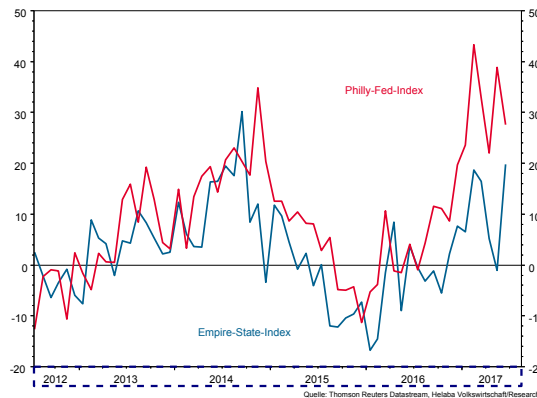


ECB meeting looms large

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Thursday's **Governing Council meeting of the European Central Bank** is looming large. None other than ECB president Draghi sparked a sharp yield rally just about three weeks ago with his positive emphasis on economic growth in the euro area while holding temporary factors responsible for the subdued inflationary environment. This proved surprising as the ECB had up to that point conveyed the impression after all that it was keeping a closer eye on core inflation, whose persistently low level put it under little pressure to take action. The ECB clarified that Draghi's remarks had been misinterpreted by the market, but no denial has been issued by the ECB president himself. On the contrary, reports have been circulating that Draghi is to announce the winding down of the QE programme at the Jackson Hole symposium. Hence, rate hike speculation has still not quieted down. A first hike by mid-2018 is broadly priced in. Will Draghi confirm these expectations on Thursday? We believe that a more moderate tone is likely and see scope for a correction in light of ongoing rate hike speculation.

Today's data focus will be on leading indicators. All eyes will be on the **ZEW survey**, which is on tap for tomorrow. ECB speculation as cited above, as well as on balance softer equity markets, leaves little wiggle room in the way of improving sentiment. A modest downtick in the readings is realistic in our view, which however would still remain consistent with solid growth. In the **US**, today's **Empire State index** is the first manufacturing survey featured on this month's calendar. A correction is foreseeable following the unexpectedly sharp jump in the previous month. This has



only restricted application to this week's **Philly Fed index**, however, which already corrected in the previous month but whose level still remains exceptionally high. **Housing starts and building permits** will round out this week's batch of US data. Outturns have broadly disappointed in recent months, with doubts emerging about whether we will see a positive contribution to growth. We see the possibility of modest recoveries. Overall, it is unlikely that the positive economic growth scenario in the US will be called into doubt.

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Overnight news

- China: Q2 GDP +1.7% q/q, +6.9% y/y (Q1: +1.3% q/q, +6.9% y/y).
- China: June industrial production unchanged at +7.6% y/y, retail sales +11.0%, up from 10.7% y/y – consensus estimates were slightly exceeded overall.

Economic Indicators and Events

Time	Period	Indicator / Event	Poll	Prior	Impact	
14:30	US	Jul	Empire State index	15.0	19.8	medium

Sources: Bloomberg, Reuters, Helaba Research



US data only temporarily supportive

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Primary Market Calendar

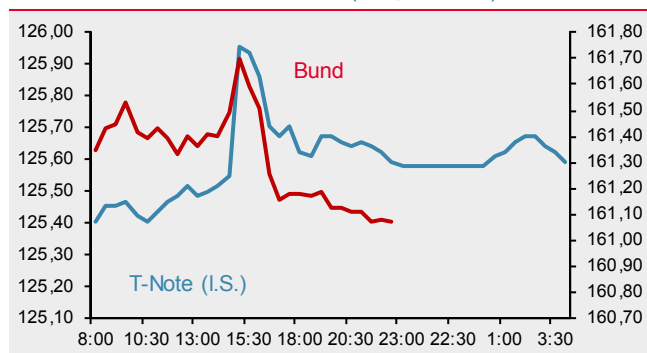
Time	Bond / Coupon	Volume
11:00	FR Announcement of OAT auctions for 20 July	
14:00	ES Announcement of SPGB auctions for 20 July	

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

Bund-Future

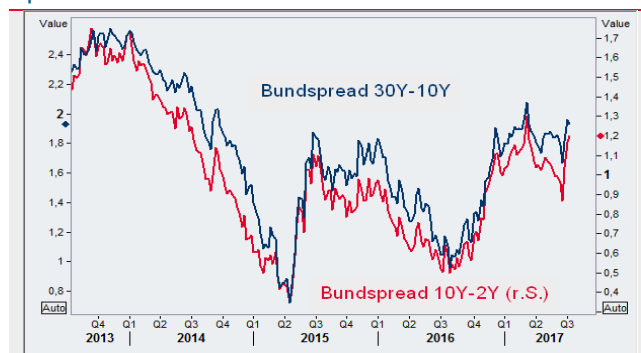
Disappointing economic and inflation data in the US have supported expectations of a tentative Fed and given the Bund future a temporary boost. Now, however, ECB monetary policy is moving front and centre. Market participants will no doubt be holding back ahead of Thursday's Governing Council meeting. The thin data calendar and lack of speeches from central bankers can likewise provide no new impetus at present. The Bund future consolidated below the resistance levels of 161.92 (last high) and 162.27 (retracement). First supports are pegged at 160.83 and the impulse low at 160.31. **Our favoured trading range: 160.31 – 161.90.**

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



Sources: Reuters, Helaba Research

Spread German 30J/10J and 10J/2J



Sources: Reuters, Helaba Research

Spreads

There will be no issuance activity in the primary market at the start of this week. Solely the Spanish and Belgian debt agencies will announce details of their auctions. On Wednesday, the German Finance Agency will tap its August 2046 Bund by EUR 1bn, for the last time. Its yield has surged since ECB Draghi's speech in Sintra some three weeks ago. On the secondary market the paper is yielding a good 1.32 %, compared to 1.02% on 26 June. Also 10-year paper has been exhibiting yield increases since then, albeit to a less pronounced extent. Accordingly, the 30/10 spread has widened of late, as has the 10/2 spread. Overall, the yield curve is steepening. It remains to be seen whether this trend will continue unabated. We take a sceptical stance in light of Thursday's ECB Governing Council meeting. If ECB president Draghi strikes a more moderate tone, we are bound to see corrections.

