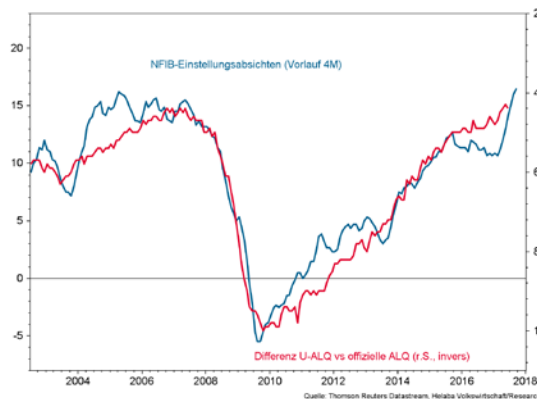


Yellen testimony looms

Ulrich Wortberg

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No key data releases are featured on today's calendar. Solely the **NFIB's small business optimism index** will undoubtedly indicate that sentiment among small- and medium-sized enterprises is upbeat. The index is at a comparatively high level, having recently reached 105.5 points. In January of this year it touched its highest level since end-2004, at 106.9 points. Also worth highlighting



is the hiring plans component, which has grown significantly in recent months and points to a further lower trending unemployment rate. The adjacent chart shows hiring plans with a four-month lead in relation to the gap between the underemployment rate and the official unemployment rate (right-hand scale, inverse). Another reduction is indicated. A robust labour market is the key prerequisite for a positive trend in private consumption, which in turn accounts for some 70% of overall economic growth in the US.

Traditionally, the small business barometer's market impact is not very high. In the run-up to the eagerly awaited semi-annual testimony of **Fed chair Yellen** before the US Congress (Wednesday and Thursday), moreover, market participants are likely to hold back on new positions. The big question is whether we will be offered fresh clues on the rate hike cycle going forward and the commencement of the Fed's balance sheet normalisation process. **FOMC members Kashkari** and **Brainard** are scheduled to speak today. Whereas Kashkari has recently tended to focus on financial stability themes, Brainard has spoken about the possibility of rate hikes being delayed.

Overnight news

- Williams (San Francisco Fed) expects to see one more hike and the start of the balance sheet reduction before the end of this year, adding that softening in inflation was only "transitory" – and that if inflation did not accelerate as expected, however, it would argue for a slower pace of rate hikes.
- Japan: M3 money supply grew 3.3% in June, up from downwardly revised +3.2%.
- US stock markets close nearly unchanged; Asia broadly upbeat.

Economic indicators and events

| Time | Period | Indicator / event | Poll | Prior | Impact | |
|-------|--------|-------------------|--|------------------------|----------------|-----|
| 10:00 | IT | May | Industrial production | +0.5% m/m +2.0% y/y | -0.4% +1.0% | low |
| 12:00 | US | June | NFIB small business barometer | 104.4 | 104.5 | low |
| 14:00 | EZ | | ECB speech: Cœuré | | | |
| 18:00 | US | | Fed speeches: Brainard, Kashkari (19:20) | | | |

Sources: Bloomberg, Reuters, Helaba Research

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Bund future: long-term sideways range intact

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Primary market calendar

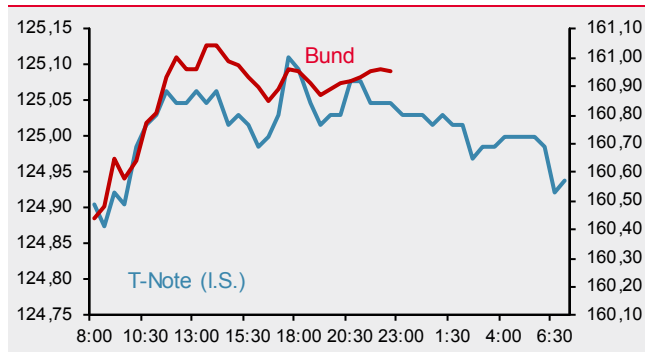
| Time | Bond / coupon | Volume |
|-------|----------------------------|-----------------|
| 11:30 | NL DSL 2.75%, January 2047 | EUR 0.75-1.25bn |
| 19:00 | US New 3-year note | USD 24bn |

