

**Thursday, 12 September 2019**

## Rates: Draghi will deliver, but might not reach the bar

Spotlights are on ECB President Draghi. He'll normally deliver on his July "promise" to add monetary stimulus, but will he be able to meet high expectations? Whether or not asset purchases will be part of his monetary boost is the big question mark. We see room for disappointment given current market positioning. Next resistance for the GE 10-yr yield stands at -0.4%.

## Currencies: Will a 'not-too-soft' Draghi put a floor for EUR/USD?

EUR/USD stabilized near recent lows lately. Today, the ECB is expected to ease policy further. If Draghi doesn't meet expectations or if markets feel that the ECB is running out of ammunition to take further action, the euro might gradually bottom out. USD/JPY continues to profit from a better risk sentiment.

## 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 stocks** advanced amid easing (geo)political signs. The Nasdaq (+1.06%) outperformed. **Asian markets** edge higher in the wake of Wall Street's performance. Japan (+1%) outperforms.
- Oil prices tanked yesterday on news that **US president Trump would have discussed easing Iranian sanctions** in order to secure a meeting with president Rouhani. Brent crude currently trades at \$61.2/b vs. \$63 yesterday.
- The US postponed the 5% tariff increase on Chinese imports due to kick in on October 1<sup>st</sup> by two weeks as a sign of goodwill, Trump said. As its own goodwill gesture, China might allow companies to resume imports of US farm goods.
- **The Polish central bank kept rates at 1.50%.** Governor Glapinski isn't worried about the inflation and the government's plan to almost double minimum wages. Instead he reiterated there's room to cut rates as global growth slows.
- In a worst-case scenario in the event of a no-deal Brexit, the **UK foresees disruptions in trade, public unrest and food and fuel hoarding.** Medicine delivery is "particularly vulnerable", the document published yesterday said.
- Mexico's **\$5bn cash injection and bond swap** to ease debt repayments **is not enough to alter the outlook of the troubled state-owned oil company Pemex,** rating agency Fitch said. Fitch cut Pemex' rating to junk in June.
- **Today's economic calendar** contains August US CPI. The ECB's policy meeting however is likely to be in the spotlights. A deposit rate cut is all but certain. Italy and the US tap the bond market.

# Rates

## Will Draghi deliver?

	US yield	-1d
2	1.67	0.00
5	1.60	0.00
10	1.74	0.01
30	2.23	0.00

	DE yield	-1d
2	-0.84	0.00
5	-0.83	-0.01
10	-0.56	-0.02
30	0.02	-0.02

**Global core bonds had a quiet trading session yesterday even if risk sentiment thrived.** Positive vibes in the US-Sino trade conflict, with both parties delaying some the announced tariff increases (China yesterday; US overnight), were at the heart of the move. It didn't weigh on bonds, though **we retain the absence of some return action higher following the recent profit taking move.** **US Treasuries slightly underperformed German Bunds.** The US \$24bn 10-yr Note auction had a tiny tail with a bid cover near average. **A \$2/barrel drop in oil prices** left no traces. US President Trump is supposedly willing to lower sanctions against Iran following the removal of his hawkish National Security Advisor, Bolton. Daily changes on the US yield curve ranged between -0.3 bps (2-yr) and +0.8 bps (10-yr). The German yield curve bull flattened with yields declining by up to 2 bps (30-yr). 10-yr yield spread changes vs Germany varied between -2 bps and +2 bps.

