

US Federal Reserve Chair to move markets

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All eyes today will be on **Janet Yellen's semi-annual testimony** before the House of Representatives Financial Services Committee. Her speech promises to be eventful given the still considerable discrepancy between the market's rate expectations and the rate hike path viewed as appropriate by the FOMC members based on the key rate projections. Whereas the central bank has guided for four more hikes by the end of 2018, the market has fully priced in only one. This leaves scope for a correction even if Yellen is not expected to offer much in the way of specifics. Without commenting specifically on a possible September date for the next rate hike, she will make general reference to the appropriateness of raising key rates gradually. Market participants are betting that the Fed will act more cautiously than it has of late. It remains to be seen whether Yellen will announce any fundamental change with respect to this viewpoint. In addition to the interest rate path, also of interest will be the commencement of the balance sheet normalisation process. Several Fed officials have recently spoken out in favour of acting already this year to start normalising the balance sheet. We should not be surprised by statements in this vein from the Fed Chair.

This evening's release of the US Fed's **Beige Book** will probably not be much of a market mover as it follows Yellen's testimony on the economy and monetary policy. Moderate growth in the past six weeks amid a tightening labour market is expected to be cited in most Fed districts. Inflation pressure is not particularly high, however, as also recently evidenced by weak hourly wage growth. With regard also to tomorrow's producer prices and Friday's consumer prices, we look for modest month-on-month increases at best.

In the **euro area**, the main focus of attention will be on **industrial production**. As results from Germany, France, Spain and Italy are positive across the board, a significant month-on-month rise is foreseeable. Its market impact is limited, however, as national results have already been disclosed.

Overnight news

- According to media reports, Donald Trump's economic advisor Gary Cohn will likely replace Janet Yellen as Federal Reserve Chair in the coming year.
- Fed member Brainard calls for gradual reduction of the central bank's balance sheet soon but would first like to see progress on inflation before supporting another rate hike.
- Price of oil (LCF) firmed up at USD 45.76/barrel.

US stock markets closed little changed – wait-and-see mode ahead of Yellen's testimony.

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Economic Indicators and Events

| Time | Period | Indicator / Event | Poll | Prior | Impact |
|-------|----------|------------------------------------------------------------------------------------|------------------------|----------------|--------|
| 11:00 | EZ May | Industrial production | +1.0% m/m +3.5% y/y | +0.5% +1.4% | low |
| 13:00 | US Wk 27 | MBA mortgage market index | | | |
| 16:00 | US | Fed Chair Yellen's semi-annual testimony before House Financial Services Committee | | | |
| 20:00 | US | Beige Book | | | |
| 20:15 | US | Fed speech: George | | | |

Sources: Bloomberg, Reuters, Helaba Research



DAILY REPORT FI/FX

12. Juli 2017

Bond market: Yellen to set the tone

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Primary Market Calendar

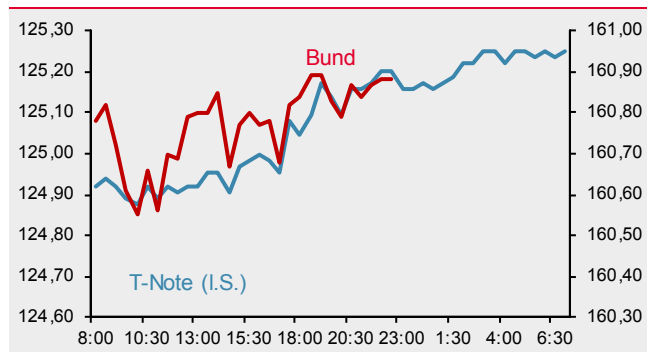
| Time | Bond / Coupon | Volume |
|-------|--------------------------------------------------|--------------|
| 11:30 | DE New Bund August 2027 | EUR 5bn |
| 11:30 | PT OT 4.125%, April 2027; OT 4.1%, February 2045 | EUR 0.75-1bn |
| 19:00 | US 10-year note | USD 20bn |

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

Bund-Future

The short-term technical picture continues to look challenging. On the upside, besides the previous support at 161.68 the 162.23 level is also relevant. This is home to the 38.2% Fibonacci retracement of the Bund future's retreat since late June. We would need to see an advance above this level for the outlook to improve a bit. To generate the necessary impetus, Fed Chair Yellen would have to strike a decidedly strong dovish tone at her hearing before the US Congress today. However, the Monetary Policy Report, which has already been published in advance, provides no conclusive indications in this direction. Rather, given the still massive disconnect between the Fed's projections (one more rate hike in 2017, to be followed by three in 2018) and the market's rate hike expectations (one hike by end-2018), we see some scope for adjustment. Accordingly, downside risks to the Bund future still remain. **Our favoured trading range: 160.30 – 161.70.**

Bund Future / T-Note Future (Price, 30 minutes)



Sources: Reuters, Helaba Research

10/2 Bund spread



Sources: Reuters, Helaba Research

Spreads

The placement of the new 10-year benchmark bond (one of a number of various long and ultra-long auctions to take place today and also later this week) could add pressure on the long end of the Bund curve. The widening trend of the 10/2 Bund spread could continue accordingly. As recently as late June, the spread broke free of the downtrend observed since March and is currently trading at just short of 116bp. The next target is pegged at roughly 118bp (high from early February).

