

# MACRO MARKETS DAILY

## Economic data today

- **Euro zone June Final Services PMI** (exp. 54.7, prel. 54.7, last 56.3) and **Composite PMI** (exp. 55.7, prel. 55.7, last 56.8). The rebound in manufacturing confidence is supporting the Composite index in a context where, all in all, businesses maintain a high level of optimism about activity for the coming months. **May Retail Sales** (exp. 0.4% MoM and 2.3% YoY, last 0.1% MoM and 2.5% YoY). The recent fall in oil prices is good news as it keeps inflation contained against a background where, additionally, labour market figures continue being very positive, particularly in terms of job creation.
- **UK June Services PMI** (fcst. 53.4, last 53.8). The market seems braced for another weak reading today, and we would be inclined to agree. The earliest indicators on this sector sent confusing signals last week: Lloyds Business Barometer rose, but the EC Confidence Survey hit a four-year low. Regardless of the print, we would caution against placing too much weight on it as an indicator of UK output: April's official Index of Services figure (0.2%) was soft given that retail activity added c0.15%-pt alone over the month, despite the highest PMI reading of the year so far (55.8).
- **UK June New Car Registrations** (last -8.5% YoY). Concerns about the state of consumer confidence mean that car registrations should attract more attention than usual. The previous two months saw very sharp falls relative to a year ago, but these falls can be explained by unusually strong sales last year and purchases being brought forward to (a record-breaking) March this year, ahead of tax changes. The YTD figure, -0.6% YoY, is therefore more useful, in our view, and the test will be whether 2017 sales can move ahead again now the distortive tax effect is behind us
- **US May Factory Orders** (exp. -0.5% MoM, last -0.2% MoM) and **Final Durable Goods Orders** (exp. -1.0% MoM, last -1.1% MoM). After the rebound by indicators related to investment performance in March, 2Q17 has begun quite weak, something that we estimate should be transitory given the positive developments in terms of demand.
- **FOMC meeting minutes.**

## Rates Strategy

- **FOMC Minutes Preview:** Tonight, the Fed will release the Minutes to the June FOMC meeting. The outcome of this meeting (25bp hike, commitment to start with the balance sheet reduction measures "relatively soon" and prospects of another hike before the end of the year plus three more during 2018) should guarantee an overall hawkish tone today, although given the recent repricing in US rates (the OIS curve already factors in a 78% probability of a rate hike as early as December) it is unlikely to have a major market impact. All eyes will be on any extra detail about the implementation of the SOMA portfolio adjustments and, in particular, in any comments about its expected interaction with future rate hikes in the US.
- **EGB yields** had a mixed day yesterday, with investors discounting geopolitical events (North Korea conducted another missile test) and a

**Antonio Villarroja**

Head of Macro and Strategy Research  
[antvillarroya@gruposantander.com](mailto:antvillarroya@gruposantander.com)

**José María Fernández**

Rates Strategist  
[josemariafernandezl@gruposantander.com](mailto:josemariafernandezl@gruposantander.com)

**Edgar da Silva**

Rates Strategist  
[efda@gruposantander.com](mailto:efda@gruposantander.com)

**Banco Santander, S.A.**  
 (+34) 91 257-2244

**Antonio Espasa**

Chief Economist  
[aespasa@gruposantander.com](mailto:aespasa@gruposantander.com)  
 (+34) 91 289-3313

**Laura Velasco**

Economist  
[laura.velasco@gruposantander.com](mailto:laura.velasco@gruposantander.com)  
 (+34) 91 175-2289

**Beatriz Tejero**

Economist  
[beatriz.tejero@gruposantander.com](mailto:beatriz.tejero@gruposantander.com)  
 (+34) 91 257-2410

**Banco Santander, S.A.**

**Luca Jellinek**

Head of Rates and FX Strategy  
[luca.jellinek@santanderqcb.com](mailto:luca.jellinek@santanderqcb.com)

**Stuart Green**

UK Economist  
[Stuart.Green@santanderqcb.com](mailto:Stuart.Green@santanderqcb.com)

**Adam Dent**

UK Rates Strategist  
[adam.dent@santanderqcb.com](mailto:adam.dent@santanderqcb.com)

**Banco Santander, S.A. London Branch**  
 (+44) 20 7756-4111 / 6170 / 6223

**Stuart Bennett**

G-10 FX Strategist  
[stuart.bennett@santanderqcb.com](mailto:stuart.bennett@santanderqcb.com)

**Michael Flisher**

G-10 FX Strategist  
[michael.flisher@santanderqcb.com](mailto:michael.flisher@santanderqcb.com)

**Banco Santander, S.A. London Branch**  
 (+44) 20 7756-4136 / 5799

*\*For a full list of contributors, please refer to the Analyst Certification section*

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poor performance by European equities in a very illiquid session as the US was enjoining its 4th of July Independence Day. At the close, 10y Bund yields were slightly down, at around 0.47% (-0.1bp), with Germany's 2y yield performing similarly and approaching the -0.63% level (-2.2bp to -0.624%), while the 30y Bund went the other way, closing near the 1.3% mark (+2.2bp to 1.29%). Portuguese and Italian govies had a good day, with their bond yields tightening in all tenors. On the other hand, Spanish bonds suffered as the Tesoro prepares to sell debt tomorrow (10y SPGBs +1.4bp to 1.51%).

