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AUGUST MONTHLY INTEREST RATE OUTLOOK

Synchronised global economic growth is, well, less off piste as far as the markets are concerned. Still, trade issues (we are not yet at 'War' status) run a significant risk of derailing what is now being considered as more of a blip than a nefarious downturn ... although if the Juncker-Trump 'deal' heralds a significant wind-down in tensions, and improved economic growth is the result ... more/faster rate hikes might be on the cards. The US continues as the leading light on economic growth, ironic given Washington is the epicentre of the trade angst.

- **Elsewhere, reports the BoJ are to consider changing its Yield Curve Control policy are causing a stir in the rates markets (and some rare steepening), but Market Reporter Tian Yong Woon notes '...the Japan economy presently gives the CB only a few justifications for any near-term hawkish tweaks' although 'we may still see eventual "forced" policy changes amid increasingly cornered/distorted Japan ETF and JGB markets ...' [Pages 2, 5]**

- **The BoE is odds on to hike at its August 'Super Meeting', despite the softish recent data, Senior Editor/Analyst Marcus Dewsnap notes that 'Real rates do however remain extremely expansive, thus provide some cover for an increase.' And, 'look out for clues via inflation forecasts. The projections are probably more important for policy than current CPI.' [Pages 2, 5]**

- **Elsewhere, events in Turkey attract attentions after an against consensus on hold decision, Emerging Markets Senior Analyst Natalie Rivett writes that this 'has confirmed fears of a weakening resolve to tighten monetary policy following President Erdogan's election victory last month that has already led to an erosion of central bank independence'. [Pages 3, 9].**

27 July 2018

The Contributors:

Fed
Marcus Dewsnap

BoJ
Tian Yong Woon

ECB
Robert Graystone

BoE
Marcus Dewsnap

RBA
Qi Xiu Tay

RBNZ
Tian Yong Woon

Riksbank
Rachel Bex

Norges Bank/BoC/SNB
Mark Mitchell

CEE, CBR, SARB, LatAm
Christopher Shiells
Natalie Rivett
Robert Graystone

PBoC
Tim Cheung

BoK/RBI/Bank Indonesia
Freda Yeo

Technicals:
Marnie Owen
Ed Blake
Matthew Sferro

Editor:
Marcus Dewsnap

AUGUST MONTHLY INTEREST RATE OUTLOOK

FORECASTS AT A GLANCE: MAJORS

G3	CURRENT (%)	DIRECTION OF NEXT POLICY MOVE*	UPCOMING CB MEETINGS	RISK OF MOVE AT NEXT MEETING	THREE-MONTH F/C (%)	SIX-MONTH F/C (%)	TWELVE-MONTH F/C (%)
Fed Funds	1.75-2.00	↑	July 31/August 1	100% steady	2.00-2.25	2.25-2.5	2.5-2.75
T-Note (10 Yr)	2.98				3.05	3.25	3.32
ECB refi/depo	0.00/0.40	↑	September 13	100% steady	0.00/-0.40	0.00/-0.40	0.00/-0.40
Euro 10 Yr	0.41				0.45	0.65	0.90
Japan o/night Call	-0.10	↑	July 30/31	100% steady	-0.10	0.00	0.00
JGB b/mark 10 Yr	0.09				0.05	0.10	0.20
Europe							
BoE Repo	0.50	↑	August 2	75% hike 25bp 25% steady	0.75	0.75	1.00
Gilts 10 Yr	1.27				1.35	1.45	1.70
Swiss 3 mth Libor	-0.75	↑	September 20	100% steady	-0.75	-0.75	-0.75
Conf 10 Yr	-0.08				0.00	0.10	0.25
Swedish Repo	-0.50	↑	September 6	100% steady	-0.50	-0.35	-0.25
SGB 10 Yr	0.54				0.60	0.70	0.90
Norges Bank depo	0.50	↑	August 16	100% steady	0.75	1.00	1.25
NGB 10 Yr	1.80				1.90	2.00	2.10
Dollar Bloc							
BoC o/n Target	1.50	↑	September 5	100% steady	1.50	1.75	2.00
Canada 10 Yr	2.29				2.15	2.30	2.50
RBA OCR	1.50	↑	August 7	100% steady	1.50	1.50	1.75
Australia 10 Yr	2.64				2.90	3.00	3.15
RBNZ	1.75	↑	August 9	100% steady	1.75	2.00	2.00
NZ 10 Yr	2.72				2.90	3.00	3.30

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AUGUST MONTHLY INTEREST RATE OUTLOOK

FORECASTS AT A GLANCE: EMERGING MARKETS

Emerging Markets	CURRENT (%)	DIRECTION OF NEXT POLICY MOVE*	UPCOMING CB MEETINGS	RISK OF MOVE AT NEXT MEETING	THREE-MONTH F/C (%)	SIX-MONTH F/C (%)	TWELVE-MONTH F/C (%)
NBH base rate	0.90	↑	August 21	90% steady 10% hike 15bp	0.90	1.05	1.25
CNB **2 wk repo**	1.00	↑	August 2	70% steady 30% hike 25bp	1.25	1.25	1.50
NBP reference rate	1.50	↑	September 5	100% steady	1.50	1.50	1.50
CBT **1-wk Repo**	17.75	↑	September 13	90% steady 10% hike 100bp	17.75	17.75	16.50
SARB repo	6.50	↑	September 20	90% steady 10% hike 25bp	6.50	6.50	7.00
Bank of Russia key policy rate	7.25	↓	September 14	95% steady 5% cut 25bp	7.25	7.25	7.25
BC do Brasil selic	6.50	↑	August 1	75% steady 25% hike 25bp	6.50	6.75	7.25
BC de Chile o/n	2.50	↑	September 4	100% steady	2.50	2.75	3.00
Banco de Mexico **o/n**	7.75	↑	August 2	70% steady 30% hike 25bp	7.75	8.00	8.00
PBoC 1 year depo	1.50	↑	n/a	n/a	1.50	1.50	1.50
RBI **repo**	6.25	↑	August 1	70% steady 30% hike 25bp	6.50	6.75	6.75
BoK Base rate	1.50	↑	August 31	100% steady	1.50	1.50	1.75
Bank Indonesia **Reverse Repo**	5.25	↑	August 16	100% steady	5.25	5.50	5.75

