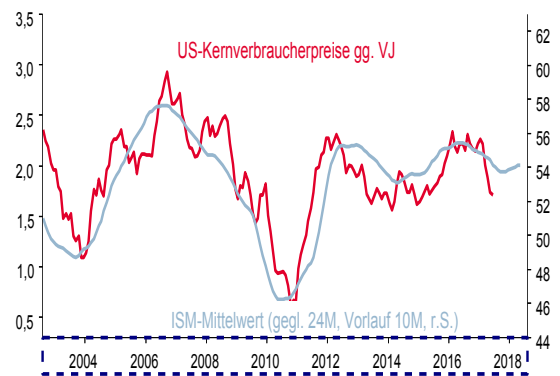


Summer nonchalance

Bond markets look relatively relaxed at the moment, with yields accordingly exhibiting no clear trend. This is quite evident in the US, where the yield on 10-year Treasuries has been hovering around 2.30% since the spring. The level has even moderated relative to the sideways movement at around 2.50% from December to March. The Bund yield still managed to touch a new high of 0.60% this summer, but current yields of around 0.45% repeatedly traded at this level already in the last eight months.

It is striking that other conclusions should actually be drawn from this mixed bag. For one thing, the economic growth situation is solid, even if developments prove disappointing every now and again – such as in the case of German production or even US auto sales for that matter. For another, the fact that the US Fed is eager to start reducing its bond holdings "soon" seems not to be causing any jitters. Rate hikes by the Fed are also still on the table in the medium term. The market has largely priced this out, however. For instance, money market futures for end-2018 are merely just under 1.48%, which means that only a bit more than one rate hike is priced in. The European Central Bank will probably at the same announce its bond purchase wind-down, which should be completed in the second half of the year. Although no immediate rate hikes can be expected as yet, the end of its unconventional policy should have an impact on the bond market. Moreover, weak inflation rates up to most recently – alongside a falling US core rate as well – have dampened inflation expectations. There is every reason to assume, however, that core inflation will gradually bottom out and thereafter steadily rise. In our view, the current bond market phase is dominated on the whole by a measure of nonchalance.



Data-wise, stimuli are few and far between although the **business sentiment index** from the **Bank of France** certainly looks to be of no little interest as it will provide insight into the INSEE business climate index.

Latest news

- China: July's consumer prices up 1.4%, not as strong as expected.
- South Africa: President Zuma survives no confidence vote.
- North Korea threatens missile strike on US Pacific island of Guam.

Economic Indicators and Events

| Time | Period | Indicator / Event | Poll | Prior | Impact |
|-------|----------|-----------------------------------|------------------------|----------------|--------|
| 8:30 | FR Jul | Bank of France business sentiment | 103 | 103 | low |
| 10:00 | IT Jun | Industrial production | +0.2% m/m +3.5% y/y | +0.7% +2.8% | low |
| 13:00 | US Wk 31 | MBA mortgage market index | n/a | -2.8% | low |

Sources: Bloomberg, Reuters, Helaba Research

Ralf Umlauf

Tel.: +49 69/91 32-18 91

EDITOR

Ralf Umlauf

phone: +49 69/91 32-1891

PUBLISHER

Dr. Gertrud R. Traud

Chefvolkswirt/ Leitung

Research

Helaba

Landesbank Hessen-

Thüringen

MAIN TOWER

Neue Mainzer Str. 52-58

60311 Frankfurt am Main

phone: +49 69/91 32-20 24

fax: +49 69/91 32-22 44

www.helaba.de



Last EMU primary market activity for this week

Viola Julien

phone: +49 69/91 32-18 91

Primary Market Calendar

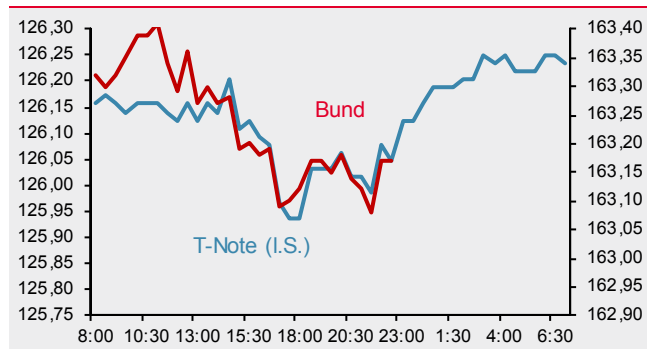
| Time | Bond / Coupon | Volume |
|-------|----------------------------|----------|
| 11:30 | DE OBL176 0%, October 2022 | EUR 4bn |
| 19:00 | US New 10-year notes | USD 23bn |