**Today**, the market will be focusing not only on the macro figures, but also on the Minutes to the last FOMC meeting (in June), when the Fed Funds rate was increased for the second time this year, just days ahead of the publication of the June NFP numbers in the US. Lastly, in terms of **supply**, **Germany** is scheduled to sell €4bn, launching a new 5-year Bobl (0% Oct'22). In bills, **Greece** will be placing up to €1.3bn of 182d bills.

- **ECB APP update:** Yesterday, a day later than usual, the ECB published an update of its Expanded Asset Purchase Programme (EAPP) holdings, including the purchases settled as at 30 June, as well as the country breakdown of the size and average maturity of its PSPP portfolio at the end of June. Please see the ECB's EAPP update section for more details.
- **UK rates** rallied again yesterday, outperforming EUR equivalents; US comparisons may be misleading due to the holiday there. The disappointing Construction PMI helped the UK to perform, although some of the strip's ~4bp rally did not come until the afternoon. 5y gilts were particularly strong, and 30y was the weakest sector (ultras made back some of Monday's concession). The MPC's McCafferty reiterated his hawkish position in the Welsh Daily Post newspaper yesterday morning, but added nothing new and emphasised his data dependency. The Committee's other hike supporter, Saunders, took much the same line in the Guardian after the market closed. The market ignored McCafferty's contribution, and is likely to do the same with Saunders's – but every member's references to data will likely have raised the stakes on today's PMI and Friday's IP releases.
- **UK inflation:** Linkers did not continue to rally with nominals, beyond some catch-up with recent oil price rises in the front end. This, plus the approaching syndication, gave the whole real yield curve a steepening profile, with a corresponding flattening of breakevens. Long real yields are now testing -1.50% and their YTD highs, which should

start to attract buyers before the syndication next week.

## FX Strategy

- Despite a dip in the 10-year US yield and mounting geo-political concern regarding North Korea, the USD and the FX market in general were relatively stable overnight, with the **USD index** holding above 96.00.
- An increase in international political risks would normally boost demand for the Yen, as a safe haven. Indeed, **USD/JPY** remains off the week's highs, at 113.40, but the uptrend in the pair, which started in mid-June, appears to remain in place.
- In addition, Japanese equities have been stable, providing support for USD/JPY and suggesting, at least for now, that North Korean issues have not significantly boosted demand for the Yen.
- **EUR/USD** also held stable in Asian trading, hovering around 1.3500. The final figure for Eurozone services PMI should confirm June's decline to 54.7, albeit with sentiment remaining high, and EUR positive.
- Hence, the main focus is likely to be on the FOMC Minutes, released this evening, and clues as to the timing of the next rate hike and plans to shrink the Fed's balance sheet. 'Hawkish' Minutes should allow EUR/USD to test its 28 June low of 1.1292.
- Overnight, there was also little change in Sterling. **EUR/GBP** is holding just above 0.8780, with **GBP/USD** around 1.2920. The UK data focus today will be on the June services PMI, where the consensus expects a small decline to 53.5, from 53.8.
- A downside surprise, similar to those reported in the manufacturing and construction surveys, could encourage GBP/USD to test support at its 50-day moving average of 1.2875.

## Update of the ECB's EAPP: PSPP comfortably at around €50bn-a-month pace

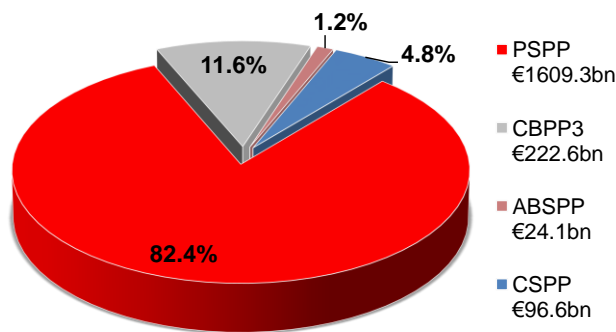
Yesterday, the ECB published an update of its [Expanded Asset Purchase Programme \(EAPP\)](#) holdings, including the purchases settled as at 30 June, as well as the country breakdown of the size and average maturity of its PSPP portfolio at the end of the month. According to the overall weekly figure, the ECB hit the brakes on its bond purchases last week, taking them to their lowest since the end of last year (only up €6.1bn vs. the c.€14bn reported last week). However, the end-of-month country figures show June govie purchases (at €51.6bn) as being just slightly above the previous month's figure, when it bought €51.5bn, but



below the average for the 27-month-old programme (€58.5bn from March 2015 to June 2017).

