SMBC Capital Markets, Inc.

U.S. Swaps and Currency Market Outlook for July 24, 2017

Interest Rate Market Focus

This week's political news is headed by failure of the Trump administration to push through health care reform in the Senate. This came after two more Republican senators opposed the health care policy that Mitch McConnell drafted through a closed door process. GOP leaders will now seek a straight repeal of Obamacare, which will give lawmakers another two years to develop a new healthcare policy. Investors are concerned that the Trump Administration will not be able to deliver its fiscal stimulus package or cut taxes. In light of the uncertainty, the 5yr, 10yr, and 30yr swap rates decreased by 5-8bps, closing at 1.88%, 2.21%, and 2.50% respectively for the week. The 2yr swap rate remained steady at 1.59%.

Economic data was relatively light on the week. Treasury yields sharply fell throughout the week because investors poured their money into safe assets such as, gold and treasuries. On Wednesday, Treasury yields rallied after positive housing data was released. In June, housing starts for single-family homes increased 6.3% in June to 849,000 and multi-family housing starts rose 13.3% to 366,000. In June, permits for single-family homes increased 4.1% to 811,000 and multi-family permits increased 13.9% to 443,000. Initial jobless claims declined 14,000 to 230,000. The historically low jobless claims shows the demand for labor is extremely high. For the week, 2yr, 5yr, 10yr, and 30yr Treasury yields decreased by 2-11bps, closing at 1.34%, 1.80%, 2.24%, and 2.81% respectively.

For the week, the 2yr, 5yr, 10yr, and 30yr swap spreads widened by 1-3bps, closing at 25bps, 8bps, -3bps, and -31bps respectively.

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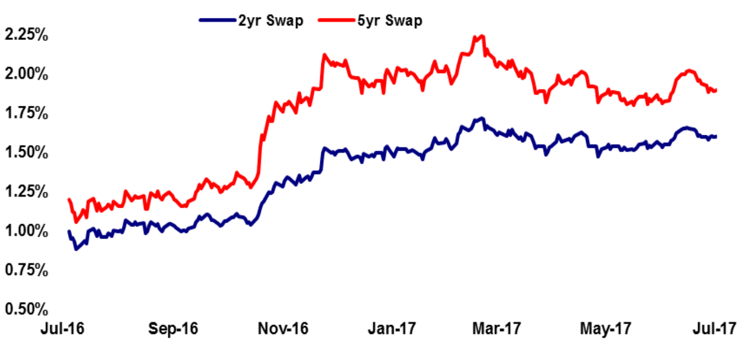
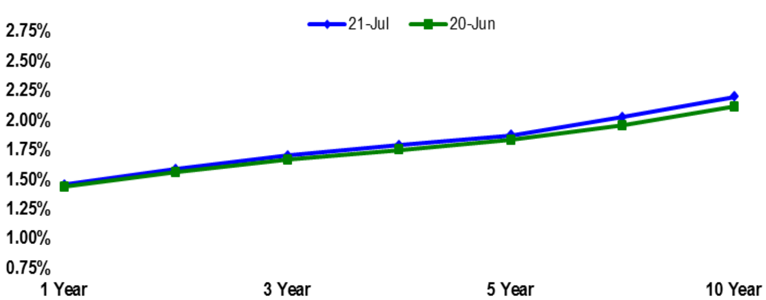
1 Yr Historical US Dollar Swap Graph



Source: Bloomberg

Monthly USD Swap Curve



Source: Reuters

FX Rate

The market remains fixated on DC debacles dragging down the dollar – last week it was the TWO MORE Rep SENATORS AGAINST HEALTH BILL headlines that hit the greenback before Mueller got in the game against Kushner-Manafort-Donnie Jr now summoned to appear behind closed Senate doors (1 down, 2 to come on Weds). DXY is down to 94 after starting last week above 95 and testing Q3 2016 support before we ultimately may see 3yr lows challenged around 92. The US data hasn't helped much since Retail Sales and Headline CPI missed expectations a couple weeks ago, although Comp PMI out just today showed an uptick from 53.9p to 54.2. This Weds FOMC meeting is not expected to be a fireworks show without any presser scheduled and a rate hike unlikely for many months, and the Street seems to think maybe just a mild downgrade in language concerning inflation conditions while maintaining vague hints of B/S reduction to come "soon".

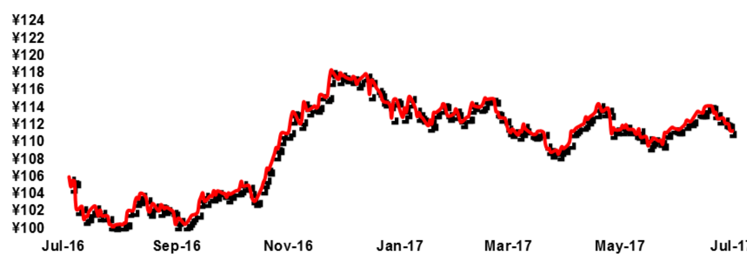
EURUSD jumped last week from 1.1450 to 1.1650 now, but Draghi really was balanced in comments suggesting they reserve the right to extend QE in size and calendar duration should "unwanted tightening conditions" rear their ugly head. Perhaps the common bloc currency stays lofty because of what he *didn't* say – namely he was mum on EUR strength and higher Bund yields. Still, the dollar side of this pair is really driving the loftiness as the Euro has been outpaced by other major pairs.

USDCAD for example has dipped now all the way to 1.25 now (even testing below the figure briefly today) from 1.27 last week – we all know the BOC story there but more recently the 2 Inflation readings for Canada looked higher than prior prints on Friday so that reinforces the hawkish momentum. AUDUSD has been another big gainer although over the w/e RBA DepGov Debelle said "rising AUD not welcome". NZDUSD is catchup then perhaps, now eyeing up the .7480s high of 2016 from .73 last week.

USDJPY has retraced quite a bit from 112.50 to 111 and below briefly, mainly from the DC-dip on dollar but also from technical drivers (we noted a few weeks back the Reversal Pattern from 114.50 peaks was looming – implying a breakdown all the way to 111-111.30 roughly). Perhaps worth noting, PM Abe's approval ratings seem to be suffering to post-Abenomics lows due to spreading Vet School scandal.

GBPUSD is the lone soft spot against the dollar last week – the pair slipped from 1.31 to 1.30 but I think we can all agree that's just a minor dent in the face of disappointing UK CPI (last Tues printed 2.6% vs 2.9%e) against a more ominous Brexit backdrop (note: Retail Sales figures did look good).

1Yr Historical JPY/USD Spot FX Graph



Source: Bloomberg

Major Economic Releases

Date	Time	Event		Survey
7/24	10:00	Existing Home Sales MoM	Jun	-0.009
7/26	10:00	New Home Sales MoM	Jun	0.80%
7/26	14:00	FOMC Rate Decision	26-Jul	1.25%
7/27	8:30	Durable Goods Orders	Jun P	3.50%
7/27	8:30	Durables Ex Transportation	Jun P	0.40%
7/28	8:30	GDP Annualized QoQ	2Q A	2.50%
7/28	8:30	Personal Consumption	2Q A	2.90%

Source: Bloomberg

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