

RJO Previews and Perspectives for Friday, June 22

Posted on [6/21/2018 7:45:18 PM](#)

Successful mini-EU summit on migration on Sunday is critical for Merkel's government -- The EU has called an emergency mini-EU summit for Sunday in Brussels to discuss migration. Ms. Merkel needs a concession on being able to block migrants who have applied for asylum in other countries from entering Germany. Countries expected to attend Sunday's mini-summit include Germany, France, Italy, Spain, Austria, Greece and Bulgaria. Migration policy will be a key issue addressed at the important full EU Summit to be held next Thursday/Friday (June 28-29).

German Interior Minister Horst Seehofer this past weekend gave Ms. Merkel two weeks to come up with a concession on the asylum-seeker issue or said he would go ahead with his order for German police to turn away from the border migrants that have applied for asylum in other countries. Ms. Merkel has already vetoed that idea since it would cause new friction with Germany's EU neighbors. That means that if Mr. Seehofer goes ahead with the order, then Ms. Merkel may have no choice but to fire him.

However, Mr. Seehofer is also the head of the Merkel CDU's sister party, the Bavarian-based CSU. If he is fired, Mr. Seehofer may pull the CSU out of the governing coalition, thus bringing down the government and forcing new German elections.

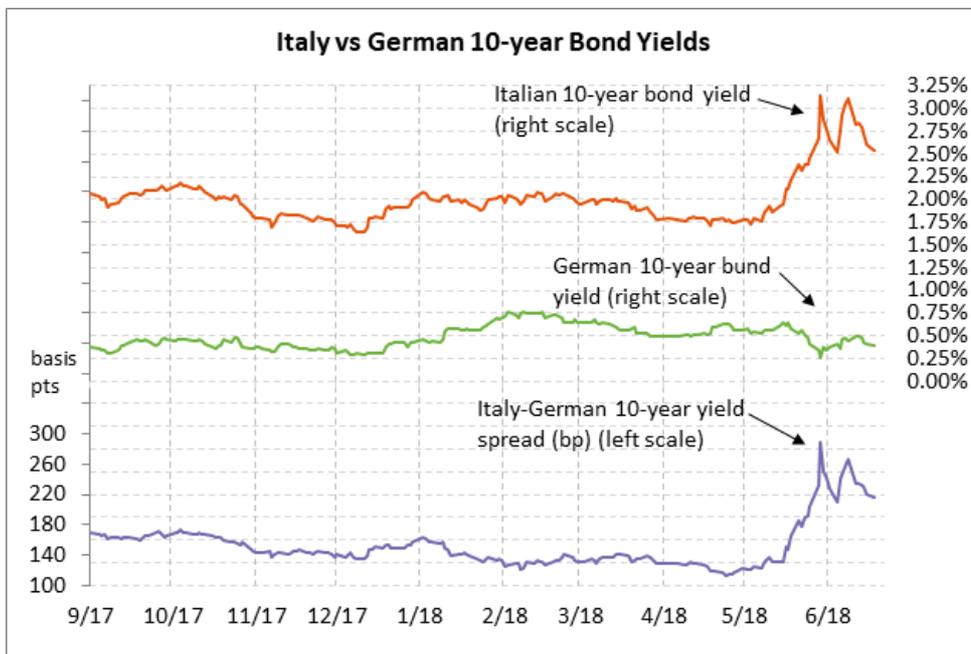
A successful meeting on Sunday is critical for the stability of Ms. Merkel's government and by extension for the Eurozone as a whole. However, a successful meeting is not assured. Italy's new government on Thursday objected to the fact that the EU circulated a draft agreement for Sunday's meeting that included the concession on asylum seekers that Ms. Merkel needs. Italian Prime Minister Conte threatened not to attend Sunday's meeting because he said there would be no point in attending if the outcome of the meeting had already been pre-determined. Ms. Merkel on Thursday had to telephone Mr. Conte to assure him that Italy's views would be heard and that the outcome of the meeting was not pre-determined.

After Ms. Merkel's call, Mr. Conte agreed to attend the meeting on Sunday. However, the Italian League party has a series of demands about limiting migration and is looking for major concessions on EU migration policy. Sunday's mini-summit, as well as next week's full EU Summit, will give the new Italian government a platform for making a splash about their promise to curb migration.

Italian bonds fall sharply after two Euroskeptics are appointed to key parliamentary positions -- Italian 10-year BTP bonds fell sharply on Thursday after two League-sponsored euroskeptics were appointed to key committee finance positions in parliament. The 10-year Italian bond yield on Thursday rose sharply by +18 bp to 2.72% although it remained comfortably below the late-May 4-year high of 3.16%. The spread of the 10-year Italian-German yield rose by +22 bp to 240 bp, but remained well below the late-May 5-year high of 290 bp.