Beginning with the weekly numbers, the ECB's total EAPP portfolio accumulated €1,953bn last week. Its PSPP portfolio now amounts to €1,609bn, an increase of €4.4bn on the previous week (when a rise of €12.5bn was posted), representing nearly 72% of the total bought last week. CBPP3 holdings reached €222.6bn, €207mn less than in the previous week (versus the €69mn change reported last week). The CSPP now amounts to €96.6bn, an increase of €1.4bn (vs. last week's figure of €1.5bn), with 23.1% of the ECB funds directed to this portfolio last week. Lastly, ABSPP holdings grew by €508mn to €24.1bn, after the €107mn decrease seen in last week's report.

**Chart 1: The ECB's EAPP portfolio: €1,953bn**



Source: ECB, Santander

The ECB also published a country breakdown of the monthly and accumulated holdings of debt securities under the PSPP, including the weighted average remaining maturity (in years) for each at the end of June. Yesterday's figures show that the EAPP grew by €62.4bn in June (€138mn less than in May, or a 0.2% decrease), of which €51.6bn corresponded to the PSPP (slightly above last month's €51.5bn). Of these €51.6bn, €46.4bn are EUR govies (€89mn more than in May), while the remaining €5.2bn (10% of the PSPP) are supranational debt, €28mn more than in the previous month.

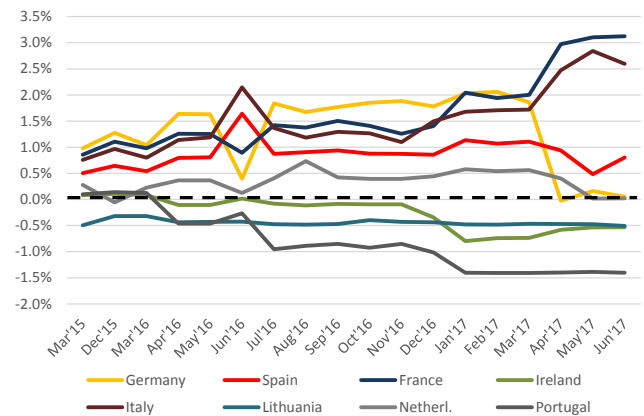
The June country breakdown shows slight decreases in Italy, Germany, and Luxembourg, among others (see Table 1 in the next page). On the other hand, the ECB

concentrated its purchases in the usual suspects, Germany and France (above the €10bn mark), while Italy and Spain surpassed the €5bn level in June. Adding these four countries' purchases (€38.2bn), the result represented 74% of all PSPP purchases in June.

In terms of duration, June saw a slight shortening in the total average remaining maturity of the purchases. The aggregate for June (8.31 years) is 0.65 years less than in May (8.96 years), and 0.89 years shorter than the last 12-month average (9.20 years). Last month's purchases were significantly skewed to the short end in Slovenia and Finland, among others, but not in Latvia or Lithuania, which saw large maturity extensions. Lastly, supranational debt saw its average duration extend by more than 3 years (3.15 years) to 13.2 years, above its 12-month average (10.16 years).

As seen in Chart 2, last month the ECB's capital key purchases continued to diverge significantly in the cases of France and Italy (with these 3.1%, and 2.6% above their capital limits, respectively), with Italy improving from last month's figures (2.8% ahead in May), and Spain saw a slight increase from last month's number (0.8% vs. 0.5% in May). Germany saw a slight decrease in divergence last month (from 0.2% to 0.1% above), while the Netherlands saw no deviation at all in June. The most negative cases (purchasing below their capital limits) continue to be seen in Portugal (-1.4%), Lithuania and Ireland (both at -0.5%).

