

Weak pace of monetary expansion in the euro area

The difficult **coalition negotiations in Germany** that lie ahead will dominate the political landscape over the next few months, especially since Lower Saxony's regional election will take place in a good three weeks and scarcely any avenues of compromise are likely to be found before then. Accordingly, **uncertainty** is set to prevail – as is a period of standstill – and in particular the discussion surrounding the further development of the euro area and the EU is making not headway despite the efforts of the French president. For this reason, today's economic data releases look to be of greater interest. With respect to European monetary policy, **money supply and credit growth rates** will shed considerable light on the mid-term outlook. As it is, no changes in key interest rates are anticipated in the short term. Only the envisaged adjustment to the QE programme is expected to be decided and announced at the ECB Governing Council meeting in October, which in that case would probably take effect in January 2018. Indeed, the M3 money supply has been expanding for months now at an annual rate of roughly 5%, with the more narrowly defined M2 aggregate also in this vicinity. As might well be expected, the ECB could move away from its ultra-loose monetary policy. With lending volume increases of 2%-3%, however, the pace of underlying monetary expansion is significantly weaker to date – so earlier tightening of the monetary reins is unlikely.

Meanwhile in the **US** the question that has now returned to the fore centres on the timing of the next rate hike. Although **interest rate expectations** have increased on the heels of last week's FOMC meeting, a 100% probability of a rate hike has yet to be priced in. We too are cautious given that the Fed chair failed to give clear signals also yesterday. On the flip side, we view the money market futures, which have fully priced in only one rate hike by end-2018 in all, as clearly being overly ambitious – notably against the backdrop of the solid economic growth trends as reflected in companies' high sentiment readings. New orders are also seen to have started improving again following the sharp setback in July. Owing to the higher order intake at Boeing, there appears to be upside surprise potential for **durable goods orders** in August.

Latest news

- Yellen: inflation uncertainty strengthens case for gradual rate hikes; no excessive tightening needed to reach neutral interest rate; rate hike path does not match dot plots
- Vote to dismantle Obamacare definitively postponed in favour of tax reform project

Economic indicators and events

Time	Period	Indicator / event	Poll	Prior	Impact
08:10	EZ	ECB speech: Rimsevics			
8:45	FR	Sep Consumer confidence	103	103	low
10:00	EZ	Aug M3 money supply	+4.6% y/y	+4.5%	medium
13:00	US	Wk 38 MBA mortgage market index	n/a	-9.7%	low
14:30	US	Aug Durable goods orders	+1.0% m/m	-6.8%	medium
		- ex transportation sector	+0.3% m/m	+0.6%	
16:00	US	Aug Pending home sales	-0.5% m/m	-0.8%	low
			-0.5% y/y	-0.5%	
19:30	US	Fed speeches: Bullard, Brainard (20:00)			

Sources: Bloomberg, Reuters, Helaba Research

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Future: consolidation after strong start to the week

Primary Market Calendar

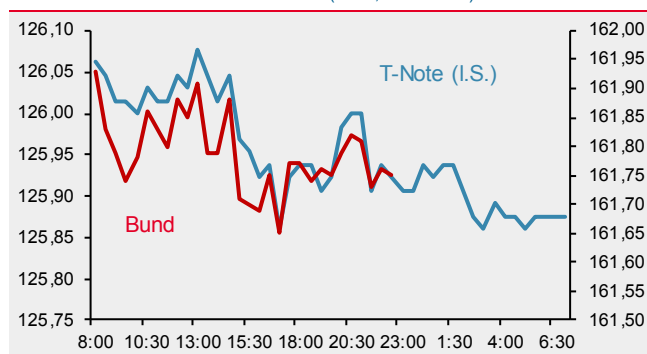
Time	Bond / Coupon	Volume
11:30	UK I/L gilt 0.125%, November 2036	GBP 0.95bn
19:00	US 2-year floater	USD 13bn
	New 5-year note	USD 34bn

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

Bund-Future

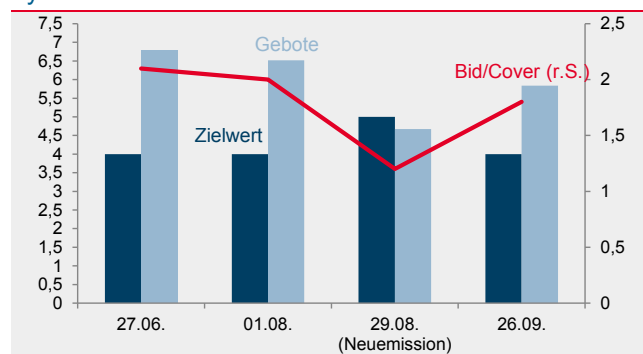
The Bund future took a breather yesterday after its successful start to the week just barely missing the 162.00 level. The technical picture is gradually beginning to improve. For instance, the MACD and the stochastic have started to turn, with the latter in oversold territory. Above 161.72, the outlook continues to look encouraging. For one thing, this is home to the previous resistance derived from the major interim high from 11 August. For another, the 38.2% retracement of the steep downmove from 163.43 to 160.66 is pegged here. The next potential target to the upside is 162.37 (61.8% retracement). Supports in the Bund future are found at 161.12 and 160.66. **Our favoured trading range: 161.30 – 162.40.**

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



Sources: Reuters, Helaba Research

2y Bunds with robust track record



Sources: Bloomberg, Helaba Research

Primary market

Investors continue to favour the Schatz – notwithstanding its low yields. The first tap of the new Schatz 2019 went off without a hitch yesterday, at -0.72%. It was 1.8 times oversubscribed and there was no tail. Following the relatively weak new issuance in late August, the successful issuance series in this maturity segment continued apace. The German finance agency received bids totalling EUR 5.837bn and set aside some 20% of the issue amount for secondary market operations.