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

Bund-Future

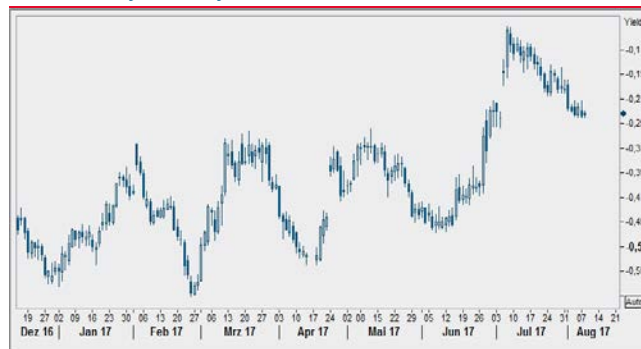
In the absence of any significant impetus, the Bund future hovered within a relatively narrow trading range yesterday. This situation is unlikely to change much today given the virtually empty data calendar. Accordingly, it remains to be seen whether the 61.8% retracement of the July downtrend (163.48) can be broken to the upside in the near term. The encouraging technical environment would at least not be inconsistent with such a move. **Our favoured trading range: 162.70 – 163.60.**

Bund future / T-note future (Price, 30 minutes)



Sources: Reuters, Helaba Research

German 5y bund yield



Sources: Reuters, Helaba Research

Primary market

The tap of the five-year benchmark bond by the German Finance Agency (GFA) will grab the spotlight today and at the same time mark the end of this week's auction activities as the Italian Tesoro cancelled the BTP auctions that had originally been scheduled for Friday. As a result, supply on the EMU bond market will continue to be very limited. The GFA plans to raise EUR 4bn. Following the paper's launch at -0.14% in early July, its yield has started to retreat somewhat again in recent weeks as expectations of a rapid reversal in monetary policy by the ECB have not been further fuelled in the wake of the dovish July meeting. The bond currently fetches -0.24% on the secondary market. We foresee no hitches with the allotment, also in light of the overall supportive primary market environment.

Market data

| | last | gg. 1T | gg. 1W | | last | gg. 1T | gg. 1W | | last | gg. 1T | gg. 1W |
|-------------|--------|--------|--------|-----------|-----------|--------|--------|------------|---------|--------|--------|
| Bund Future | 163,13 | -0,10% | 0,17% | DAX | 12.292,05 | 0,00% | 0,90% | Nikkei | 20045,8 | -1,34% | -1,76% |
| Bund 2y | -0,665 | 0,003 | 0,031 | EuroStoxx | 3.515,63 | 0,00% | 1,60% | Oil Future | 48,39 | -0,27% | -1,12% |
| Bund 10y | 0,470 | -0,003 | -0,015 | S&P 500 | 2.474,92 | -0,24% | -0,11% | Gold | 1264,6 | 0,34% | -0,13% |
| UST 10y | 2,251 | -0,011 | -0,020 | Dow Jones | 22.085,34 | -0,15% | 0,31% | Swap 10y | 0,86 | -0,01 | -0,01 |

Quellen: Reuters, Helaba Volkswirtschaft/Research



Euro: momentum is slowing down.