Current yields as of 27 July 2018

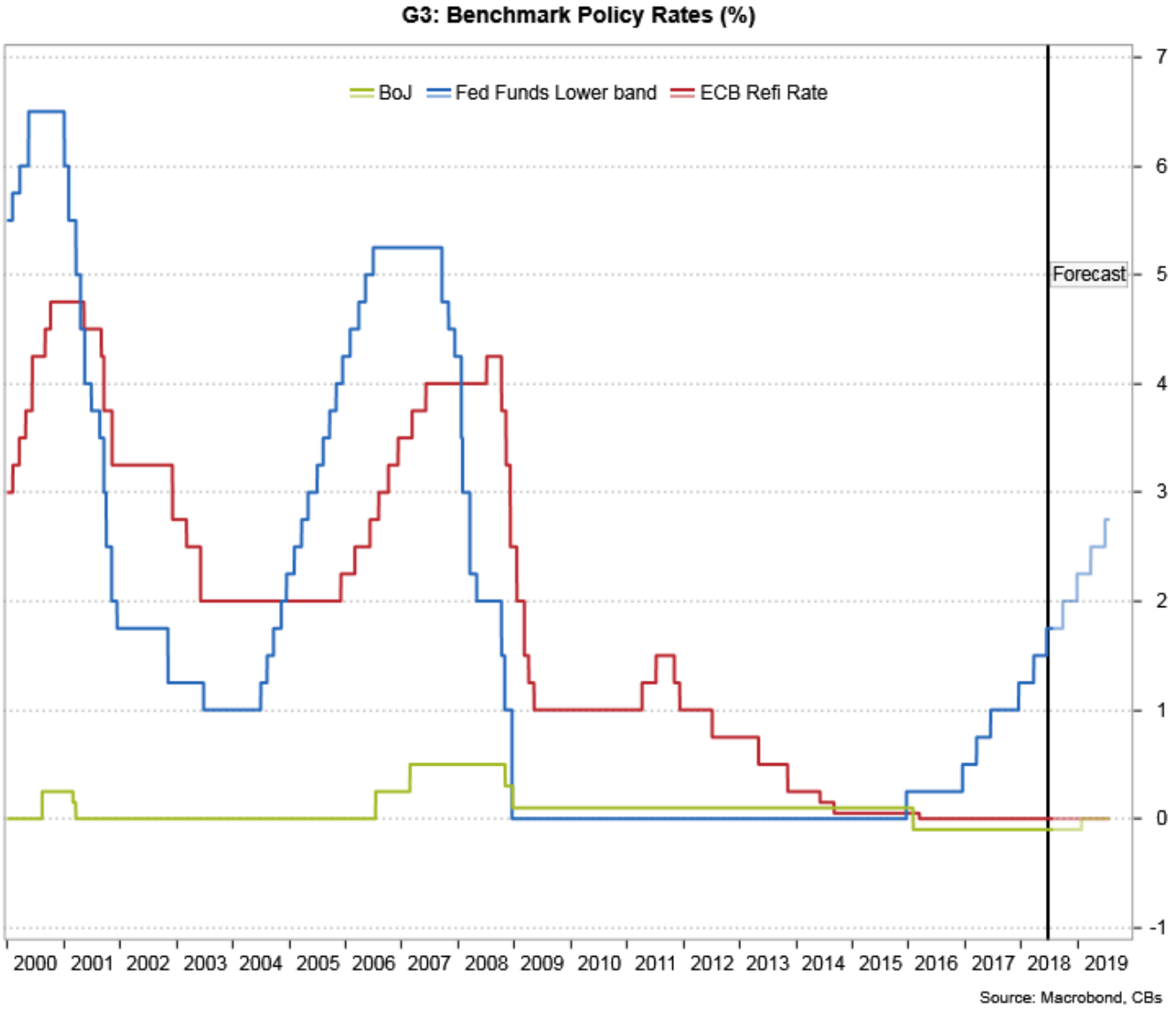
N/a = not applicable

* Note: The IGM view of the next monetary policy move, whenever it occurs. Tightening = ↑ Easing = ↓

Boxes in red denote significant changes to our outlook.

AUGUST MONTHLY INTEREST RATE OUTLOOK

CENTRAL BANK OUTLOOKS



FED: A significant part of the FOMC's job is to look through all the noise (and there is a lot, verbal or otherwise to deal with) to broad trends. Hence, is there anything to prevent a 25bp per quarter hiking policy for the rest of this year at least? Not, in our opinion, as yet. Another ¼-point then in September along with the SEP. Yes, trade issues may well negatively impact economic growth later this year whilst creating the wrong sort of inflation. Then again, they may not. The impact of tariffs is partially a reason for interpretations of more caution on behalf of the Fed. Curve inversion isn't a perceived concern. There is evidence of intensifying underlying inflationary pressures e.g. PPI, and PCE is above target. *Capping* inflation is a significant part of the game.

An important aside remains as to the final size of the balance sheet and role Fed Funds will play in the future banking system.

marcus.dewsnap@informagm.com

10-year US yield technical analysis HERE

EUROZONE: The ECB left its key policy rates unchanged in July, as was widely anticipated, and reiterated that PSPP purchases will come to a halt at the end of December with purchases down to EUR15bn/month from October. In the accompanying press conference, President Draghi gave investors nothing fresh to chew on and barely deviated from his June address, reiterating that significant stimulus was still needed and GDP growth remains solid in spite of uncertainty surrounding global trade. On the

topic of inflation, the Bank see less uncertainty, and underlying pressures are set to continue rising gradually into the medium term. However, he refused to be drawn on the potential policy implications stemming from the Juncker-Trump agreement. Similarly, the Governing Council did not discuss reinvestment policy, much to the disappointment of anyone who had hoped for a drop of excitement in the final meeting before the Summer break. Overall, the ECB gave little away, leaving questions surrounding plans for balance sheet reinvestment and the exact meaning of "through the summer of 2019" unanswered, and expectations centred around a 10bp rate hike in Q3 2019. One significant issue … what will happen with that September EUR 432 Bn LTRO expiry!
robert.graystone@informagm.com

10-year Euro yield technical analysis HERE

JAPAN: The BoJ will next meet on the 30th/31st July and is to stand pat on its monetary policy (probably until late this year), despite some chatter and market speculation of possible tweaks to yield curve control (YCC) parameters. Whilst the Japan economy presently gives the CB only a few justifications for any near-term hawkish tweaks to policy and guidance, given still-weak measures of inflation, we may still see eventual "forced" policy changes amid increasingly cornered/distorted Japan ETF and JGB markets and as bank profits continue to be pressured by artificially thin maturity yield spreads. With that said though, Japan's labour market is one to watch as presently ultra-tight labour supply, if persisted, may just be a herald of reinvigorated demand the BOJ has been waiting for to justify a normalization in monetary policy.
tianyong.woon@informagm.com

EUROPE

UK: The August convene represents a 'Super-Meeting' – QIR, presser and statement. It is also 'hawk' McCaffery's last salvo (replacement Haskel seems on the neutral-to-dovish side). The market expects a quarter-point hike to 0.75%. This despite recent 'soft' data although the trend for retail sales (3-month/3-month) remains decent.

In June, guidance was reinforced that Brexit clarity and new macroeconomic data will need to align to warrant only the 2nd rate hike in more than a decade. Given the still cloudy Brexit outlook, a 90% WIRP in favour of a 2nd August hike looks overdone … unless of course one buys the argument that the Bank wants to tighten to give it room to loosen should it need to with a 'Hard Brexit'. This is not necessarily a justification for tightening. Real rates do however remain extremely expansive, thus provide some cover for an increase.

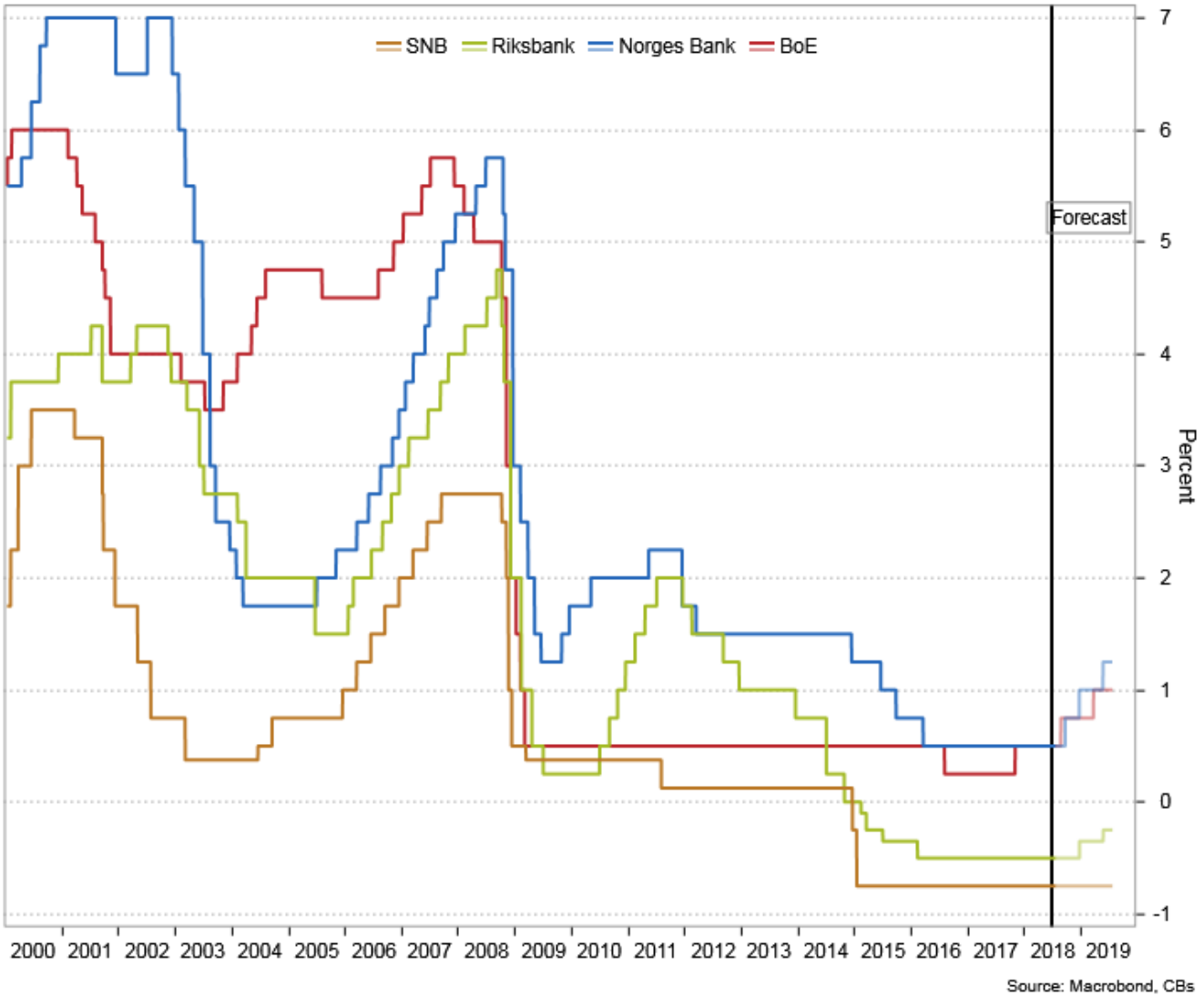
Also, look out for clues via inflation forecasts. The projections are probably more important for policy than current CPI. marcus.dewsnap@informagm.com