**Asian stock markets profit from developments in the US-Sino trade conflict.** Japan and South Korea (+1%) outperform. Core bonds grind lower with USD/JPY extending this month's rally. **Today's focal point is the ECB meeting. We expect President Draghi to deliver on his July "promise" to ease monetary policy. More specifically we expect a 10 bps deposit rate cut, possible with a tiered system, and an extension of current forward guidance to keep rates lower for longer.** The money market is currently split on whether the ECB cut will be one by 10 bps (55%) or by 20 bps (45%). **From a market point of view, we don't think that a bigger deposit rate cut will influence the longer end of the yield curve. The main driver will be the decision on QE.** Some analysts expect the ECB to engage into a new asset purchase program, but that's not our base scenario. **Overall, we think it might be hard for Draghi to deliver on very dovish market expectations.** Recent ECB speeches suggest growing consciousness within the central bank about negative side-effects from additional easing. **Therefore, we believe there's a risk for disappointment which could cause more profit taking in Bunds, steepening the curve. The US eco calendar contains CPI data, weekly jobless claims and a 30-yr bond auction.** Yesterday's higher core PPI data didn't go unnoticed. A similar surprise can exert selling pressure in US Treasuries. The key question for the very long auction is whether demand will be there at current levels.

**Technically,** the German 10-yr yield and US 10-yr yield both broke first minor support levels, respectively at -0.61% and 1.6%, calling of the downside alert and possible putting an end to the downtrend which started in Q4 2018. Next targets are -0.4% and 1.94%.



German 10-yr yield: break above -0.61% paves the way for further return action towards -0.4% area



US 10-yr yield: move above 1.6% suggests that downward trend channel could be replaced by a sideways one going forward.

# Currencies

R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1010	-0.0033
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8930	-0.0011
S1	0.8500	
S2	0.8314	

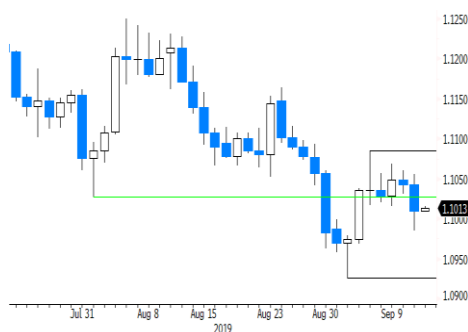
## ECB to put a floor for EUR/USD?

Global markets showed a diffuse picture yesterday and this also applied FX trading. USD/JPY continued to profit from higher core yields and a positive risk sentiment (constructive headlines from the US trade talks). The pair closed at 107.82 (from 107.54). The euro, however, didn't profit from the risk rally. At least for now, **the deflation trade supported the dollar more than the euro**. We consider the move mainly as last-minute repositioning ahead of the ECB meeting rather than anything else. EUR/USD dropped temporarily below 1.10, to close at 1.1010.

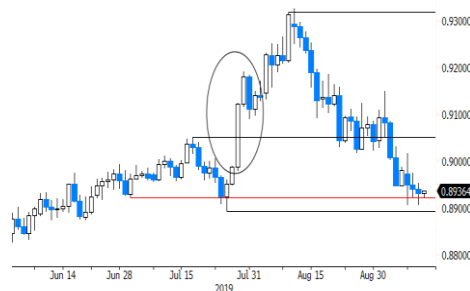
**Overnight**, president Trump announced a brief delay in the upcoming rise in US tariffs as a gesture for goodwill to facilitate the next round of trade talks. The yuan (USD/CNY 7.085), and the likes of the Aussie dollar (AUD/USD 0.688) rose. USD/JPY surpassed the 108 barrier, but the announcement left hardly any traces on EUR/USD (1.1010/15 area).

**Today**, the positive headlines on trade will continue to work through in global FX trading. The US CPI and a US 30-y bond auction are interesting, too. However, the **ECB policy decision** evidently will be **the key driver, especially for EUR/USD trading**. We expect a 10 bp deposit rate cut, probably in a tiered system (markets discount chances for a bigger cut). Markets also see a chance of a restart of QE, but this isn't our base scenario. Draghi delivering less easing than expect in theory would be a euro positive. The prospect for potential further easing (or the absence of it) is also important as is the Fed reaction function. **The EUR/USD decline halted last week, and the pair** regained 1.10. Some more profound euro bottoming might develop if the ECB doesn't deliver on high expectations or if the market feels that the bank has limited ammunition left. Technically, the EUR/USD 1.0926 correction low should provide solid support. A return north of 1.11 would call off the ST negative alert for EUR/USD.