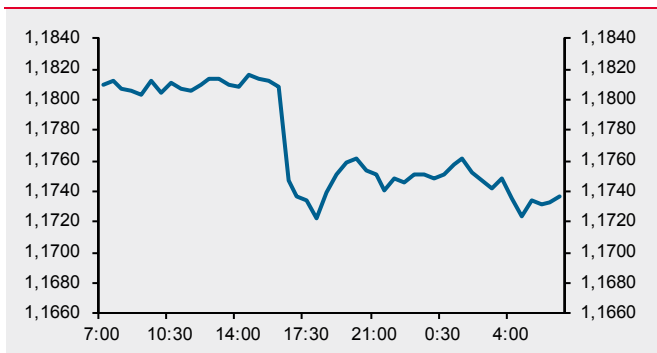
[Viola Julien](#)

phone: +49 69/91 32-18

EUR-USD

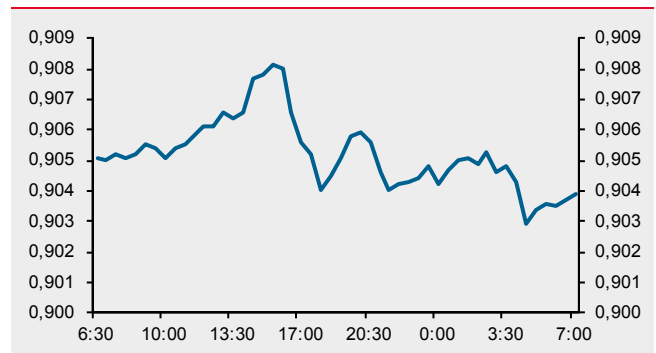
Despite a weak set of German export figures, the euro initially managed to hold above the 1.18 level. Ultimately, however, it suffered a setback on the heels of a strong JOLTS report to hit a low of 1.1719. Risks of a correction still remain given the deteriorating technical situation. MACD is flashing a sell signal. The next supports are now found in the region around 1.1670. **Our favoured trading range: 1.1730 – 1.1890.**

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-GBP (30 minutes)



Sources: Reuters, Helaba Research

EUR-GBP

The euro touched a high of 0.9088 against the British pound to reach its highest level since early October 2016. The uptrend, which dates back to May of this year, is thus continuing apace. On the technical front as well, the euro still has the advantage. MACD, stochastic and DMI are in buy mode while a rising ADX signals a strong trend. The next hurdles are found at 0.9129 and 0.9141. On the back of the EUR-USD setback, however, the EUR-GBP initially also lost ground.

EUR-ZAR

The South African parliament yesterday held a no confidence vote against incumbent President Zuma, who is currently under fire. The announcement that it would be held for the first time by secret ballot initially gave the South African currency a lift. Although also legislators of the ruling government party voted against him, Zuma ultimately survived the vote, with the rand giving back the bulk of its gains as a result. EUR-ZAR last traded at around 15.72 after having charted a low at ZAR 15.47 on Tuesday.

| | last | chg. 1T | chg. 1W | | last | chg. 1T | chg. 1W | | last | chg. 1T | chg. 1W |
|---------|--------|---------|---------|---------|--------|---------|---------|---------|--------|---------|---------|
| EUR-USD | 1,1736 | 0,08% | -1,01% | EUR-CZK | 26,146 | 0,00% | 0,21% | EUR-RUB | 70,255 | -0,08% | -2,21% |
| EUR-GBP | 0,9039 | -0,06% | 0,85% | EUR-PLN | 4,2637 | -0,01% | 0,15% | EUR-TRY | 4,1453 | -0,11% | -0,99% |
| EUR-CHF | 1,1353 | -0,83% | -1,37% | EUR-HUF | 304,08 | 0,00% | 0,40% | EUR-CNY | 7,8549 | 0,06% | -1,47% |
| EUR-JPY | 129,03 | -0,47% | -1,73% | EUR-CAD | 1,4889 | 0,03% | -0,05% | EUR-KRW | 1332,0 | 0,47% | 0,15% |
| EUR-SEK | 9,6110 | 0,02% | 0,12% | EUR-AUD | 1,4907 | 0,40% | 0,21% | EUR-SAR | 4,4224 | 0,29% | -0,68% |
| EUR-NOK | 9,3656 | 0,15% | 0,05% | EUR-NZD | 1,6037 | 0,02% | 0,49% | EUR-BRL | 3,6706 | -0,10% | -0,50% |

Sources: Reuters, Helaba Research ■