Gilt yield technical analysis HERE.

SWITZERLAND: It has been a mixed bag of data coming out of Switzerland in the last month. The KOF leading indicator rose slightly in June, but it is off the highs registered at the end of last year. Retail sales were a disappointment in May and headline y/y CPI rose to 1.1%, its highest level since May 2010, while the unemployment rate came in unchanged at 2.4% in June. The market is looking at Q4 2019 as the most likely timeframe for the SNB's first rate hike.
mark.mitchell@informagm.com

SWEDEN: The Riksbank left rates steady at -0.50% on July 3 and reiterated that slow rate rises will come at the end of this year. To this, the repo rate is seen averaging -0.50% in Q3 and -0.43% in Q4 - unchanged from prior forecasts. Ohlsson and Floden both disagreed with the rate path outlook, both wanting sooner hikes, while Skingsley has also said that an October or September hike is still possible. Ingves sticks to his guns however, believing that it is too early to raise rates just yet as inflation need to hold at the 2% target before moving. The Governor added that disagreements on the board are "only natural when you reach a turning point for monetary policy". Next decision September 6. No change forecast.
rachel.bex@informagm.com

AUGUST MONTHLY INTEREST RATE OUTLOOK



NORWAY: The data has been mixed since the Norges Bank became more specific about when they are most likely to start hiking rates at their June 21 meeting. A September hike is still on the cards after CPI and retail sales came in firmer than expected, but manufacturing output was a disappointment. The next Norges Bank on August 16th now looks like being the final set up before the central bank finally hikes rates in September, for the first time in two and a half years. mark.mitchell@informagm.com

DOLLAR BLOC

CANADA: The last few pieces of Canadian data before the BoC decision on July 11 were all better than expected and by the time of the central bank's hike to 1.5% the implied probability of a 25 basis point tightening was up at 80%. Not only did the BoC deliver a rate hike, but they talked in upbeat terms on the economy despite the uncertainty on NAFTA and rising trade tensions. BoC Governor Poloz was encouraged by recent performance in exports and business investment and now the markets are looking for another rate hike by year end.
mark.mitchell@informagm.com

10-year Cad yield technical analysis HERE.

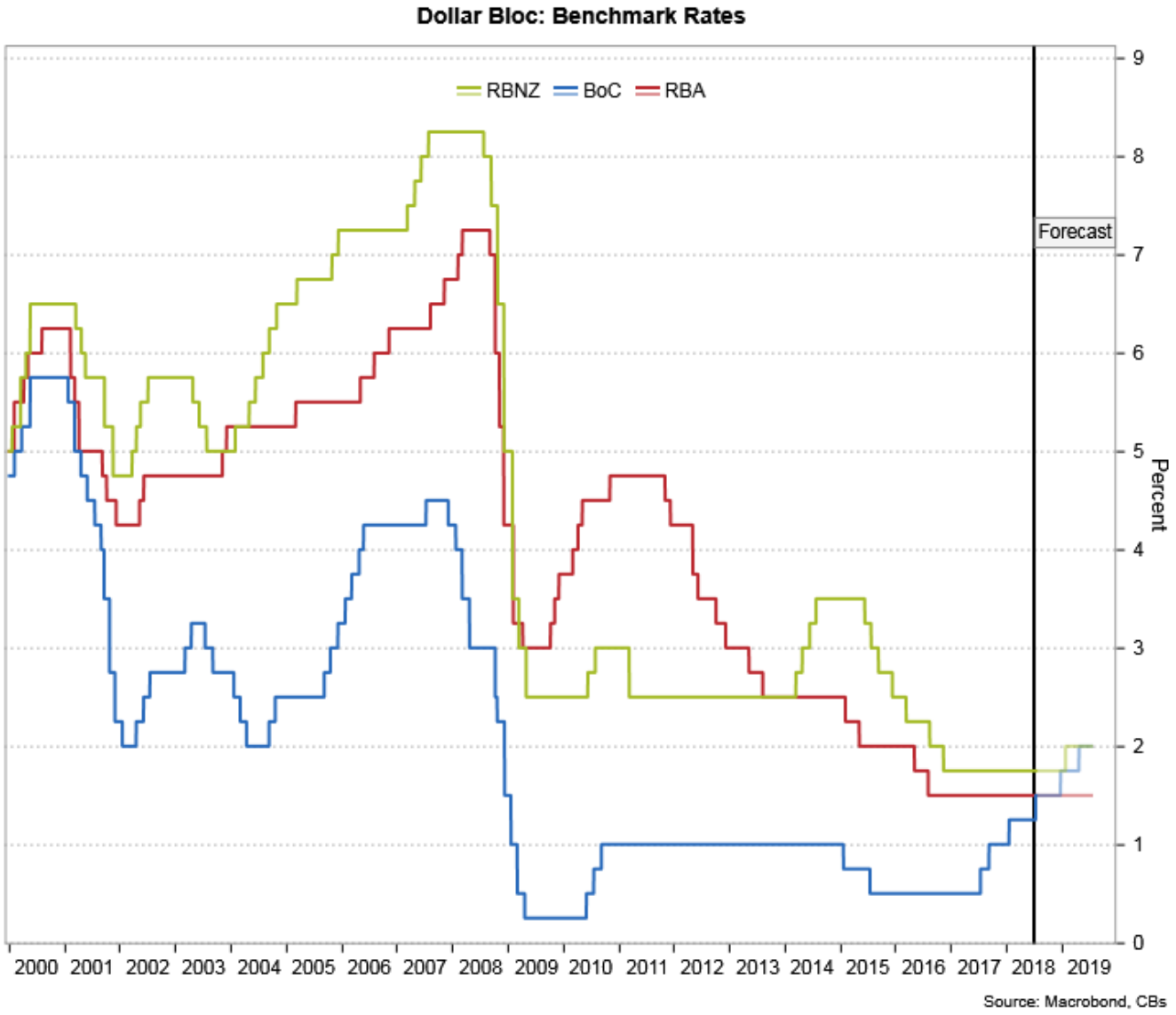
AUSTRALIA: The RBA will next meet on the 7th of August and is once again expected to leave Cash Rate unchanged at 1.50%. There continues to be no

AUGUST MONTHLY INTEREST RATE OUTLOOK

reasons to expect otherwise, seeing that there have not been any material improvements in the high household debt/low wage growth dynamic holding back higher rates with probability of the first full hike only priced in for August 19.