EUR/GBP initially traded with a slightly negative bias yesterday. EUR/USD weakness was in play. Maybe sterling also still profited slightly from headlines that the UK might consider a 'North Ireland' backstop. However, the flow of (concrete) news on Brexit is gradually becoming thinner. **EUR/GBP apparently found ST equilibrium in the lower 0.89 area**. For now, we expect more technical trading, waiting for next steps in the Brexit process, probably early October.



EUR/USD hovers near 1.10. Will a 'not too soft' Draghi put a floor for the euro?



EUR/GBP: sterling stabilizes in the low 0.89 area, awaiting more concrete steps on Brexit.

# Calendar

Thursday, 12 September		Consensus	Previous
<b>US</b>			
14:30	Real Avg Hourly/Weekly Earnings YoY (Aug)	--/--	1.40%R/0.90%R
14:30	CPI MoM/YoY (Aug)	0.10%/1.80%	0.30%/1.80%
14:30	CPI Ex Food and Energy MoM/YoY (Aug)	0.20%/2.30%	0.30%/2.20%
14:30	Initial Jobless Claims	215k	217k
14:30	Continuing Claims	1675k	1662k
<b>Japan</b>			
01:50	PPI MoM/YoY (Aug)	-0.3%A/-0.9%A	0.00%/-0.60%
04:00	Tokyo Avg Office Vacancies (Aug)	--1.71A	1.71
06:30	Tertiary Industry Index MoM (Jul)	0.10%A	-0.10%
<b>UK</b>			
01:01	RICS House Price Balance (Aug)	-4%A	-9%
<b>EMU</b>			
11:00	Industrial Production SA MoM/WDA YoY (Jul)	0.10%/-1.40%	-1.60%/-2.60%
13:45	ECB Main Refinancing Rate	0.00%	0.00%
13:45	ECB Marginal Lending Facility	0.25%	0.25%
13:45	ECB Deposit Facility Rate	-0.50%	-0.40%
<b>Germany</b>			
08:00	CPI EU Harmonized MoM/YoY (Aug F)	-0.10%/1.00%	-0.10%/1.00%
<b>Sweden</b>			
06:00	PES Unemployment Rate (Aug)	3.80%	3.80%
<b>Events</b>			
11:00	Italy to Sell Bonds		
14:30	ECB's Draghi Speaks in Frankfurt After Policy Decision		
16:50	ECB's Enria Speaks in Helsinki		
19:00	US to Sell 30-Year Notes		

Thursday, 12 September 2019

Thursday, 12 September 2013									
10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.74	0.01		US	1.67	0.00	DOW	27137.04	227.61
DE	-0.56	-0.02		DE	-0.84	0.00	NASDAQ	8169.678	85.52
BE	-0.21	-0.02		BE	-0.73	0.00	NIKKEI	21759.61	161.85
UK	0.64	0.00		UK	0.49	0.01	DAX	12359.07	90.36
JP	-0.21	-0.01		JP	-0.28	-0.01	DJ euro-50	3516.82	17.83
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.51	1.57	0.76	Eonia	-0.3660	-0.0010			
5y	-0.45	1.53	0.74	Euribor-1	-0.4530	0.0020	Libor-1	2.0386	0.0000
10y	-0.13	1.62	0.78	Euribor-3	-0.4300	0.0050	Libor-3	2.1316	0.0000
				Euribor-6	-0.4080	0.0060	Libor-6	2.0351	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1010	-0.0033		EUR/JPY	118.72	-0.04	CRB	173.73	-1.21
USD/JPY	107.82	0.28		EUR/GBP	0.8930	-0.0011	Gold	1503.20	4.00
GBP/USD	1.2326	-0.0024		EUR/CHF	1.0932	-0.0022	Brent	60.81	-1.57
AUD/USD	0.6862	0.0001		EUR/SEK	10.651	-0.0430			
USD/CAD	1.3194	0.0042		EUR/NOK	9.8608	-0.0284			

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