

German inflation trend in focus

Fed chair Yellen only recently made reference to the uncertainties relating to the inflation trend in the US. While she concluded that US inflation is highly likely to approach the target of some 2% in the medium term, the last few months have been surprising, with low core inflation rates against a backdrop of subdued wage growth. Accordingly, inflation trends in Germany are also worth monitoring as core inflation in Germany and the Eurozone has not yet shown a sustained uptrend. A series of inflation data from German federal states will be published this morning, while the **preliminary German consumer price indices** are set for release early this afternoon. The annual rate of change could be slightly higher as petrol and energy prices have increased recently. However, this is not crucial to the European Central Bank's monetary policy. Core inflation pressure will be more interesting. This is not published, but can be estimated from the series of data. We do not expect any acceleration and near-term changes to European monetary policy are unlikely apart from a reduction in the bond purchases from early 2018 onwards. A very cautious and gradual approach should be expected from the ECB and the Fed in the foreseeable future. However, it is worth noting that market expectations regarding inflation and interest rates are at low levels despite rising slightly, which suggests that there may be a certain need for adjustment in the months ahead.

Meanwhile, the growth scenario is intact, as **economic sentiment** for this month is likely to indicate. The purchasing managers' indices have clearly surprised to the upside and therefore bode well for another increase, as does the Italian economic sentiment index. Only the declining Ifo index at a high level suggests that there is no cause for exaggerated expectations.

Latest news

- Bullard (Fed) rejects rate hike in the near future, arguing that inflation will probably remain low.
- US President Trump announces comprehensive tax reform – funding remains unclear.
- Equity markets in Asia mixed, Nikkei up 0.5%.
- Oil price: LCF little changed just below USD 52/b.

Economic indicators and events

Time	Period	Indicator / event	Poll	Prior	Impact
8:00	DE	GfK consumer confidence	11.0	10.9	low
10:00	EZ	ECB speeches: Praet, Lautenschläger (13:10 und 14:45), Costa (17:00)			
11:00	EZ	Sep Economic sentiment	112.0	111.9	medium
14:00	DE	Sep Consumer prices (EU-harmonised), preliminary	+0.1% m/m +1.9% y/y	+0.2% m/m +1.8%	medium
14:30	US	Q2 GDP, final	+3.0% q/q, ann.	+3.0% (prelim.)	low
15:45	US	Fed speeches: George, Fischer (16:00), Bostic (19:30)			
15:45	US	Wk 38 Bloomberg consumer confidence		50.6	low
17:00	US	Sep Kansas City Fed index	14	16	low

Sources: Bloomberg, Reuters, Helaba Research

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Bund future: unsuccessful breakout

Primary Market Calendar

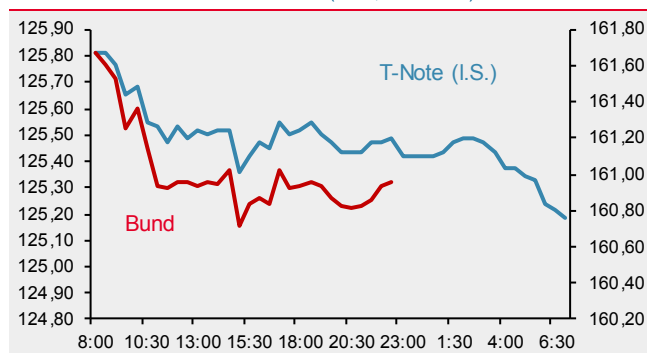
Time	Bond / Coupon	Volume
11:00	IT CCTeu floater, October 2024	EUR 1-1.5bn
	BTP 0.9%, August 2022; BTP 2.05%, August 2027	EUR 3.5-4.5bn
19:00	US New 7-year note	USD 28bn

Sources: Bloomberg, Reuters, nationale Finanzagenturen, Helaba Research

Bund-Future

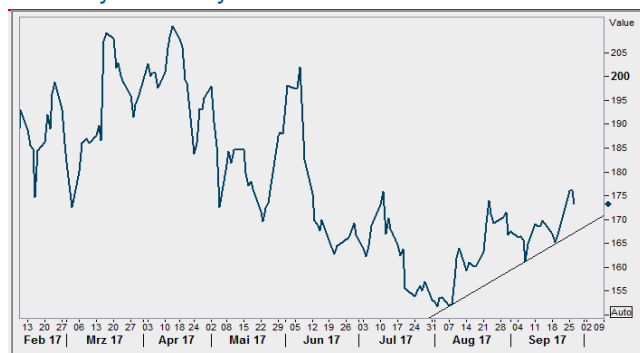
The Bund future has been weighed down by declining risk aversion and rising US yields. The 161.18 mark (retracement), which remained intact as a support on Monday, was undershot, thwarting tentative attempts at a technical improvement. Similarly, the indicators on a weekly basis do not bode well for any rapid firming in the contract. If it slips below the 160.66/50 zone, which held yesterday, the outlook would deteriorate considerably and further losses would be possible. **Our favoured trading range: 160.40 – 161.60.**

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



Sources: Reuters, Helaba Research

10Y Italy/Germany



Sources: Bloomberg, Helaba Research

Primary market

The Italian treasury will make its second appearance of the week on the primary market. Two conventional BTPs with medium and long maturities are on offer today, alongside a floater. The yield in the 10-year maturity segment has climbed since early September in line with most other EMU countries and is currently 2.22% for today's BTP 2027. Nonetheless, there has been a slight decline to 175bp compared to Bunds, mainly as a result of the recent downside pressure on Bunds. The yield is more than 0.46% in this case. Overall, however, the uptrend in the BTP/Bund spread continue.