Market data

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
Bund-Future	161,14	-0,01%	0,12%	DAX	12.631,72	0,00%	1,47%	Nikkei	20118,9	0,09%	0,19%
Bund 2J.	-0,613	-0,005	-0,009	EuroStoxx	3.525,94	0,00%	1,36%	Öl-Future	46,68	0,30%	4,88%
Bund 10J.	0,594	-0,001	0,055	S&P 500	2.459,27	0,47%	1,29%	Gold	1230,7	0,17%	1,36%
UST 10J	2,332	0,000	-0,041	Dow Jones	21.637,74	0,39%	1,06%	Swap 10J.	0,95	0,00	-0,01

Sources: Reuters, Helaba Research

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Risks not yet banished

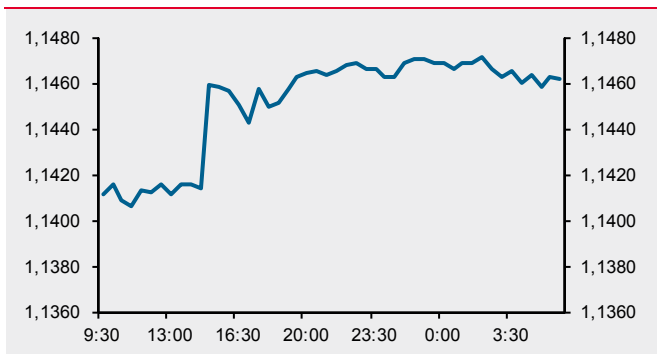
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EUR-USD

Market participants are speculating that the European Central Bank will soon change its ultra-loose monetary policy and that the US Federal Reserve will be very tentative in its decision to raise the key rate again. Accordingly, the euro firmed, reaching its provisional high at 1.1489 last week. It has since entered a consolidation phase. Although it rallied again Friday on US inflation data, the risk of a retreat has not yet been banished. For instance, ECB president Draghi could dampen rate speculation somewhat on Thursday. Moreover, the daily chart is showing negative divergences. We locate key supports in the 1.1285/1.1310 zone. Resistances are found at 1.1489/1.1500 and at 1.1614. **Our favoured trading range: 1.1370 – 1.1520.**

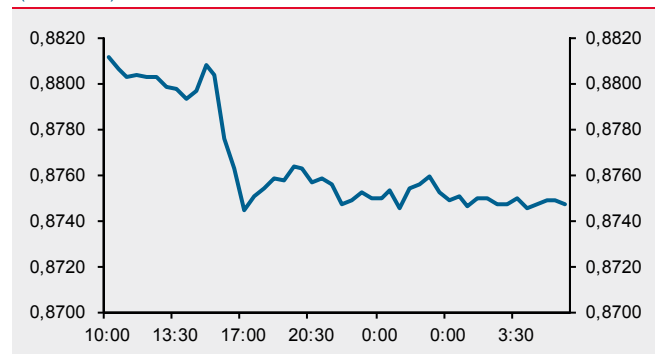
EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-GBP

(30 minutes)



Sources: Reuters, Helaba Research

EUR-GBP

The euro extended its losses against sterling, trading as low as 0.8741. The next key support is found at 0.8717. Little impact came from the presentation of the first draft legislation to take Britain out of the European Union. The so-called Repeal Bill aims to convert 12,000 EU laws and regulations into UK statute. The draft will presumably be dealt with in the UK Parliament in the autumn at the earliest.

EUR-CHF

Driven by ECB speculation, the euro remains in demand against the Swiss franc. The euro recently touched its highest level since early February 2016, at 1.1068. A technically overbought market has developed, opening up the possibility of a temporary correction.

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
EUR-USD	1,1461	-0,05%	0,54%	EUR-CZK	26,061	-0,02%	-0,08%	EUR-RUB	67,810	0,14%	-1,25%
EUR-GBP	0,8748	-0,01%	-1,13%	EUR-PLN	4,2044	0,04%	-0,72%	EUR-TRY	4,0569	0,00%	-1,38%
EUR-CHF	1,1052	0,03%	0,42%	EUR-HUF	305,74	0,05%	-0,68%	EUR-CNY	7,7570	0,35%	0,35%
EUR-JPY	129,05	0,00%	-0,71%	EUR-CAD	1,4505	0,05%	-1,28%	EUR-KRW	1293,1	0,02%	-1,23%
EUR-SEK	9,5312	0,04%	-0,80%	EUR-AUD	1,4670	0,17%	-2,15%	EUR-SAR	4,2696	-0,48%	-0,08%
EUR-NOK	9,3898	0,04%	-1,08%	EUR-NZD	1,5637	0,19%	-0,19%	EUR-BRL	3,6439	-0,02%	-1,80%

Sources: Reuters, Helaba Research ■