

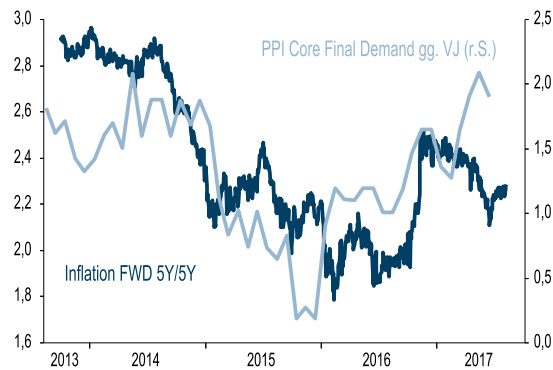
## Sentiment clouded by fear of war

The escalation of the US/North Korea conflict dominated market sentiment yesterday and led to a sharp rise in **risk aversion**. Assets considered to be safe havens such as Bunds, US Treasuries, the Swiss franc and gold therefore posted gains (see pages 2 and 3).

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In this setting, the influence of the latest data reports on the market receded into the background.



Nonetheless, today's **US producer prices**, for example, should not be overlooked entirely. We have recently mentioned the medium-term environment for the US and German bond markets, with reference to factors such as reduced inflation expectations. We also pointed out that we certainly expect potential for a reversal in the coming quarters. Moreover, producer prices signal a possible rise in inflation expectations. Accordingly, the new readings will probably be analysed for their mid-term implications.

The trends on the labour market are also interesting in this context. The weekly **initial jobless claims** look set to remain at the low level seen in recent weeks (around 240k) and bode well for continued robustness in the employment situation.

In Europe, the **production figures in France and the UK** for June will be of interest. The generally disappointing indications from Germany and Spain suggest that it is unwise to be too optimistic in the case of France, despite the strong business sentiment.

### Latest news

- Asian equity markets move lower – oil price little changed.
- UK: RICS house price balance falls to 1% from 7%. expected: 9%.
- Japan: machinery orders in June decline 1.9% m/M after -3.6%.
- North Korea presents plan to attack Guam – US calls for end to nuclear weapon policy.

### Economic Indicators and Events

Time	Period	Indicator / Event	Poll	Prior	Impact	
8:45	FR	Jun	Industrial production	-0.6% m/m +3.1% y/y	+1.9% +3.2%	low
10:30	UK	Jun	Industrial production	+0.1% m/m -0.1% y/y	-0.1% -0.2%	low
14:30	US	Wk 31	Initial jobless claims	240k	240k	medium
14:30	US	Jul	Producer prices	+0.1% m/m +2.2% y/y	+0.1% +2.0%	medium
16:00	US		Fed speech: Dudley			

Sources: Bloomberg, Reuters, Helaba Research

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## Bunds: buoyed by uncertainty

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### Primary Market Calendar

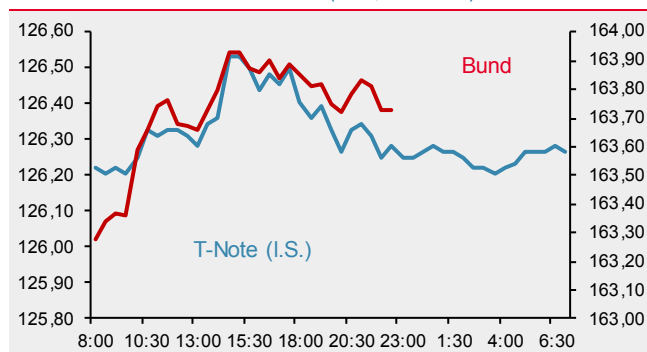
Time	Bond / Coupon	Volume
19:00	US New 30-year bond	USD 15bn

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

### Bund-Future

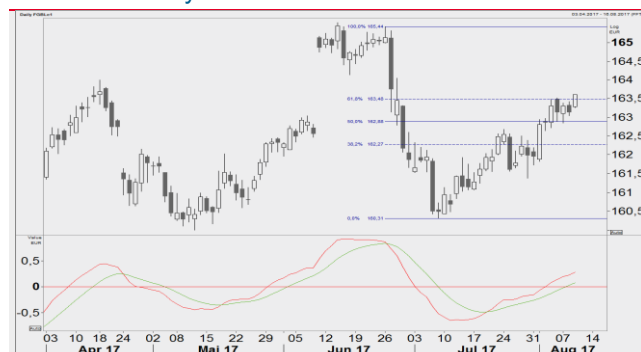
The sabre-rattling between North Korea and the US is intensifying and interest in safe-haven investments remains high as a result. The beneficiaries of the geopolitical uncertainty yesterday were the Swiss franc, gold and German Bunds. Consequently, the Bund future exceeded the 61.8% retracement at 163.48 without any stimulus from the data front. From a technical perspective, there is little to prevent the recovery trend since early July from continuing, especially as the indicators are still issuing buy signals. The sideways trend in the ADX at a low level is the only factor that points to weak trend momentum. Avoiding a setback below 163.48 is now crucial. **Our favoured trading range: 163.00 – 164.00.**

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



Sources: Reuters, Helaba Research

Technical Analysis



Sources: Reuters, Helaba Research

### Primary market

Demand for Bunds pushed the 10-year Bund yield to a low of 0.42%, its lowest level since late June. The undersubscribed OBL auction (bids: EUR 3.09bn) also failed to affect this trend. As a result, the tightening tendency in EMU periphery spreads largely came to an end. Spain was the only country that managed to keep its risk premium fairly stable at almost 97bp. By contrast, Portugal, Italy and Greece even saw spreads widen more considerably. However, the overriding picture remains favourable. Spreads have narrowed substantially in some cases since April. Whether we will see a lasting reversal of the trend or a continuation now depends on the geopolitical developments.

