yr yield moved in the upper part of their sideways trading ranges, respectively between 0.3% and 0.5% and between 2.8% and 3%. We



German 10-yr yield: 0.3%-0.5% sideways range



US 10-yr yield: Closing in on a test of 3%

# Currencies

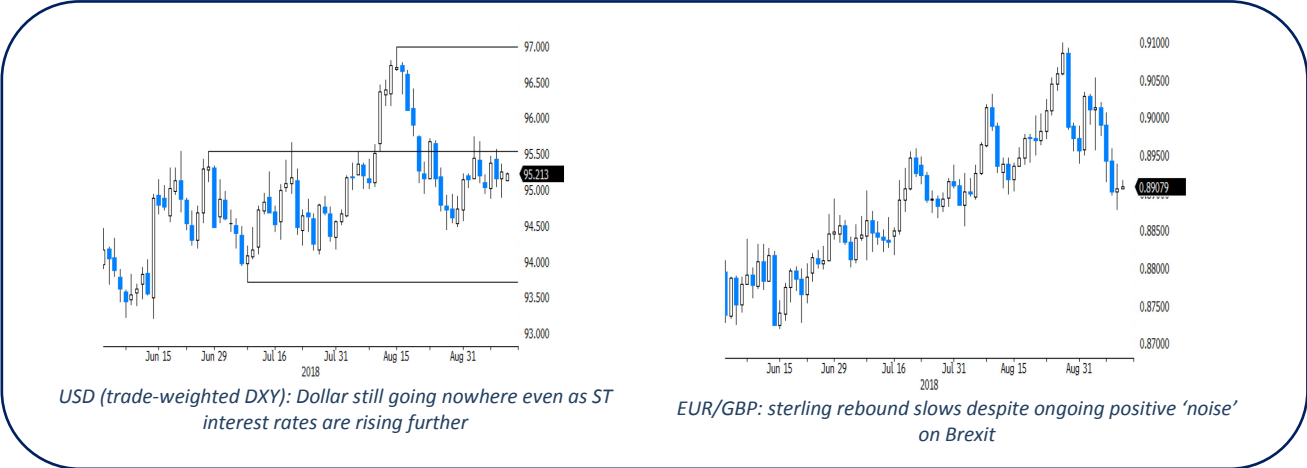
## Dollar holding tight ranges

R2	1,2155	-1d
R1	1,1996	
<b>EUR/USD</b>	<b>1,1606</b>	<b>0,0012</b>
S1	1,1510	
S2	1,1448	

R2	0,9033	-1d
R1	0,8968	
<b>EUR/GBP</b>	<b>0,8906</b>	<b>0,0005</b>
S1	0,8628	
S2	0,8548	

Yesterday, **EUR/USD trading showed two faces**. European markets initially tried to decouple from a hesitant sentiment in Asia, supported by a further improvement of the investor assessment on Italy. European equities opened in positive territory and EUR/USD filled offers north of 1.1640. However, optimism faded soon and EUR/USD slipped below 1.16. Eco data in Europe (ZEW confidence) and the US (NFIB small business confidence) were better than expected but ignored. A rebound of US equities had no clear directional impact on the dollar. Global USD trading is still holding rather tight directionless ranges awaiting news from pending trade issues and keeping an eye on EM developments. The US 2-yr yield setting new cycle highs helps putting a floor for the US currency. EUR/USD closed at 1.1606 (from 1.1594). USD/JPY finished with a modest gain at 111.63. **Overnight**, Asian equities still underperform the US, showing modest losses. EM stress still lingers with the INR setting a new low against the dollar. Most USD cross rates including the trade-weighted dollar (DXY) and EUR/USD are holding within established ranges. **Today**, the eco calendar remains thin. EMU production (expected soft) and US PPI prices are usually no market movers. Fed speakers and the US 10-y auction are wildcards. The Fed will also published its Beige book preparing the September 26 Fed meeting. Of late, the USD, including EUR/USD, mostly held tight ranges. Ongoing trade tensions or EM stress were only a temporary support for the dollar. **EUR/USD is blocked in a tight 1.1520/ 1.1750 consolidation pattern**. We still see no trigger to unlock this stalemate short term. USD traders are awaiting a new trading theme or high profile eco news.

Recently, sterling rebounded off recent lows as markets anticipated the EU and the UK were making progress on reaching a brexit deal. Remarkably, yesterday sterling didn't profit from stronger than expected wage growth. This morning, headlines suggest that the EU and the UK are **preparing to sign some kind of brexit deal at a November summit**. For now, there are no meaningful further sterling gains. Markets, including sterling, apparently stay cautious as the internal division on brexit in the conservative party isn't solved yet. We maintain the view that 'real' brexit progress is needed to justify a sustained comeback of sterling.



# Calendar

Wednesday, 12 September		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-0.1%
14:30	PPI Final Demand MoM/YoY (Aug)	0.2%/3.2%	0.0%/3.3%
14:30	PPI Ex Food and Energy MoM/YoY (Aug)	0.2%/2.7%	0.1%/2.7%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Aug)	0.2%/--	0.3%/2.8%
<b>EMU</b>			
11:00	Industrial Production SA MoM/WDA YoY (Jul)	-0.5%/1.0%	-0.7%/2.5%
<b>Sweden</b>			
06:00	PES Unemployment Rate (Aug)	3.9%A	3.8%
<b>Events</b>			
10:30	Riksbank Governor Ingves at Conference		
11:30	Germany to Sell EUR1 Bln 1.25% 2048 Bonds		
15:30	Fed's Bullard Speaks to CFA Society Chicago		
18:45	<a href="#">Fed's Brainard Speaks in Detroit</a>		
19:00	US to Sell USD23 Bln 10-Year Notes		
20:00	<a href="#">U.S. Federal Reserve Releases Beige Book</a>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,98	0,04	US	2,74	0,03	DOW	25971,06	113,99	
DE	0,43	0,03	DE	-0,54	0,01	NASDAQ	7972,474	48,31	
BE	0,76	0,03	BE	-0,45	0,01	NIKKEI	22595,16	-69,53	
UK	1,50	0,03	UK	0,79	0,03	DAX	11970,27	-16,07	
JP	0,11	0,00	JP	-0,11	0,00	DJ euro-50	3311,66	2,38	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0,01	2,99	1,23	Eonia	-0,3640	-0,0060	Libor-1	2,1389	0,0000
5y	0,32	3,00	1,38	Euribor-1	-0,3720	-0,0010	Libor-3	2,3343	0,0000
10y	0,94	3,05	1,58	Euribor-3	-0,3190	0,0000	Libor-6	2,5523	0,0000
				Euribor-6	-0,2690	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1606	0,0012	EUR/JPY	129,55	0,70	CRB	191,67	0,65	
USD/JPY	111,63	0,50	EUR/GBP	0,8906	0,0005	Gold	1202,20	2,40	
GBP/USD	1,3033	0,0007	EUR/CHF	1,1285	-0,0020	Brent	79,06	1,69	
AUD/USD	0,7119	0,0004	EUR/SEK	10,4944	-0,0190				
USD/CAD	1,3067	-0,0097	EUR/NOK	9,6562	-0,0716				

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