**Chart 2: Divergence from ECB's Capital Key since March 2015**



Source: ECB, Santander



Table 1: The ECB's PSPP purchases - Country breakdown

Holdings (€mn)	1Q15 (Mar' 15)	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	Apr'17	May'17	Jun'17	Monthly Change	Monthly Ave	2015 Purchases	2016 Purchases	2017 Purchases	Total Purchases
Austria	1,215	3,828	3,706	3,890	4,060	6,049	5,116	5,334	5,816	1,562	1,494	1,492	-2	1,556	12,639	20,559	10,364	43,563
Belgium	1,527	4,843	4,637	4,888	5,126	7,648	6,449	6,716	7,257	1,973	1,880	1,886	6	1,958	15,895	25,939	12,996	54,830
Cyprus	-	-	98	187	-	16	-	21	-	-	-	-	-34	8	285	-	37	215
Germany	11,063	35,262	33,752	35,541	37,198	55,446	46,803	48,874	51,650	12,490	11,919	11,892	-27	13,996	115,618	188,321	87,951	391,895
Estonia	-	5	33	10	13	5	-	-	-	-	-	-	-	2	48	18	-	65
Spain	5,444	17,294	16,562	17,513	18,343	28,175	23,052	23,944	25,615	6,599	6,043	6,202	159	6,957	56,813	93,514	44,459	194,791
Finland	774	2,463	2,362	2,487	2,615	3,914	3,280	3,403	2,233	674	636	643	7	910	8,086	13,212	4,186	25,480
France	8,752	27,535	27,037	28,438	29,810	44,014	36,947	38,329	41,505	11,303	10,769	10,799	30	11,259	91,762	149,100	74,376	315,244
Ireland	721	2,293	2,234	2,333	2,393	3,275	2,665	2,649	1,669	522	516	518	2	778	7,581	10,982	3,225	21,787
Italy	7,604	23,977	23,201	24,422	25,588	39,212	32,151	33,447	35,977	9,761	9,419	9,323	-96	9,789	79,204	130,398	64,480	274,086
Lithuania	39	339	394	335	343	322	193	299	210	57	52	38	-14	94	1,107	1,157	357	2,620
Luxembourg	183	550	304	78	423	77	16	112	151	49	81	56	-25	74	1,115	628	337	2,079
Latvia	75	429	64	117	115	224	144	145	160	43	27	36	9	56	685	628	266	1,579
Malta	5	204	53	20	141	163	30	191	108	12	13	16	3	34	282	525	149	956
Netherl.	2,486	7,858	7,473	7,795	8,393	12,360	10,591	10,868	11,715	2,977	2,642	2,650	8	3,136	25,612	42,212	19,984	87,808
Portugal	1,073	3,422	3,274	3,450	3,624	4,294	2,702	2,770	2,007	526	504	498	-6	1,005	11,219	13,390	3,535	28,145
Slovenia	209	679	651	690	769	732	595	609	462	113	119	159	40	207	2,229	2,705	853	5,787
Slovakia	506	1,597	1,332	1,187	1,562	885	477	610	929	233	211	237	26	349	4,622	3,534	1,610	9,765
Sub Govies	41,676	132,578	127,165	133,383	140,511	206,793	171,192	178,298	187,462	48,894	46,324	46,413	89	52,167	434,802	696,794	329,093	1,460,697
Supras	5,680	18,187	18,028	18,206	18,871	23,451	18,951	19,853	20,922	5,417	5,166	5,194	28	6,355	60,101	81,126	36,699	177,927
TOTAL PSPP	47,356	150,765	145,193	151,589	159,382	230,244	190,143	198,151	208,384	54,311	51,490	51,607	117	58,522	494,903	777,920	365,792	1,638,624

Source: ECB, Santander

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**Antonio Villarroya, Luca Jellinek, José María Fernández, Edgar da Silva, Antonio Espasa, Laura Velasco, Beatriz Tejero, Stuart Bennett, Michael Flisher, Stuart Green, Adam Dent**

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## Local Offices

### Madrid

Tel: 34-91-257-2035  
Fax: 34-91-257-0252

### Brussels

Tel: 32 2 286 5447  
Fax: 32 2 230 6724

### New York

Tel: 212-756-9160  
Fax: 212-407-4540

### Lima

Tel: 511-215-8133  
Fax: 511-215-8161

### Lisbon

Tel: 351-21-389-3400  
Fax: 351-21-387 0175

### Paris

Tel: 33 15353 7000  
Fax: 33 15353 7060

### Bogota

Tel: 571-644-8008  
Fax: 571-592-0638

### Mexico DF

Tel: 525-629-5040  
Fax: 525-629-5846

### London

Tel: 44-870-607-6000  
Fax: 44-20-7332-6909

### Frankfurt

Tel: 49 6959 67-6403  
Fax: 49 6959 67-6407

### Buenos Aires

Tel: 54114-341-1052  
Fax: 54114-341-1226

### Santiago de Chile

Tel: 562-336-3300  
Fax: 562-697-3869

### Milan

Tel: 39-02-8542-09810  
Fax: 39-02-8606-71648

### Tokyo

Tel: 813-5561-0591  
Fax: 813-5561-0580

### Caracas

Tel: 582-401-4306  
Fax: 582-401-4219

### São Paulo

Tel: 5511-3012-5721  
Fax: 5511-3012-7368

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