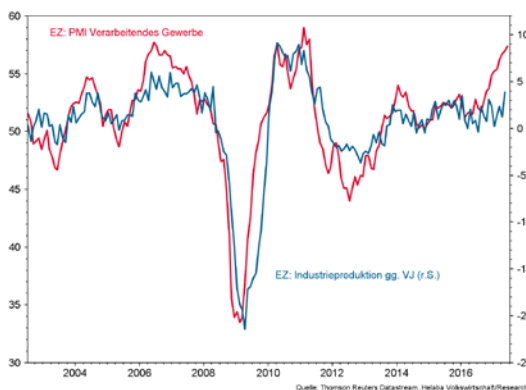


No pressure on the Fed from inflation

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The **producer prices** in the **US** will attract attention today as they will provide guidance for tomorrow's consumer prices. The inflation trend is highly important with regard to the foreseeable rate hike path. Today's data for June are expected to show a slight month-on-month rise in the headline index, with the annual inflation rate likely to stagnate as a result. **Oil prices** were higher in early June than at the beginning of May, but fell sharply in the course of the month. In this setting, a generally weak price trend should be anticipated for this month too. Excluding food and energy prices, the inflation environment remains moderate on both a month-on-month and year-on-year basis. Thanks to the low inflation, the US central bank is not under pressure to raise the key rates rapidly. **Fed chair Yellen** commented yesterday that the economic recovery will warrant gradual rate hikes over time, but given the fairly low neutral rate, the key rate does not have to rise much further to reach a neutral level. Yellen also highlighted the uncertainty surrounding the inflation trend. Key rate expectations remain little changed as a result. Only one hike continues to be fully priced in by the end of 2018. On the second day of Yellen's testimony – which is to the Banking Committee of the US Senate today – new information that may influence interest rate expectations is not foreseeable.

There are only a handful of data reports on the agenda in the **Eurozone** this week and speeches by ECB officials are also few and far between. Yesterday's **EMU industrial production** data showed an increase of 1.3% m/m in May, which was slightly above the market consensus. As the national results were already known at the time of publication, the production figure did not have any major impact on the financial markets. Despite the increase, the question is whether sentiment indicators are painting an exaggerated picture of the real economy, as the adjacent chart illustrates.



Overnight News

- Fed's cautious approach is driving global equity markets; Dow Jones hits new record high at 21,581 points, DAX back above 12,600.
- Bond yields under pressure, 10y UST slides to 2.3%.

Economic Indicators and Events

Time	Period	Indicator / Event	Poll	Prior	Impact	
14:30	US	Week	Initial jobless claims	245k	248k	medium
14:30	US	Jun	Producer prices	0.0% m/m +1.9% y/y	0.0% +2.4%	medium
16:00	US	Fed Chair Yellen's semi-annual testimony to the Senate's Banking Committee				
17:30	US	Fed speeches: Evans, Brainard				

Sources: Bloomberg, Reuters, Helaba Research

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Resistances on the horizon

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Primary Market Calendar

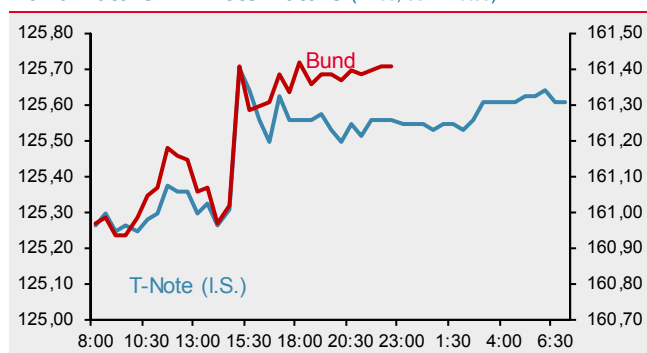
Time	Bond / Coupon	Volume
11:00	IT BTP 0.35%, June 2020; BTP 1.85%, May 2024; BTP 2.45%, September 2033; BTP 4.0%, February 2037	EUR 4.25 – 5.25bn EUR 1.5-2bn
11:30	IE IRISH 0.8%, March 2022; IRISH 2.0%, February 2045	EUR 0.75bn
17:00	US Announcement for new 10Y TIPS on 20 July	
19:00	US 30-year bond	USD 12bn

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

Bund-Future

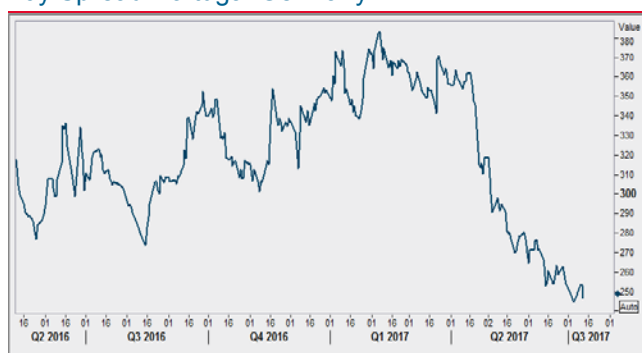
The Fed chair's testimony revealed little in the way of new information and did not fuel US interest rate expectations. As a result, the Bund future continued to rise and recouped a large proportion of last week's losses. However, the resistances at 161.68 and 162.23 remain intact. Only a rise above these levels would improve the mixed technical picture. On the other hand, if there are any renewed flare-ups in ECB rate hike speculation in the medium term, the support around 160.30 should come back into focus. **Our favoured trading range: 160.50 – 162.00.**

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



Sources: Reuters, Helaba Research

10y Spread Portugal Germany



Sources: Reuters, Helaba Research

Spreads

Yesterday's primary market issues were well received by the market. The new 10-year benchmark Bund also generated strong demand, with bids of EUR 5.66bn, and supply-related pressure was avoided as a result. Due to the solid performance ahead of the auction, the allotment at 0.59% was slightly lower than initially assumed. Nonetheless, this is the highest level since January 2016. Bonds with long and ultra-long maturities were also available to buy in Portugal yesterday. The OT 2027 was stable at 3.08%. The pronounced tightening in the Portuguese/German yield spread therefore continues on balance, with the current level at 253bp.