Market data

| | last | chg. 1T | chg. 1W | | last | chg. 1T | chg. 1W | | last | chg. 1T | chg. 1W |
|-------------|--------|---------|---------|-----------|-----------|---------|---------|-----------|---------|---------|---------|
| Bund-Future | 160,69 | -0,16% | -0,77% | DAX | 12.437,02 | 0,00% | -0,13% | Nikkei | 20088,0 | -0,54% | 0,03% |
| Bund 2J. | -0,619 | -0,024 | -0,017 | EuroStoxx | 3.464,48 | 0,00% | -0,40% | Öl-Future | 45,77 | 1,59% | 1,40% |
| Bund 10J. | 0,547 | -0,002 | 0,075 | S&P 500 | 2.425,53 | -0,08% | -0,29% | Gold | 1219,7 | 0,19% | -0,56% |
| UST 10J | 2,355 | -0,006 | 0,021 | Dow Jones | 21.409,07 | 0,00% | -0,32% | Swap 10J. | 0,95 | 0,00 | 0,04 |

Sources: Reuters, Helaba Research

Published by: Helaba Research, Publisher: Dr. G. R. Traud, Chief Economist/ Head of Research, Neue Mainzer Straße 52-58, 60311 Frankfurt am Main, phone + 49 69/91 32-20 24, Internet: <http://www.helaba.de>. This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data is based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.



Euro: resistance overcome

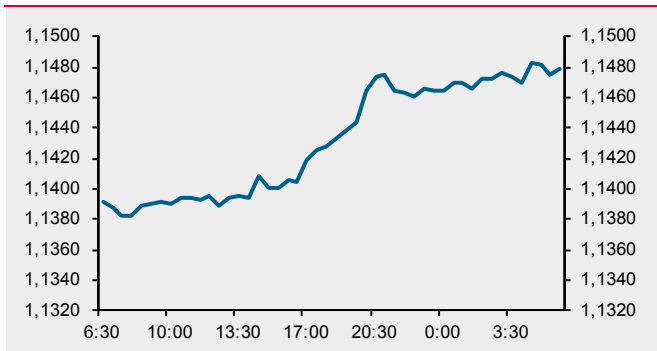
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EUR-USD

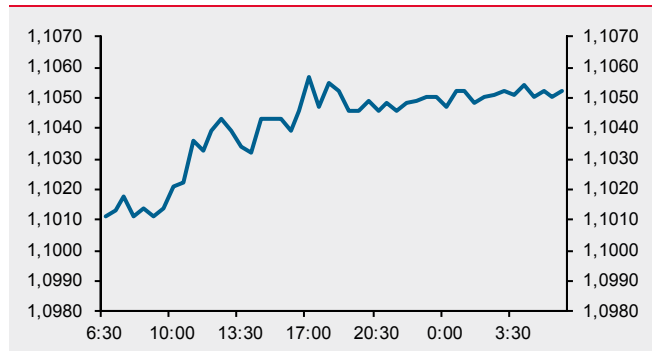
The US dollar came under pressure on statements from Brainard and the email affair surrounding Trump Jr., whereupon EUR-USD managed to break above the resistance at 1.445 after all. Quantitative indicators in the daily chart improved as a result, with the next hurdle now found at around 1.1500. It remains to be seen whether Fed Chair Yellen at today's hearing will stoke rate hike speculation, which is not very pronounced. If that turns out to be the case, a retreat below 1.14 should not be ruled out. **Our favoured trading range: 1.1370 – 1.1500.**

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-CHF (30 minutes)



Sources: Reuters, Helaba Research

EUR-GBP

After BoE vice governor Broadbent offered no clues on interest rate policy going forward, the rally of the euro against the pound continued. Overall, the British currency looks set to remain under pressure as political uncertainty in connection with the shaky government as well as surrounding the "Brexit" negotiations acts as much as a drag as does the slowdown in economic growth momentum. The key resistance level at 0.8880 GBP was broken to the upside, with a high reached at 0.8939.

EUR-CHF

The euro chalked up further gains against the Swiss franc to reach its highest level in a year around 1.1060 CHF. Whereas market participants are speculating on a near-term ECB monetary policy shift, the Swiss National Bank has recently confirmed its expansionary monetary policy stance. The next resistances are found at 1.1105 and 1.1130.

| | last | chg. 1T | chg. 1W | | last | chg. 1T | chg. 1W | | last | chg. 1T | chg. 1W |
|---------|--------|---------|---------|---------|--------|---------|---------|---------|--------|---------|---------|
| EUR-USD | 1,1483 | 0,16% | 1,14% | EUR-CZK | 26,107 | 0,02% | 0,07% | EUR-RUB | 69,606 | -0,12% | 2,21% |
| EUR-GBP | 0,8931 | 0,09% | 1,74% | EUR-PLN | 4,2368 | -0,02% | 0,21% | EUR-TRY | 4,1426 | -0,01% | 1,16% |
| EUR-CHF | 1,1052 | 0,03% | 1,00% | EUR-HUF | 307,39 | 0,03% | -0,41% | EUR-CNY | 7,7910 | 0,40% | 1,30% |
| EUR-JPY | 130,26 | -0,28% | 1,31% | EUR-CAD | 1,4815 | 0,05% | 0,74% | EUR-KRW | 1315,0 | -0,11% | 0,54% |
| EUR-SEK | 9,6334 | 0,01% | 0,02% | EUR-AUD | 1,5006 | -0,05% | 0,52% | EUR-SAR | 4,2696 | -0,24% | 0,44% |
| EUR-NOK | 9,4977 | 0,03% | -0,28% | EUR-NZD | 1,5863 | -0,06% | 1,83% | EUR-BRL | 3,7368 | 0,15% | 0,12% |

Sources: Reuters, Helaba Research ■