Some notable events since the last meeting; Australia's May retail sales surprised to the upside at 0.4%m/m, which is a welcomed development considering the data's reflection of the high household debt/low wage growth situation. The RBA minutes meanwhile offered nothing new, although it did include the return of the reference that the 'next move in rates is more likely up.' June employment report was a strong beat, with headline employment, fulltime change and participation rate all ticking higher. Overall, it was a strong month for data, although until quarterly inputs are available (Q2 CPI, Q2 wages, SoMP), it is hard to assess any improvements in the economy.

QiXiu.Tay@informagm.com

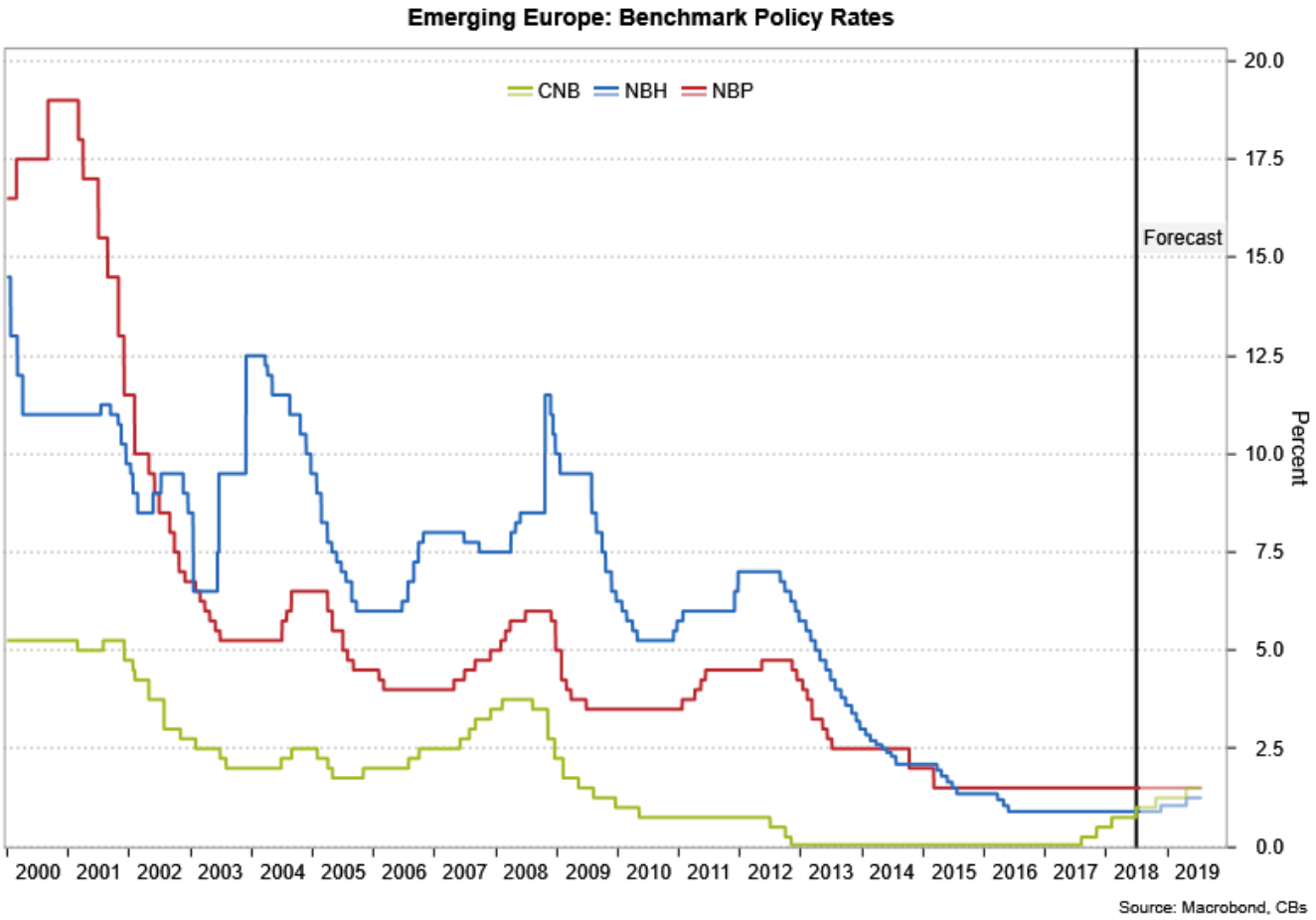


NEW ZEALAND: The RBNZ will next meet on the 9th August. It continues to be expected to stand pat on policy (and for the rest of this year) with an OCR hike deemed likely only from Q1/Q2 2019 (note that the OIS market has effectively priced out any RBNZ OCR hike this year). Repeatedly firmed readings of New Zealand's sectoral factor model inflation, one of the central bank's preferred measures of core inflation, are encouraging. However, said readings are deemed unlikely to spur any near-term policy change, especially when the effects of recently imposed US/China/EU trade tariffs on global demand have yet to be fully felt. The lack of substantive acceleration in wage growth coupled with the

potentially adverse wealth effects when New Zealand housing prices cool are likely be reasons for the RBNZ to maintain its accommodative stance, at least for the near term. With that said, a gradual tweak in guidance towards the possibility of future OCR hikes cannot be ruled out.

tianyong.woon@informagm.com

EMERGING MARKETS: EUROPE, RUSSIA & SOUTH AFRICA



CZECH REPUBLIC: The lack of clear guidance has left the outcome of the August rate decision up in the air after CPI came in firmer than anticipated in June to a 7-month high at 2.6% y/y, rising sharply from 2.2% in May. As such, inflation draws ever closer to the top of the CNB's 2.00% (+/-1ppt) target range, and this is seen helping the hawkish case for further rate hikes. However, we would emphasize that the CNB did raise rates for the fourth time in less than a year back in June, and this has gone some way to taking off the pressure for further tightening.

Regardless, the market implied policy rate still points to the possibility of a further 25bp rate increase in Q4, and given that there has been no sign of any easing of inflation, these expectations could well begin to creep further forward. Recall - there were few clear signals regarding the likely path of monetary policy at the central bank's last meeting, as even Governor Rusnok conceded that it is hard to assess the intensity of rate hikes needed.

On balance though, we would expect to see policy held steady in August as there has been no further significant Koruna depreciation which might have tipped the balance in favour of additional tightening.

robert.graystone@informagm.com

HUNGARY: A bounce in the Forint off record lows versus the Euro in the build-up to the July NBH meeting allowed the central bank to comfortably stick to its loose policy guidance, (needed to get CPI to 3.0% +- 1ppt), but there was a warning that caution was needed amid global market volatility. This latter point linking back to June's shift in stance that saw the NBH finally admit that the current loose policy

conditions cannot be maintained until the end of the 5-8 quarter policy horizon, marking the beginning of the end of its dovish stance. However, the CB said that the inflation target is still expected to be achieved in a sustainable manner from mid-2019, as the temporary, inflation boosting effects of oil price changes fade.

This has taken some of the sting out of recent rate hike bets, as despite a pick-up in inflationary pressure (June CPI 3.1% y/y), the market implied policy curve is now pricing in 30bp of hikes by year-end, versus 40bp before the meeting. The NBH, may have underlined it has turned more cautious, but it sees no need to change or deepen the hawkish rhetoric on recent market volatility. We see no change again in August, with more focus on September, when new forecasts will be available.
christopher.shiells@informagm.com

POLAND: After holding rates steady once again at their meeting in July, there is very little scope for any tightening when the NBP meet again at the beginning of September. Recall, the Polish central bank's latest forecasts showed a softer inflation picture, as previously suggested by Governor Glapinski. The 2018 estimate was trimmed to a 1.5-2.1% range from 1.6-2.5% previously, although there is a firmer picture for 2019, at 1.9-3.5% vs 1.7-3.6% last time; this followed the June CPI release which saw inflation advance to a 5-month high of 1.9% y/y, marking a third successive month of inflationary pressure amid higher energy costs.