Market data

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
Bund-Future	161,42	0,45%	0,57%	DAX	12.626,58	0,00%	1,94%	Nikkei	20121,3	0,11%	0,63%
Bund 2J.	-0,617	0,001	-0,042	EuroStoxx	3.515,23	0,00%	1,51%	Öl-Future	45,49	0,00%	-0,07%
Bund 10J.	0,579	-0,005	0,018	S&P 500	2.443,25	0,73%	1,37%	Gold	1222,8	0,27%	-0,15%
UST 10J	2,311	-0,008	-0,058	Dow Jones	21.532,14	0,57%	0,99%	Swap 10J.	0,92	-0,01	-0,07

Sources: Reuters, Helaba Research



No support to the dollar from Yellen

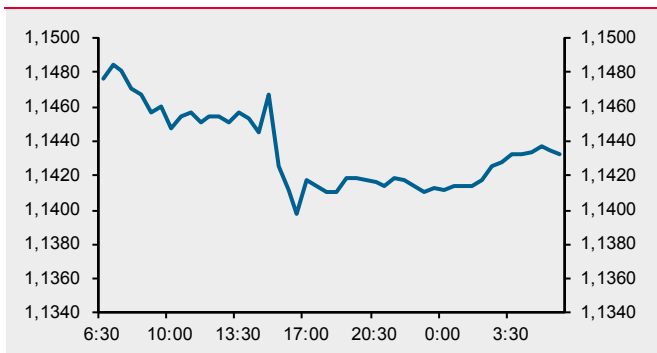
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EUR-USD

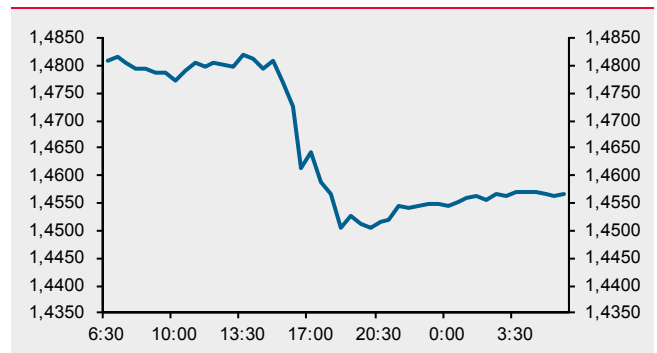
The euro consolidated below USD 1.15 ahead of Yellen's testimony. As the central bank chair avoided fuelling the muted interest rate expectations, the euro marginally held up at its heightened level above 1.14. If the resistance at 1.1500 is surpassed, there will be potential for a move to the 2016 high of 1.1614. Supports are found at 1.1380 and in the 1.1285-1.1310 range. **Our favoured trading range: 1.1380 – 1.1550.**

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-CAD (30 minutes)



Sources: Reuters, Helaba Research

EUR-GBP

Sterling is trending downwards. Comments from BoE member Broadbent recently triggered the decline. In his opinion, the time is not yet right for a key rate hike. However, new data on the labour market surprised to the upside. The unemployment rate fell to 4.5%, its lowest level since 1975, while weekly wages and salaries rose more sharply than expected – although the trend in real wages is significantly negative. The euro has undergone a slight correction after reaching its highest level since November 2016 at some GBP 0.8950.

EUR-CAD

In recent weeks, the Canadian dollar has appreciated against the euro, but in particular against the US dollar in response to expectations of a rate hike by the Bank of Canada. The latter made its move yesterday, raising the key rate by 25bp to 0.75%. As the comments from central bank chairman Poloz were predominantly positive on the economy, CAD continued to trend upwards. The euro fell sharply, dropping below CAD 1.4570.

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
EUR-USD	1,1435	0,22%	0,11%	EUR-CZK	26,105	0,00%	-0,07%	EUR-RUB	68,831	0,51%	0,29%
EUR-GBP	0,8865	0,09%	0,69%	EUR-PLN	4,2291	0,02%	-0,18%	EUR-TRY	4,0799	0,21%	-1,36%
EUR-CHF	1,1017	0,03%	0,43%	EUR-HUF	306,81	-0,01%	-0,40%	EUR-CNY	7,7510	0,27%	0,14%
EUR-JPY	129,23	0,09%	-0,07%	EUR-CAD	1,4571	0,16%	-1,72%	EUR-KRW	1298,6	0,07%	-1,69%
EUR-SEK	9,6023	-0,01%	-0,43%	EUR-AUD	1,4857	-0,03%	-1,34%	EUR-SAR	4,2696	-0,29%	-0,01%
EUR-NOK	9,4515	-0,01%	-0,90%	EUR-NZD	1,5691	-0,18%	-0,04%	EUR-BRL	3,6687	0,25%	-2,60%

Sources: Reuters, Helaba Research ■