Market data

	last	gg. 1T	gg. 1W		last	gg. 1T	gg. 1W		last	gg. 1T	gg. 1W
Bund Future	161,02	-0,43%	-0,07%	DAX	12.657,41	0,41%	0,45%	Nikkei	20045,8	0,53%	0,13%
Bund 2y	-0,696	-0,002	-0,014	EuroStoxx	3.555,17	0,53%	0,44%	Oil Future	48,39	-0,29%	2,77%
Bund 10y	0,467	0,000	0,014	S&P 500	2.507,04	0,41%	0,26%	Gold	1280,5	-0,02%	-0,82%
UST 10y	2,344	0,034	0,066	Dow Jones	22.340,71	0,25%	-0,08%	Swap 10y	0,89	0,01	0,01

Quellen: Reuters, Helaba Volkswirtschaft/Research



Euro outlook remains muted

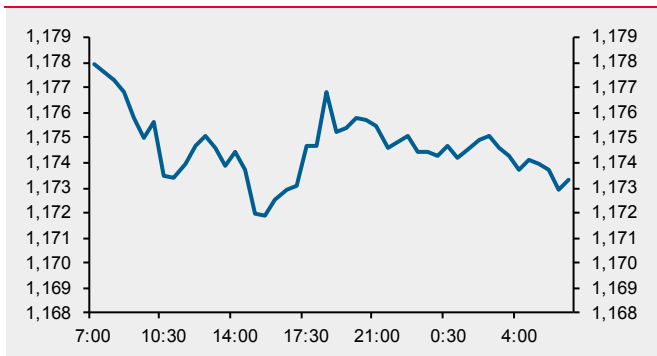
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EUR-USD

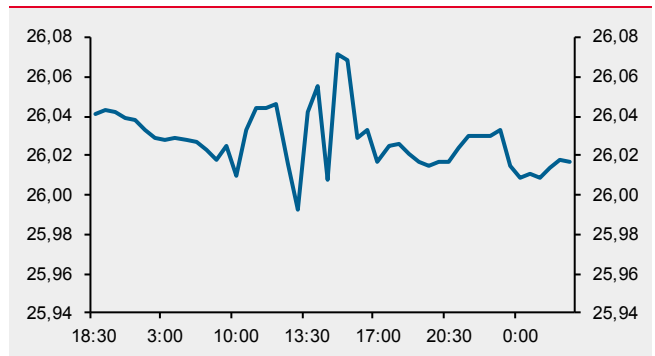
The euro has continued to weaken in an environment of rising equity prices and yields. As a result, the recent correlation which has seen the euro benefiting from subsiding risk aversion seems to have come to an end. Arguments in favour of the euro are also difficult to find at the moment. Uncertainty relating to the challenging coalition talks is detrimental, while the prospect of a key rate hike in the US this year and hopes of a tax reform are supporting the US dollar. Moreover, the technical situation remains subdued and a test of the August low at 1.1661 is still possible. Supports are found at 1.1550 and in the 1.1490/1.1510 range (former high and 38.2% retracement of the uptrend from April to September). Despite the significant losses (2.5% in one week), the market is not yet oversold. There are no signs of a recovery phase as a result. **Our favoured trading range: 1.1640 – 1.1770.**

EUR-USD (30 minutes)



Sources: Reuters, Helaba Research

EUR-CZK (30 minutes)



Sources: Reuters, Helaba Research

EUR-CZK

The Czech National Bank (CNB) left its key rate on hold at 0.25% yesterday. However, a further move this year is possible as the economic outlook is robust and consumer prices are above the central bank target of 2%. At the beginning of April, the CNB removed the floor of 27 koruna per euro that was introduced in November 2013. This prompted an appreciation in the currency, which sent the euro tumbling to a low of CZK 25.90. Since mid-July, the currency pair has hovered between 25.90 and 26.20. The 26.00 mark was temporarily undershot yesterday, although the CNB's interest rate decision led to a rise in the euro. Moreover, it is worth noting that the central bank is still striving to prevent any excessive appreciation of the koruna that would damage the economy given its high share of exports.

	last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W		last	chg. 1T	chg. 1W
EUR-USD	1,1731	0,08%	-1,77%	EUR-CZK	26,013	-0,08%	-0,20%	EUR-RUB	68,239	-0,09%	-1,41%
EUR-GBP	0,8771	-0,06%	-0,23%	EUR-PLN	4,3271	0,09%	1,21%	EUR-TRY	4,2106	0,24%	0,63%
EUR-CHF	1,1425	0,07%	-1,44%	EUR-HUF	311,19	-0,01%	0,45%	EUR-CNY	7,8073	0,11%	-0,65%
EUR-JPY	132,59	0,08%	-1,30%	EUR-CAD	1,4668	0,12%	-0,33%	EUR-KRW	1345,7	0,09%	-0,42%
EUR-SEK	9,5811	0,10%	0,66%	EUR-AUD	1,5005	0,28%	-0,31%	EUR-SAR	15,9728	0,11%	71,86%
EUR-NOK	9,3427	0,06%	0,28%	EUR-NZD	1,6314	0,02%	-0,17%	EUR-BRL	3,7456	-0,11%	0,00%

Sources: Reuters, Helaba Research ■