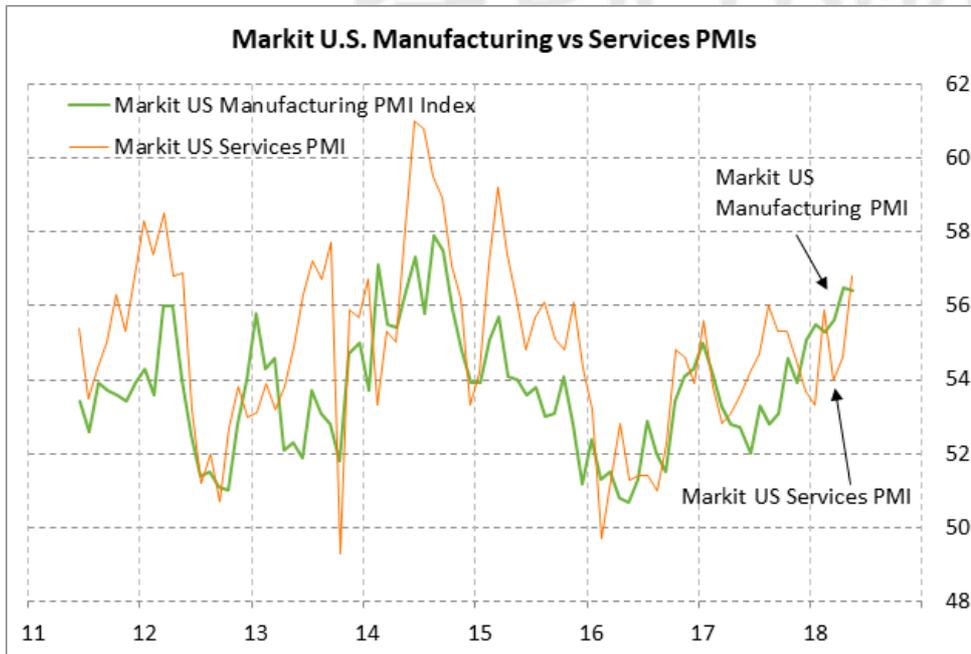
Euroskeptic economist Alberto Bagnai, who has written books advocating the end of the euro, was appointed as the head of the finance committee. Meanwhile, Claudio Borghi, the League's economic spokesman and the author of the mini-bot idea, was appointed as the head of the budget committee. The markets are particularly worried about the idea of mini-bots, which would be short-dated government IOUs that could act as a kind of parallel Italian currency and could act as a transition currency if Italy were to leave the Eurozone.

Italian bonds were also undercut by League-leader Salvini's threat to cut Italy's 6 billion euro contribution to the EU budget if Italy does not get concessions on migration.