### Market data

	last	gg. 1T	gg. 1W		last	gg. 1T	gg. 1W		last	gg. 1T	gg. 1W
Bund Future	163,90	0,47%	0,37%	DAX	12.154,00	0,00%	-0,01%	Nikkei	20045,8	-0,18%	-1,66%
Bund 2y	-0,688	0,006	-0,007	EuroStoxx	3.468,45	0,00%	0,06%	Oil Future	48,39	-0,04%	1,03%
Bund 10y	0,432	0,008	-0,024	S&P 500	2.474,02	-0,04%	0,08%	Gold	1276,3	-0,07%	0,64%
UST 10y	2,248	-0,001	0,029	Dow Jones	22.048,70	-0,17%	0,10%	Swap 10y	0,84	0,00	-0,01

Quellen: Reuters, Helaba Volkswirtschaft/Research



## Risk aversion is bolstering safe-haven currencies

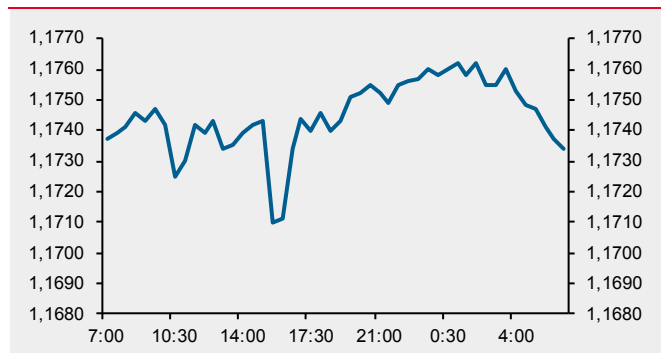
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### EUR-USD

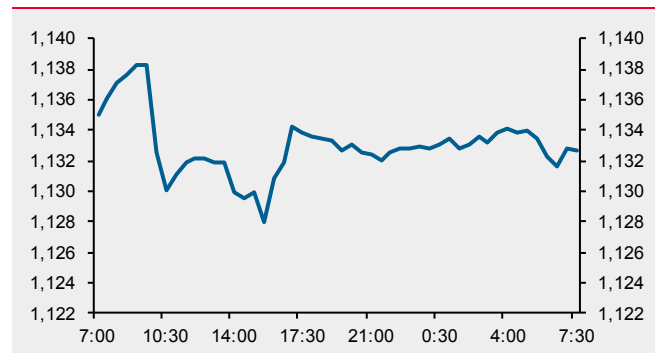
Given the newly established sell signal from the MACD and the lack of stimulus from the data reports, the euro's correction has continued. However, losses have been limited, with a daily low of 1.1719. The currency pair should hardly be influenced by the US producer and consumer prices (due for release today and tomorrow), since it remains to be seen whether the figures may fuel interest rate expectations, which have been muted recently. **Our favoured trading range: 1.1690 – 1.1800.**

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-CHF (30 minutes)



Sources: Reuters, Helaba Research

### EUR-CHF

The franc was the clear winner by the end of play due to the risk aversion stemming from the escalating conflict between North Korea and the US. The Swiss currency gained more than 1.1% versus the euro. The euro reached a low of CHF 1.1272. While the current exchange rate is far from this year's lows of around 1.0630, the Swiss National Bank (SNB) will probably keep a close eye on the franc's appreciation. The central bank has repeatedly stressed that the franc is overvalued. A massive appreciation in CHF could therefore revive speculation of interventions.

### EUR-JPY

The yen is also a safe haven on the financial markets and has posted gains, despite the country's geographical proximity to North Korea. The resistance at JPY 130, which was breached only recently, was undershot once again. At the same time, the technical setting suggests caution. All of the indicators are now in sell mode. The downside move could accelerate below 128.50.

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
EUR-USD	1,1736	0,08%	-1,12%	EUR-CZK	26,168	-0,03%	0,48%	EUR-RUB	70,438	-0,24%	-1,63%
EUR-GBP	0,9035	-0,03%	0,03%	EUR-PLN	4,2688	0,08%	0,67%	EUR-TRY	4,1565	-0,07%	-1,13%
EUR-CHF	1,1327	-0,01%	-1,47%	EUR-HUF	305,38	0,00%	0,57%	EUR-CNY	7,8298	-0,13%	-1,92%
EUR-JPY	129,14	-0,22%	-1,13%	EUR-CAD	1,4925	-0,03%	-0,08%	EUR-KRW	1340,8	0,18%	0,16%
EUR-SEK	9,6063	-0,07%	-0,08%	EUR-AUD	1,4896	-0,07%	-0,23%	EUR-SAR	4,4224	0,51%	-0,76%
EUR-NOK	9,3398	-0,16%	-0,47%	EUR-NZD	1,6050	0,17%	0,54%	EUR-BRL	3,7034	-0,18%	0,26%

Sources: Reuters, Helaba Research ■