Sources: Bloomberg, Reuters, national funding agencies, Helaba Research

Bond market

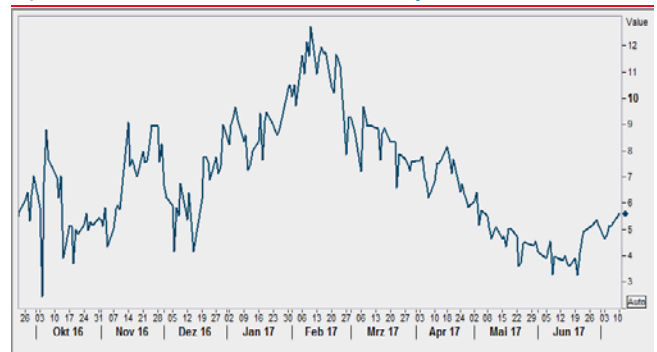
Following its sharp down move, the Bund future predictably firmed at the start of the week. The technical chart picture remains murky, however, with indicators pointing south. Meanwhile, the weekly chart of the continuous contract does not show any clear trend, notwithstanding recent losses. The sideways range between 168.86 and 158.73 going back to 2016 is still intact, and the technical indicators offer no clues of a near-term breakout move. For example, the stochastic has been moving within neutral territory since the beginning of the year while the ADX, which has dropped below 20, likewise signals a trendless condition. **Our favoured trading range: 160.30 – 161.50.**

Bund future / T-Note future (price, 30 minutes)



Sources: Reuters, Helaba Research

Spread: 30Y Netherlands/Germany



Sources: Reuters, Helaba Research

Spreads

The primary market will be dominated by the long to ultra-long maturity segment this week. Germany, Portugal, Ireland and Italy will be active in the 10- and 30-year segment. Today's activities will kick off with the Dutch Debt Agency tapping its 30-year benchmark DSL, which is expected to raise up to EUR 1.25bn. Due to the Draghi-induced yield rally, financing costs may well be in the region of 1.4%. The allotment rate was 1.14% as recently as January. The Dutch/German yield spread has also widened recently, ending for now the tightening trend observed since February – from more than 12bp to a low at 3.7bp. The spread is currently back at 5.7bp.

Market data

| | aktuell | gg. 1T | gg. 1W | | aktuell | gg. 1T | gg. 1W | | aktuell | gg. 1T | gg. 1W |
|-------------|---------|--------|--------|-----------|-----------|--------|--------|-----------|---------|--------|--------|
| Bund-Future | 160,94 | 0,28% | -0,57% | DAX | 12.445,92 | 0,00% | 0,07% | Nikkei | 20168,2 | 0,43% | 0,67% |
| Bund 2J. | -0,605 | -0,001 | 0,000 | EuroStoxx | 3.478,06 | 0,00% | -0,04% | Öl-Future | 44,57 | 0,38% | #WERT! |
| Bund 10J. | 0,543 | 0,004 | 0,069 | S&P 500 | 2.427,43 | 0,09% | #WERT! | Gold | 1211,5 | -0,20% | -1,00% |
| UST 10J | 2,387 | 0,014 | #WERT! | Dow Jones | 21.408,52 | -0,03% | #WERT! | Swap 10J. | 0,96 | -0,01 | 0,05 |

Sources: Reuters, Helaba Volkswirtschaft/Research



Euro: waiting on impetus

Ulrich Wortberg

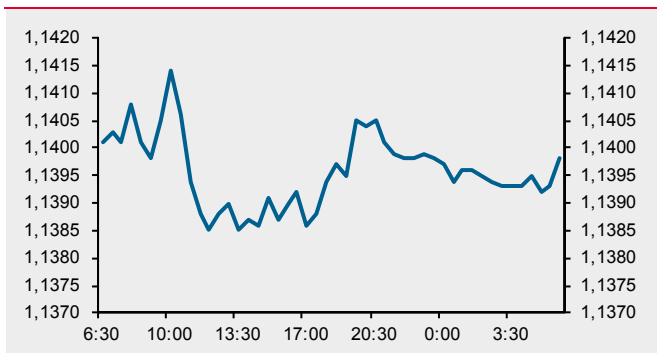
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EUR-USD