However, the NBP appears to remain unfazed by inflation as the core measure remains low and the headline number is expected to remain near the 2.5% (+/-1ppt) target for the foreseeable future. The reality is that the majority of members see no need to hike rates until the end of 2020, despite the strong GDP growth projections, as wage growth remains consistent with the NBP inflation outlook - assumes 6.9% y/y growth in 2018 and the transmission between wages and prices is so far weak.
robert.graystone@informagm.com

SOUTH AFRICA: In the absence of any sharp acceleration in the Rand sell-off ytd, we expect the benchmark rate to be kept at 6.50% into year-end as the SARB stays vigilant on inflation, but mindful of the soft economic growth environment.

In July, the central bank acknowledged that external factors - a weaker Rand and higher oil prices - have tilted the path of inflation higher, with 2019/2020 forecasts revised to 5.6% and 5.4% respectively from 5.2% for both years previously, but this is still within its 3-6% target range. Moreover, the forecast for 2018 was lowered, to 4.8% from 4.9% in May.

The SARB also cut the 2018 GDP forecast by 0.5ppts to 1.2%, and together with the emphasis on the supply-side rather than demand-side factors driving up 2019-2020 CPI projections, would indicate there is still little urgency among the MPC to hike rates.
natalie.rivett@informagm.com

RUSSIA: Russian CB policy looks set to go into hibernation for the rest of the year as in July the CBR reiterated that its shift to neutral policy (6-7% key rate) will be delayed until 2019, as it sees the balance shifted toward pro-inflationary risks. The CBR also maintained its inflation forecasts for year-end to 3.5-4.0%, but was more ambiguous about 2019, moving from a 4.0-4.5% outlook to predicting a temporary spike above 4.0% due to the VAT hike, which is likely to add 1ppt. CPI is still seen returning to 4.0% in early 2020.

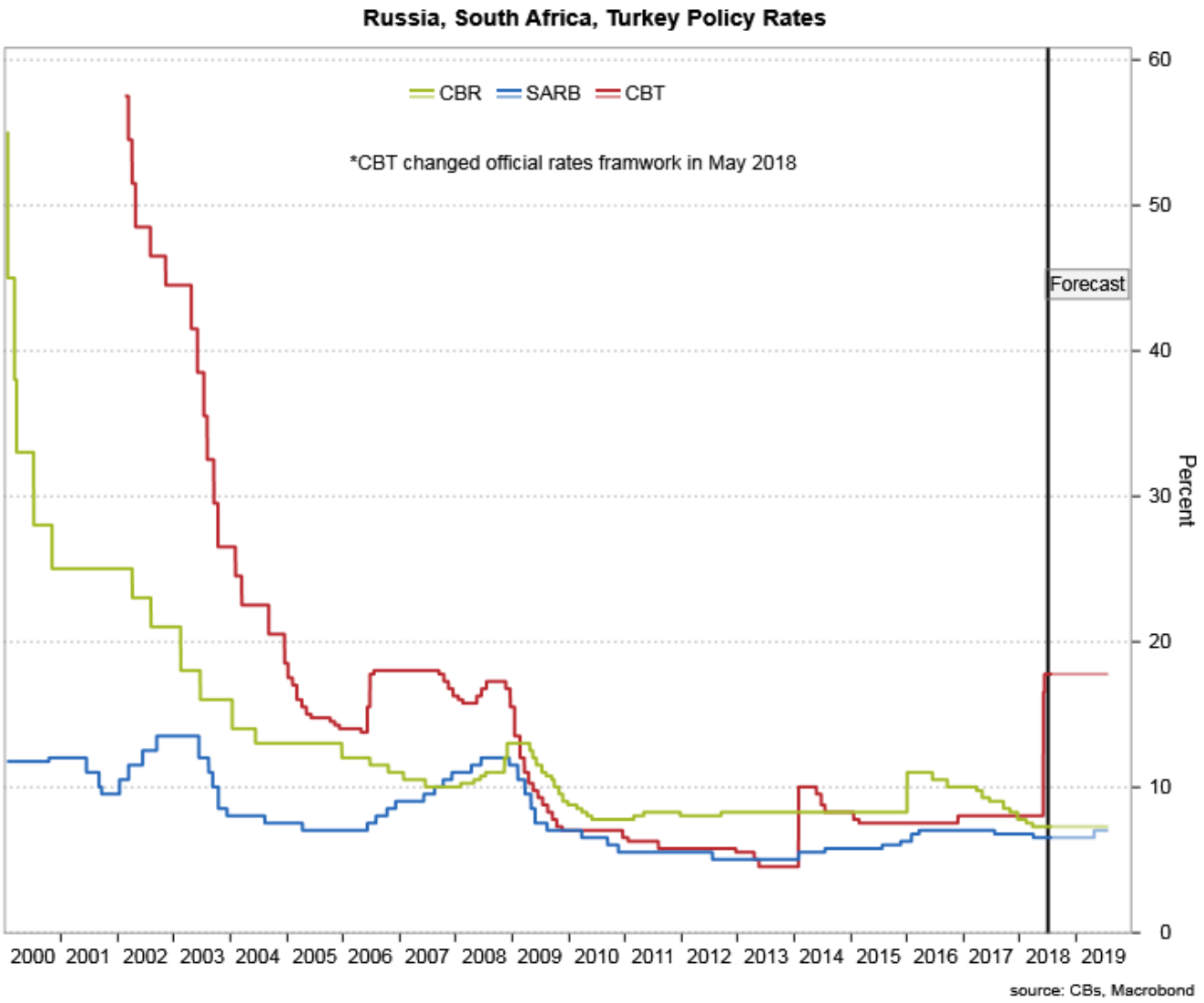
However, versus some views in the market this is still quite a dovish outlook. The full impact of rising petrol prices up until June and the weaker Rub since April are still to be felt, and these coupled with the impact of the VAT hike from 2019 have pushed some to predict CPI could reach 5.0-6.0%. Therefore, a key rate hike in 2019 has not been ruled out. Inflation expectations are in focus for the CBR, and they increased to 9.8% in June (versus low of 7.8% in April) and until these show signs of falling again we do not expect the CBR to cut rates, and if they start moving higher again, this is what could prompt another rate hike in 2019. For now, the CBR believes that inflation expectations have stabilised.

christopher.shiells@informagm.com

TURKEY: The CBRT has proved that what it should do and what it does are two different things entirely, as it decided to hold the one-week repo rate at 17.75% in July, despite rising inflation and the Lira weakening to new record lows (versus the Usd and Eur) earlier in the month. The decision, which defied the consensus forecast for a 100bp hike, has confirmed fears of a weakening resolve to tighten monetary policy following President Erdogan's election victory last month that has already led to an erosion of central bank independence with the issue of a decree to give the President the power to appoint the Governor, Deputies and MPC for a four-year period.

AUGUST MONTHLY INTEREST RATE OUTLOOK

There were familiar tones from the CBRT statement as it pledged to maintain decisively a tight monetary policy stance until the inflation outlook displays a significant improvement and with more tightening to be delivered if needed, but this all offers no consolation for investors following a lack of all-important action. This all risks further currency depreciation and runaway inflation, which at 15.39% y/y in June, is more than three times the central bank's 5% target.natalie.rivett@informagm.com



