

# MACRO MARKETS DAILY

## Economic data today

- **Euro zone July preliminary consumer confidence** (last -1.3). European households should be more upbeat about their general situation than in previous months. Although consumer confidence levels have been stable for the last three months, we believe that the improvement in their financial situation and in the labour market should push confidence higher going forward. Moreover, more moderate CPI growth should also help households improve their real income position.
- **July Philadelphia Fed Business Outlook** (est 23.7, last 27.6). The Philly Fed index could decline slightly in July, after a very positive performance since the beginning of the year, with an average level of 31.4p (Jan-June). The breakdown of the index supports business activity picking up in 2Q17E and 3Q17E.
- **June Leading Index** (est 0.4% MoM, last 0.3% MoM). Leading indicators point to GDP growth accelerating in 2H17E versus 1H17, particularly after the very weak performance of 1Q17 GDP.
- **UK June retail sales** (ex. auto fuel fcst. 1.4%, last -1.6%). The data for May were very weak, so a decent bounce-back should be expected, but should be considered in the context of that earlier decline. The extremely good weather could see the rebound concentrated in food rather than non-food stores, although the weakness of clothing pricing reported on Tuesday could also suggest good volume, if not value, growth in that sector.

## Rates Strategy

- **EUR Rates:** Yesterday's was a significantly quieter session for EUR govies, with the 10y Bund relatively stable at around the 0.54% mark and no significant changes in risk premia during the day. The same should apply this morning, with all eyes on Draghi's press conference at 14:30 CET.
- **ECB meeting preview:** Given the major market reaction to Draghi's comments at the Sintra forum three weeks ago and with no inflationary pressures building up, we believe the ECB will try to avoid surprising on the hawkish side again this month, which would tighten financial conditions further. That said, we find the healthy macro outlook remains fully consistent with a gradual withdrawal of the ECB's stimulus measures in the months ahead, and we expect a smooth/gradual tapering to start in January 2018. As discussed in detail in our preview, included in [yesterday's MMD](#), we expect the ECB to be more explicit about this in its September meeting, with a clearer message indicating such a possibility; we think it might still be too soon (risky) for the ECB to pre-commit to any such plans right now.
- **Debt supply:** Today, France and Spain come to the market with medium- and long-dated bonds. The AFT will sell up to €7.5bn of the 0% Feb'20, 0% May'22 and 2.25% Oct'22 OATs, and up to €1.75bn of the 10y OAT€i (1.85% Jul'27), 11y OATi (0.1% Mar'28) and 30y OAT€i (0.1% Jul'47). The Spanish Tesoro will be selling up to €5bn tapping the 0.05% Jan'21, 0.4% Apr'22 and 1.45% Oct'27 SPGBs.

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- As discussed in detail in our [SPGB auction preview](#), published yesterday, we see value in buying the Jan'21 SPGB in a switch vs. the Jul'20 SPGB in ASW, buying the Oct'27 switching out of the Jul'26 to benefit from the recent steepening in the yield curve and buying the Apr'22 outright in a tactical trade to capture the attractive carry and roll down and the expected seasonal outperformance of the 5y tenor over the summer lull.
- **UK rates:** An initial ~1bp rebound from Tuesday's rally was reversed after an extremely strong launch of the new 5y gilt, which saw a record-breaking 3.10x cover. The strip (and new 5y) ended a couple of basis points richer, but short gilts underperformed (e.g. 3T Sep'19s' yield unchanged, tightening its swap spread by 0.8bp). The 30s gilt also had a notably (and overdue, we believe) strong day, outperforming its neighbours by 0.5bp. The long end did well and flattened 10s30s a touch, but the same pattern was seen in Bunds and, to a lesser extent, USTs. The next gilt supply will be a 30y auction on Tuesday, but that will be outweighed in both cash and risk terms by this weekend's £3.2bn of coupons, which may explain the curve's apparent indifference.
- **UK inflation:** Gilt linkers managed to at least keep up with the nominal rally, particularly in the long end, as the 40y syndication recedes into the rear view mirror. We expect breakevens to continue creeping wider as Tuesday's shock prints also become less topical.

## FX Strategy

- **AUD/USD** was tempted up to 0.7989 overnight, a two-year high, after more strong jobs data were released in Australia overnight. While the unemployment rate was unchanged, at 5.6%, there was another large increase in full-time jobs, indeed, the largest-back-to-back gain since 1988. However, with the pair gaining over 5% in a little over a week, the AUD could now struggle to record further gains. Indeed, it has actually fallen back below 0.7950 this morning, on likely profit-taking. The next data of note for the AUD is Wednesday's Q2-17 CPI.
- **USD/JPY** rose above 112 overnight, as the BoJ kept rates on hold, at -0.1%, and continued to target keeping the 10-year yield at about 0.0%. The Bank lifted its growth forecasts slightly, but lowered its inflation forecast, and no longer expects to reach its 2% inflation target until April 2019.
- The **EUR** has appreciated significantly since the slightly more upbeat comments from the ECB President, on 27 June (+3%-to-date versus the USD). Given that the Bank tried to dampen the effect of these comments the following day, the risk at today's ECB meeting may be Draghi going out of his way to highlight Eurozone risks and weak inflation pressures, in a bid to contain the EUR.
- Hence, while **EUR/USD** slipped to 1.15 overnight, shying further away from Tuesday's 1.1583 14-month high, we would continue to note that additional EUR/USD gains may now be reliant on a more upbeat ECB.
- The **USD index** was a touch firmer overnight, at just below 95.00. But, with just the Philadelphia Fed Business Outlook released in the US today, the ECB will be the main focal point for the FX market.
- **GBP/USD** was little changed overnight, remaining just above 1.30 and continuing to hold on to Tuesday's post-CPI declines. However, after disappointing UK retail sales data in May, a decent pick-up is expected today, which could offer support to the Pound. Meanwhile, EUR/GBP is sitting just below 0.8850. While the cross should move off these UK data this morning, it will likely take greater direction from the tone employed by the ECB's Draghi this afternoon.

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