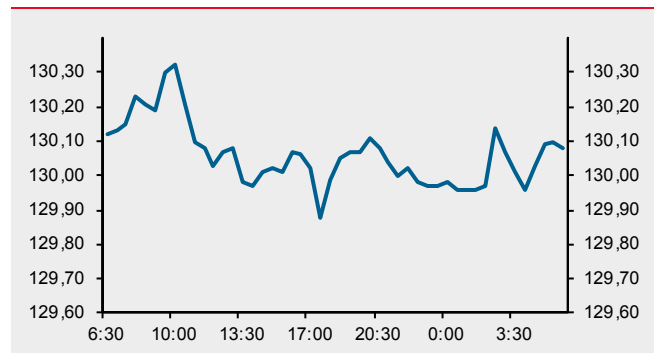
Although the euro is holding its own, the high from end-June at 1.1445 has not yet been breached, with the impetus for such a move unlikely to be delivered today as well. No key data releases are on the agenda; rather, market participants will be holding back on positions ahead of Yellen's hearing before the US Congress tomorrow. The technicals are likewise giving mixed signals. Accordingly, the consolidation should initially continue. Above 1.1445, resistances are found around 1.1500 and at 1.1614 (high from 2016). Supports are seen in the 1.1285/1.1310 zone. **Our favoured trading range: 1.1310 – 1.1445.**

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-JPY (30 minutes)



Sources: Reuters, Helaba Research

EUR-JPY

The Bank of Japan lowered its inflation forecast last week and announced that it planned to depress bond yields via unlimited bond purchases. Central bank head Kuroda yesterday underlined the importance of maintaining an ultra-loose monetary policy, which drove the yen lower again. Accordingly, the euro broke the resistance level at 130 yen.

EUR-CAD

On Wednesday, the Bank of Canada will decide on the direction of its key rates. The majority of market participants expect to see the first rate hike for nearly seven years, to 0.75%. This assumption is backed by corresponding statements from the central bank chair, as well as by robust sentiment and real indicators. As a rate hike is almost fully priced in, however, the appreciation of the Canadian dollar is bound to be kept in check. The tone at the follow-up press conference will likely prove decisive. Given the moderate inflationary pressure, it does not appear imminent that the Bank of Canada will embark on a tight interest rate path. EUR-CAD should be well supported around 1.46.

| | current | gg. 1T | gg. 1W | | current | gg. 1T | gg. 1W | | current | gg. 1T | gg. 1W |
|---------|---------|--------|--------|---------|---------|--------|--------|---------|---------|--------|--------|
| EUR-USD | 1,1390 | -0,08% | 0,42% | EUR-CZK | 26,074 | -0,03% | -0,22% | EUR-RUB | 68,632 | -0,04% | 1,83% |
| EUR-GBP | 0,8842 | -0,06% | 0,74% | EUR-PLN | 4,2367 | 0,04% | 0,01% | EUR-TRY | 4,1120 | -0,02% | 1,81% |
| EUR-CHF | 1,1010 | 0,04% | 0,52% | EUR-HUF | 307,95 | 0,05% | 0,05% | EUR-CNY | 7,7498 | 0,26% | 0,64% |
| EUR-JPY | 130,13 | 0,13% | 1,27% | EUR-CAD | 1,4687 | -0,02% | 0,03% | EUR-KRW | 1309,2 | 0,01% | 0,39% |
| EUR-SEK | 9,6018 | -0,06% | -0,73% | EUR-AUD | 1,4960 | -0,17% | 0,28% | EUR-SAR | 4,2520 | -0,49% | 0,05% |
| EUR-NOK | 9,5003 | 0,09% | 0,23% | EUR-NZD | 1,5746 | 0,50% | 1,16% | EUR-BRL | 3,7073 | -0,06% | -1,24% |

Quellen: Reuters, Helaba Volkswirtschaft/Research ■