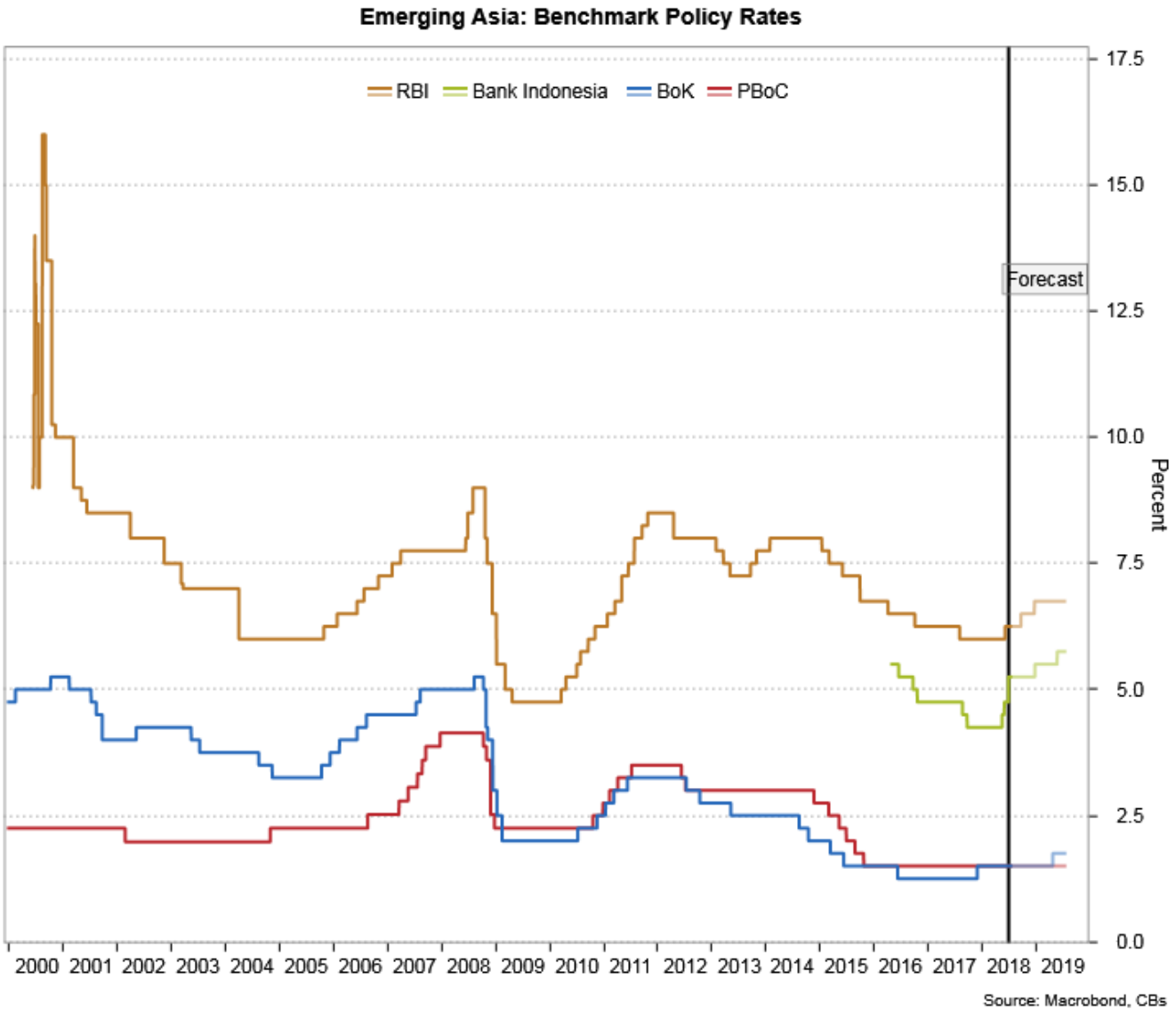
EMERGING MARKETS: ASIA

SOUTH KOREA: The BoK again kept benchmark rate unchanged at 1.5%, while slightly revising downward economic outlook in 2018 (2.9% from 3%) and 2019 (2.8%) as previously guided. The 1 dissenting vote for a rate hike from a few months ago remerged and sparked BoK Governor Lee to highlight that the dissenter's opinion is not a reflection of overall view of the board. In the near term, it remains highly unlikely the Bank will consider a rate hike on account of a number of challenges, with the largest being "spreading trade protectionism" as well as "monetary policy normalization in major countries". Domestically, inflation remains muted near 1.5% y/y, despite oil price increases, and employment growth remains low despite stimulus aimed at addressing the issue. While the country initially expected some potential gains from US/China trade war, China's opening of anti-dumping investigations on stainless steel against several countries including South Korea could be a pushback that until now has been overlooked. As such, accommodative monetary policy stance is expected to continue, with further expected weakness in KRW (already down 5.5%) welcomed anyway by officials. While the BoK's

AUGUST MONTHLY INTEREST RATE OUTLOOK

official line is that there is no concern for large capital outflows, there is preparation for a rare USD sovereign issue, as well as FinMin comment that bond issuance may be reduced if tax collections remain strong. freda.yeo@informagm.com

INDIA: The RBI decided in early June to raise its benchmark rates by 25bp to 6.25%, consistent with our view but forecast by the minority of analysts polled by Bloomberg. The next meeting in early August will also present some arguments for both a 'hold' or 'hike', with inflation remaining firm if a little below consensus in June, while Wholesale Prices continuing to accelerate, reaching levels last seen in 2013. As a result, while the previous minutes showed that the RBI is in a neutral wait-and-see stance, something may need to be done. Tighter monetary policy across major central banks and China's recent apparent step back from deleveraging and into easing mode to counteract the potential trade war, as well as IMF's slight downgrade of expected growth in 2018 and 2019 amid clouding outlook, will all figure. While bond outflows have slowed in July, higher oil prices and general weakness among Asian currencies jeopardizes fiscal and economic health, with the weaker INR causing imports and the deficit to balloon. As a result, 10Y yields have not managed to sustain consistently below 7.8% despite OMOs, bargain hunting amid reduced issuance and policy changes. In the current situation, predicting market reaction to any course of action remains difficult. As such, the RBI could remain on hold for now. freda.yeo@informagm.com



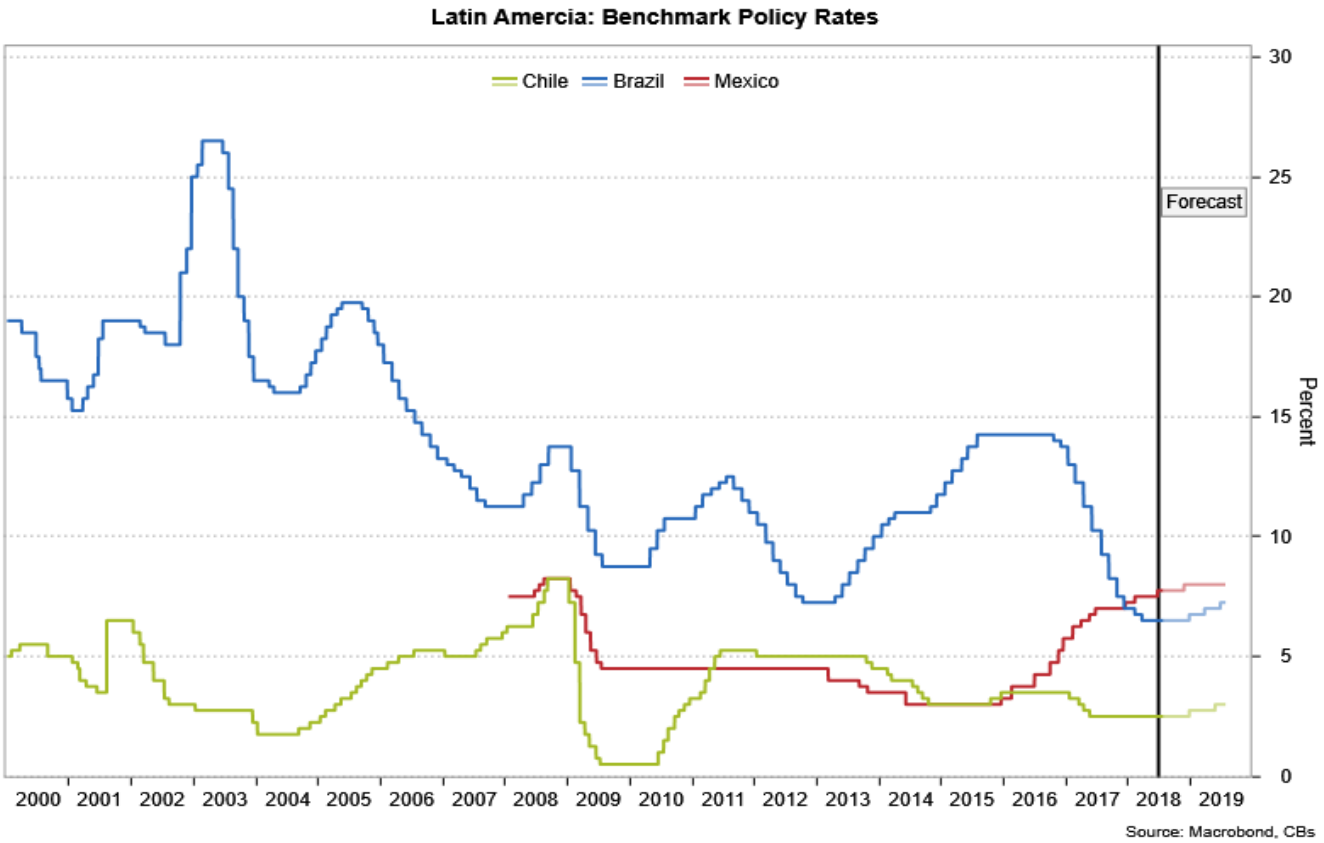
CHINA: Faced with an escalating trade confrontation with the US, a contracting credit supply plus a slowing economic growth momentum, Chinese monetary policy makers made a couple of policy adjustments in July, showing their intention to