Market data

	last	gg. 1T	gg. 1W		last	gg. 1T	gg. 1W		last	gg. 1T	gg. 1W
Bund Future	161,71	-0,14%	0,24%	DAX	12.605,20	0,08%	0,29%	Nikkei	20045,8	-0,34%	-0,25%
Bund 2y	-0,698	0,001	-0,016	EuroStoxx	3.536,38	-0,04%	0,31%	Oil Future	48,39	0,59%	3,41%
Bund 10y	0,417	0,007	-0,023	S&P 500	2.496,84	0,01%	-0,46%	Gold	1294,4	0,07%	-0,51%
UST 10y	2,248	0,012	-0,025	Dow Jones	22.284,32	-0,05%	-0,58%	Swap 10y	0,84	0,00	-0,01

Quellen: Reuters, Helaba Volkswirtschaft/Research



EUR-USD: trend reversal complete?

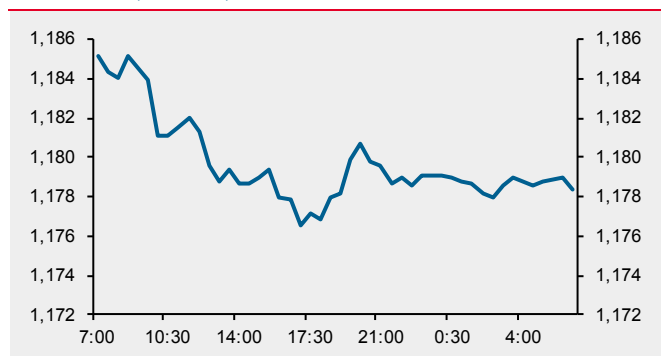
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EUR-USD

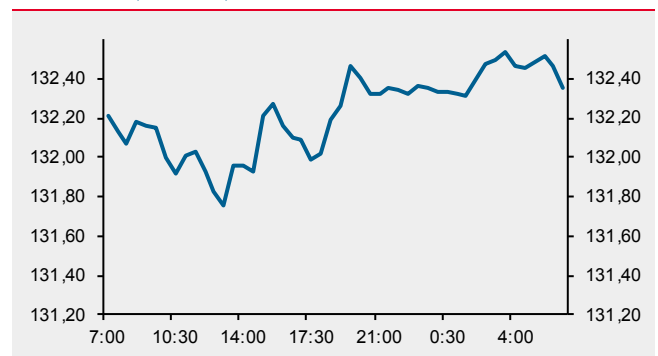
The euro weakened on the expected difficult coalition negotiations in Germany in connection with concerns that the European integration process might grind to a halt, with the 1.1821/36 support zone broken to the downside. The chart picture is bearish as, in addition to a breach of the uptrend in place since April, a trend reversal formation appears to be complete, resulting in a calculated target price up to USD 1.1550. The 38.2% retracement of the upward impulse from early April to September is sitting at 1.1510. A key support on the downside is still at 1.1661 in the form of the notable August low. First resistances are at 1.1860, as well as at the uptrend line that was broken to the downside and at 1.1943 today. **Our favoured trading range:** 1.1700 – 1.1860.

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-JPY (30 minutes)



Sources: Reuters, Helaba Research

EUR-JPY

Over the past few days, the yen has gained significant value on elevated risk aversion. In uncertain times, the Japanese currency tends to strengthen as investors who borrow yen at its particularly low interest rates to invest in somewhat higher yielding currencies unwind their positions and flock to yen (repatriation). Prime Minister Abe has announced plans to dissolve Japan's parliament this Thursday. A general election is slated for 22 October. Moreover, the rhetoric surrounding the North Korea conflict has been ramped up. The country views Trump's statements before the UN General Assembly as tantamount to a declaration of war and is threatening to shoot down US bombers. The euro hit 134.41 last Friday, its highest level since December 2015. It has since fallen below 132.00, declining roughly 2%. The uptrend line dating back to April and today at 131.83 has already been tested.

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
EUR-USD	1,1772	0,08%	-1,01%	EUR-CZK	26,024	-0,02%	-0,27%	EUR-RUB	68,081	-0,11%	-1,73%
EUR-GBP	0,8774	0,15%	-0,44%	EUR-PLN	4,2865	0,01%	0,23%	EUR-TRY	4,1792	0,10%	0,32%
EUR-CHF	1,1438	0,13%	-0,84%	EUR-HUF	311,21	0,03%	0,86%	EUR-CNY	7,8056	-0,15%	-1,02%
EUR-JPY	132,37	0,01%	-0,80%	EUR-CAD	1,4556	-0,03%	-0,67%	EUR-KRW	1340,3	0,01%	-0,32%
EUR-SEK	9,5839	0,09%	0,56%	EUR-AUD	1,4979	0,19%	1,14%	EUR-SAR	15,7557	-0,09%	71,47%
EUR-NOK	9,3047	-0,01%	-0,52%	EUR-NZD	1,6351	-0,05%	1,12%	EUR-BRL	3,7282	-0,13%	0,10%

Sources: Reuters, Helaba Research ■