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MACRO MARKETS DAILY

Economic data today

- Italy June Final CPI (exp. 1.2% YoY, prel. 1.2% YoY, last 1.6% YoY). For us, the highlight of the preliminary figures was the rise in core inflation, to 0.9% YoY from 0.7% YoY, in a context where domestic demand seems to have shown some reactivation. May Trade Balance (last €3.6bn). The recovery in activity in the Euro zone countries should boost Italian exports.
- Euro zone May Trade Balance (exp. €20.2bn, last €19.6bn). The reports on manufacturing activity show export activity intensifying. This, together with the moderation in energy prices, should help boost net exports.
- US June Retail Sales (exp. 0.1% MoM, last -0.3% MoM) and July Preliminary University of Michigan Sentiment (exp. 95.0, last 95.1). Judging from the rebound in consumer confidence in June (fuelled by the strong labour market performance), we should see an increase in retail sales. June Industrial Production (exp. 0.3% MoM, last 0.0% MoM). The strong confidence numbers for June should help production accelerate. June Headline CPI (exp. 0.1% MoM and 1.7% YoY, last -0.1% MoM and 1.9% YoY) and Core CPI (exp. 0.2% MoM and 1.7% YoY, last 0.1% MoM and 1.7% YoY). Contained commodity prices will limit the possibility of significant increases in consumer prices, at least for now. May Business Inventories (exp. 0.3% MoM, last -0.2% MoM).
- Central bank speakers: The ECB's Nowotny plus the Fed's Kaplan.

Rates Strategy

- **EUR rates:** No matter the strong start to the session, taking the 10y Bund yield back to the 0.55% level by noon, selling pressures intensified in the afternoon and all EUR govies ended yesterday weaker. In general terms, core debt deteriorated as much as its US peer but, remarkably, we saw a slight widening in risk premia on the day, in contrast with the behaviour seen in the past month (in general terms, all periphery spreads are 5-10bp tighter than one month ago, even if 25-30bp higher in absolute yield levels).
- Today, after having heard Yellen emphasizing the importance of inflation data for the Fed's outlook, all eyes will be on the US CPI figures today. Recall that we have seen the core CPI consistently declining from the 2.3% print posted in January to 1.7% now, so stabilization here (or, hopefully, some rebound) should prove critical to allowing the Fed to maintain its current message, which is still significantly more hawkish than the market is pricing.
- On the EUR sovereign ratings front, S&P is scheduled to update its view on Belgium (AA, stable) and DBRS its on Italy (BBB-High, stable) today.
 We do not expect any changes in either of these ratings.
- UK rates: The focus was largely elsewhere yesterday, which is likely to remain the case today. Gilt yields and the sterling strip tracked the ECB-inspired sell-off in US equivalents very closely all across the curve (greens +2-3bp, 5y + 2.5bp, 10y +4bp), although GBP swaps did slightly better than USD equivalents and gilt spreads tightened by 1-2bp. 5y and 30-40y gilts were relatively firm spots, despite the auction next week and the linker

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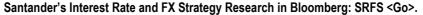
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syndication, respectively. The 65s and 68s were not so lucky, and cheapened by 0.5bp more than the 55s and 57s. £3.2bn of coupons with a long-dated bias go ex-div today (average maturity 24y), which could explain/continue the support for the long end.

- UK inflation: Breakevens reversed Wednesday's gains yesterday despite a strong start, whereas the currency and oil prices both extended their own rises. 10y linkers led the way cheaper (+6bp real yield, -2bp on breakeven). Ultras were on the strong side compared to both 30y and the nominals, leaving 50y BEs unchanged on the day.
- BoE signals: The MPC's lead hawk, McCafferty, commented in yesterday's Times that he would like to revisit the BoE's long-standing guidance that gilt QE will continue to be reinvested until Bank Rate gets to around 2%. We do not agree with his assertion that "Given that other central banks are thinking about it, I think it would be remiss of [the Bank] not to at least think about it". The central bank he implicitly referred to, the Fed, is now four hikes into a cycle, whereas the UK's Bank Rate is still at a record low, even if he is still in favour of lifting it (once). The FOMC now has the scope to cut "materially" that the MPC wanted before starting to run down the balance sheet, but the MPC remains very far from such breathing space and the Committee's lines of thinking on monetary policy should, in our view, also continue along rather different lines. He also said that he still believes a

rate hike is appropriate, but we do not expect any other Committee members to join him and Saunders at August's vote. The sterling strip's strong start to the day suggested that markets also saw nothing new in his comments, although raising the subject of a QE wind-down may have contributed slightly to gilt spreads' tightening.

FX Strategy

- The **USD index** has been a little choppy this week, but was relatively steady overnight, slipping marginally to around 95.70. Overnight, the Fed's Brainard and Kaplan added to Chair Yellen's comments yesterday about low inflation, and the need to bring it up to 2%.
- The market is likely to be USD-focused once again today, specifically looking to the US CPI data, as well as Retail Sales and Industrial Production numbers. A moderation in headline inflation is expected, and so any decline to further below 2% here may again limit the scope for significant USD gains today.
- Elsewhere, there is little in terms of data or events to look out for today. EUR/USD was little changed, at 1.14 overnight, and with no data or events of note in the Eurozone today, the pair now seems likely to finish the week unchanged, before then turning its attention to next week's ECB meeting.
- Meanwhile, GBP/USD was again a touch firmer overnight, at around 1.2950, while USD/JPY sits just below 113.50.

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FX RECOMMENDATIONS				
Rating		Definition		
Long / Buy	.ong / Buy Appreciation of a given cu		rrency with an expected return of at least 5% in 3 months.	
Short / Sell Dep		Depreciation of a given co	Depreciation of a given currency with an expected return of at least 5% in 3 months.	

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