reduce, even if not discontinue, the efforts to deleverage the financial system. First, both PBOC and CBIRC in the middle of the month officially urged commercial banks to step up loans to private corporate and SMEs. Subsequently, both regulators on 20 July released the implementation guideline for new asset management follow-up rules and consultation paper for bank WMP rules respectively. In many aspects, the rules listed in both documents are more relaxed and less demanding than those proposed in April. tim.cheung@informagm.com

INDONESIA: Bank Indonesia kept benchmark 7D Reverse Repo rate unchanged at 5.25% at its most recent meeting, after embarking on a tightening campaign to stabilize the IDR as well as the bond market after months of weakness. Policy stance remains "hawkish" and inline with efforts to boost market's attractiveness to stem outflows and attract flows. As a commodities exporter, Indonesia is particularly exposed, whether to trade war or deleveraging, especially as global central banks set about monetary tightening. BI's recent steps had raised the risks for the economy despite immediately achieving their stabilization goal, as higher borrowing costs are expected to have a further cooling effect on the economy already buffeted by trade tensions. This has led the BI to stepping back on gains in macroprudential policy like lowering LTV policy on mortgages in an effort to drive muted loan growth.

The BI has also tacitly accepted that the IDR's weakening will continue despite their efforts and has commented that moves need to be gradual and that the IDR is below fundamental value. The central bank continues to coordinate with the government to mute inflation via price controls and subsidies, with the government also making efforts to address their trade and current account deficits. Due to unpredictability of a number of factors, including trade environment and the Yuan, forecasts for future action by BI has become difficult, though for the next 3 months, the central bank would be wary of stoking further difficulties for the economy, with presidential elections next year. freda.yeo@informagm.com

EMERGING MARKETS: LATIN AMERICA



BRAZIL: Brazil's inflation accelerated above the mid-point of the BCB's 3%-6% target range for the first time in over a year, to 4.53% y/y through mid-July, reflecting some of the impact of the 10-day

trucker strike on prices and the pass-through from a weaker currency (ca. -12.5% vs the Usd ytd).

However, the m/m print moderated to 0.64% from 1.11% prior, which would suggest that price shocks from the May strike are starting to fade and this would support the BCB's expectation the strike will have a temporary effect on inflation. Therefore, whilst the door is open to rate hikes following the clear hawkish shift in language from the June policy statement, this inflation data is unlikely to spur the central bank into raising rates yet.

Traders have reined in tightening expectations over the past month and are currently expecting roughly 100bp of hikes this year, and with the DI curve pricing in the first increase to the Selic in September, pushed back from August. natalie.rivett@informagm.com

CHILE: As expected no change from the BCCh at the July meeting even after CPI climbed to a 13-month high of 2.5% y/y in June, with the steady decision aided by the Clp's 1.75% bounce versus the USD off last week's 1-year lows. The CB has now left rates steady for 12 straight meetings, but with the Peso still some 7% weaker against the USD this year the MPC still has rate hikes in mind, talking about a move to a neutral rate level in the coming quarters, whilst markets continue to price in a 25bp rate hike by year-end. However, the minutes to the June meeting suggested that a hike would not come this year, with CPI seen comfortably in the middle of the target range of 2-4% (2.8% forecast for year-end).

The impact of trade wars and the weaker Peso have made it hard to predict when the rate hike will come, as there is a tug of war between the negative economic impact and the inflationary impact of the weaker currency. Still with the government upping its GDP growth forecast this year to 3.8% (versus economists' prediction of 4%), we maintain that there is room for a hike this year, but it will be dependent on how quickly inflation picks up. The BBCh has a summer break until the next meeting in September and it will remain in wait and see mode until at least then and possibly beyond.
christopher.Shiells@informagm.com

MEXICO: Mexican CPI broke a 5-month long downtrend in June, coming in firmer than expected at 4.65% y/y from 4.51% in May. Crucially, this is still above the central bank's 3.00% (+/-1ppt) target, and Mexican rate setters have repeatedly underscored the importance of convergence to this range. We would expect this to feed into expectations for further rate hikes; however, this dynamic has likely been offset by the recent bout of MXN strength which has seen USD/MXN drop below 19.000 as investors reassess the likely impact of AMLO's policies. Over the coming months, the path of monetary policy in Mexico is still likely to depend on USD/MXN movements which will in turn be a function of NAFTA negotiation progress and any further clarity on the incoming administration's policies.

For the moment though, market expectations are in line with our own view that the bias is for no change to monetary policy at the August 2nd meeting. However, the lack of a clear rate path has left some traders speculating over another 25bp hike at the 3-month horizon.robert.graystone@informagm.com

AUGUST MONTHLY INTEREST RATE OUTLOOK

TECHNICAL ANALYSIS

US 10-Year Treasury Note Yield – Ranges ahead of the next upswing

US 10 Year Yield – Weekly Chart

Resistance Levels		
R5	3.498	14 April 2011 minor lower high
R4	3.336	Equality of 1.318/2.639, 2.014 near 3.320 - 2 May 2011 high and 50% of 5.323/1.318
R3	3.247	12 May 2011 peak near 3.221, 1 July 2011 peak
R2	3.126	2018 YTD peak – 18 May (6-year 9.5-month high)
R1	3.012	24 May 2018 high near 13 June 2018 high at 3.007
Support Levels		
S1	2.805	6 July 2018 minor range low
S2	2.699	23.6% of 1.318/3.126 near 2.715 (2 April 2018 higher low)/2.701 (38.2% of 2.014/3.126)
S3	2.639	15 December 2016 peak by 2.646, 6 February 2018 reaction low
S4	2.435	38.2% of the 1.318/3.126 upswing near 2.439 (61.8% of the 2.014/3.126 upswing)
S5	2.302	8/7 November 2017 lows near 2.312 (6 December 2017 low) and 2.308 (28 November 2017 low)

Key Points

- Eased from a 6-year 9.5-month high at 3.126 to probe the upper bounds of a prior 29-year falling channel before consolidation took hold over 2.699
- Given the RSI divergence on the weekly chart and the deteriorating MACD, the 2.715/2.699 area remains vulnerable, but robust monthly studies (not shown) suggest that ranging may persist in the near to medium term for an eventual resolution higher
- A push above 3.007/12 on firming weekly studies would stage a retest of the 3.126 peak and a broader advance on a concerted break above the latter for 3.247 followed by a Fibonacci cluster in the 3.320/36 region
- A marginal break beneath 2.699 would caution for the 2.646/39 area, possibly the Fibonacci cluster in the 2.435 area, but any pullbacks should be corrective for a higher low ahead of the key 2.014/2.009 area

marnie.owen@informagm.com

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AUGUST MONTHLY INTEREST RATE OUTLOOK

EU 10 Year Yield – Risks a deeper setback to 0.156/0.188 before the wider recovery resumes

EU 10 Year Yield – Weekly Chart

Resistance Levels		
R5	0.986	13 July 2015 lower high
R4	0.806	2018 top - 8 February, near 1 September 2015 high (0 822)
R3	0.703	8 March 2018 high
R2	0.656	24 April 2018 lower high
R1	0.518	12 June 2018 lower high
Support Levels		
S1	0.282	6 July 2018 low, near 11 December 2017 low at 0.280
S2	0.188	2018 low - 29 May, near 61.8% of -0.205/0.806 (0.181) and near 1.382x 0.806/0.473 off 0.656 (0.195)
S3	0.156	2017 low – 18 April
S4	0.092	9 November 2016 higher low, near 1.618x 0.806/0.473 off 0.656 (0.117)
S5	0.033	76.4% retrace of -0.205/0.806 rally

Key Points

- Recovered from -0.205 (2016 record low) to 0.806 (Feb's peak), ahead of a 3-wave correction to 0.188 (29 May spike low and near 61.8% retracement of the -0.205/0.806 rally)
- Daily/weekly studies are subdued, but while the 0.156/0.188 support zone limits any further yield weakness, we favour a gradual resumption of the long-term yield recovery
- A clearance of 0.518 (12 June high) and then 0.656 (24 April lower high) would re-open the 0.806 peak
- Only under 0.156 would negate the long-term recovery and expose 0.092 (Nov 2016 low), perhaps 0.033 (76.4% of -0.205/0.806)

ed.blake@informagm.com

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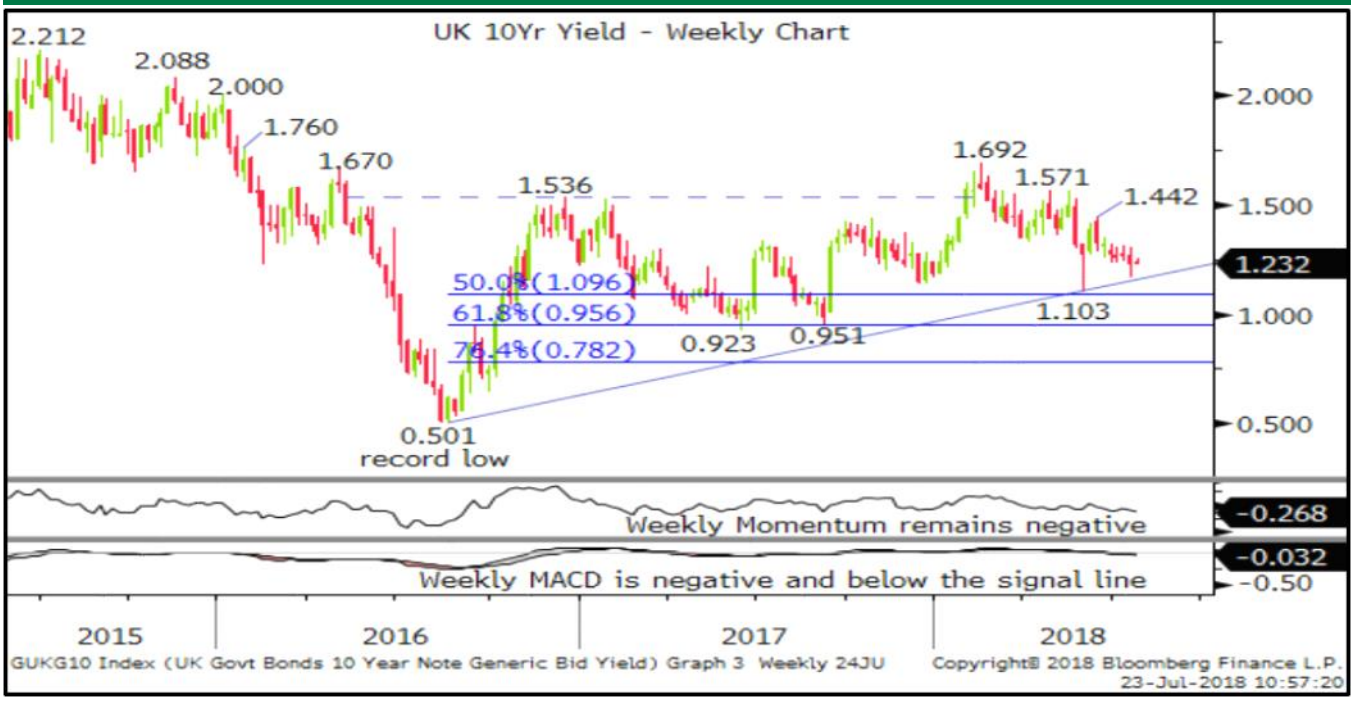
AUGUST MONTHLY INTEREST RATE OUTLOOK

UK 10 Year Yield – Risk through 1.103 towards 0.923 before the long-term recovery resumes

UK 10 Year Yield – Weekly Chart



Resistance Levels		
R5	1.808	76.4% of the June 2015 – August 2016 (2.212-0.501) fall, near 19 January 2016 high at 1.760
R4	1.692	15 February 2018 high, near .764 projection of 0.501/1.536 off 0.923 at 1.714
R3	1.571	25 April 2018 high, near 17 May 2018 high at 1.568
R2	1.442	12 June 2018 high
R1	1.351	21 June 2018 high, near 29 June and 9/11 July 2018 highs at 1.314
Support Levels		
S1	1.167	20 July 2018 low
S2	1.103	29 May 2018 spike low, near 50% retrace of 0.501/1.692 rally at 1.096
S3	0.923	2017 low – 14 June, near 8 September 2017 low at 0.951 and 61.8% of 0.501/1.692 at 0.956
S4	0.782	76.4% retrace of 0.501/1.692 rally
S5	0.641	27 September 2016 higher low

Key Points

- The recovery from 0.501 (2016 record low) peaked at 1.692 (15 Feb, 25mth high), ahead of a three-wave correction to 1.103
- Daily/weekly studies are deteriorating and a return below 1.103 would threaten the key 0.923-0.957 support zone
- This consists of the 2017 low (posted 14 June) at 0.923, the 8 September 2017 higher low at 0.951 and 61.8% of 0.501/1.692 at 0.956
- While intact, watch for the broader recovery phase to resume and above 1.442 (12 June high) would re-open 1.571 then 1.692 peak
- Beyond there would then target 1.808 and potentially the 1.958/2.000 zone in the medium term
- Only below 0.923 would negate the broader yield recovery and risk a resumption of the long term downtrend towards 0.782/0.641

ed.blake@informagm.com

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AUGUST MONTHLY INTEREST RATE OUTLOOK

CAN 10-YEAR YIELD – Consolidates over near-2-year rising trendline

CAN 10-YEAR YIELD – Weekly Chart

Resistance Levels		
R5	3.278	11 May 2011 minor lower high
R4	3.141	30 June 2011 reaction high
R3	2.830	2013 high - 11 September, near 2 January 2014 2.798 high
R2	2.572	21/20 February 2014 lower highs/3-month range top, near 17 May 2018 2.528 4-year high
R1	2.341	13 June 2018 lower high
Support Levels		
S1	2.056	27 June 2018 higher low
S2	1.806	29 August 2017 higher low, near 1.816/26 reaction lows (28 November/15 December 2017)
S3	1.639	10 May 2017 former lower peak
S4	1.373	6 June 2017 reaction low
S5	1.253	13 September 2016 reaction high near 1.255, 14 October 2016 reaction high

Key Points

- The decline off the 17 May 2018 2.528 4-year high threatened the 0.943/1.373 rising trendline (presently at 2.077) ahead of current consolidation
- The weekly MACD is locked under the signal line while the weekly RSI shows room for additional declines before periodic yield strength would be anticipated
- This suggests a break under trendline support is more likely than not, paving the way towards the key 1.806 area (29 August 2017 higher low), near 1.816/26 reaction lows (28 November/15 December 2017) where recycled strength would be expected
- Back over the 2.341 lower high opens the key 2.528/2.572 highs (17 May 2018 2.528 4-year high, 21/20 February 2014 lower high/3-month range top), then the 2.830/2.798 peaks (11 September 2013/2 January 2014) followed by the 30 June 2011 3.141 reaction high

matthew.sferro@informagm.com

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AUGUST MONTHLY INTEREST RATE OUTLOOK