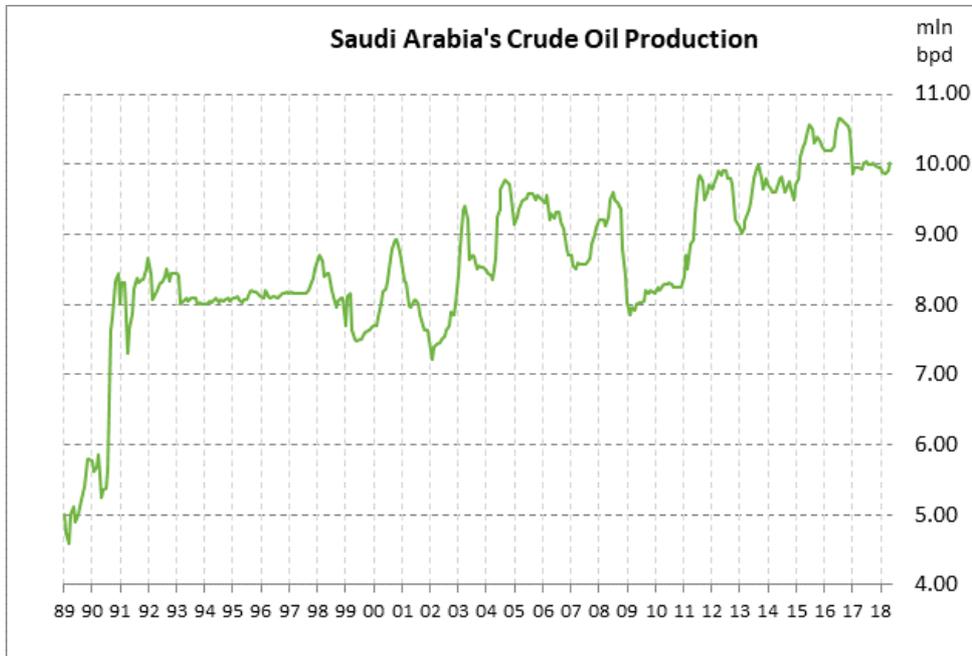
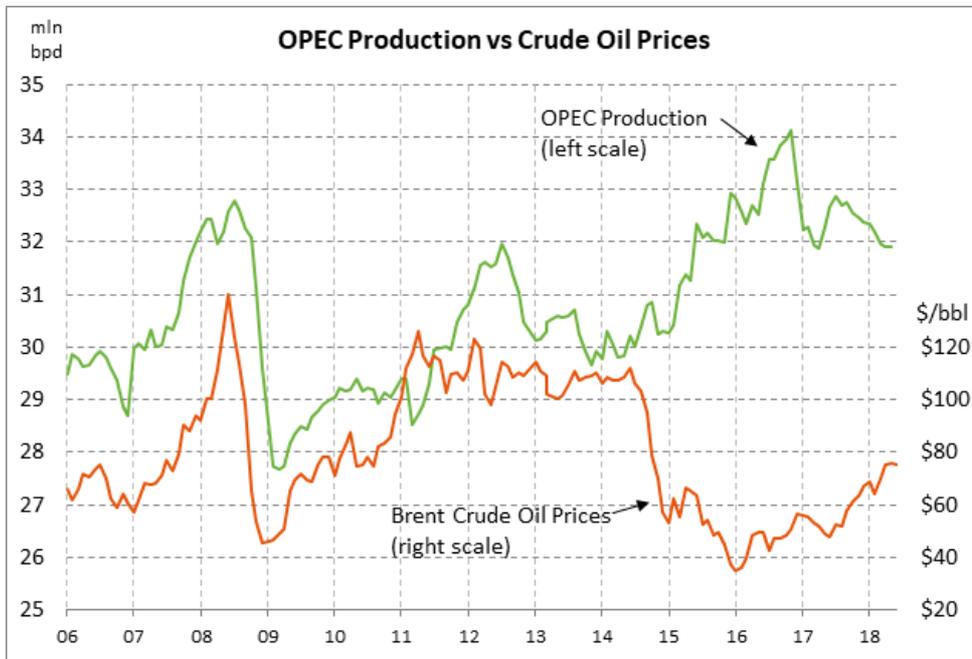
June U.S. PMI expected to show a small drop in business confidence – The market consensus is for today's June Markit U.S. manufacturing PMI to show a small -0.3 decline to 56.1, adding to May's -0.1 point decline to 56.4. Meanwhile, today's June Markit U.S. services PMI is also expected to show a -0.3 point decline to 56.5, reversing a small part of May's solid +2.2 point increase to 56.8.

Despite today's expected declines, both the manufacturing and service PMIs are expected to remain strong at 56.1 and 56.5, respectively. U.S. business confidence is seeing support from (1) the strong economy, (2) the pickup in consumer spending in Q2, and (3) the Jan 1 tax cuts. Negative factors include (1) concern about tariffs, (2) rising materials and labor input costs, (3) high energy prices, and (4) political uncertainty in Washington.



Brent crude oil prices fall ahead of OPEC meeting – Aug WTI crude oil prices on Thursday closed slightly higher by +0.03 (+0.05%) at \$65.74 as the market awaits the outcome of the formal OPEC meeting on Friday and the OPEC+ meeting on Saturday. Oil ministers spent most of Thursday meeting bilaterally and in small groups. Aug Brent crude oil prices on Thursday closed sharply lower by -1.17 (-2.29%) at \$73.03, falling back towards Monday's 7-week low of \$72.45.

Saudi Arabia is reportedly still pushing its plan for a quota increase of 1 million bpd, which would translate to an actual production increase on the ground of about 600,000 bpd. Russia has been pushing a 1.5 million bpd increase, but that appears to be wishful thinking. Iran on Thursday continued to resist any production increase since it will not be able to participate due to the impending U.S. sanctions. The market is still expecting an actual production increase on the order of about 500,000 bpd with Iran eventually caving in to an agreement.



This material has been prepared by a sales or trading employee or agent of R.J. O'Brien and is, or is in the nature of, a solicitation. This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions. DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION. The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that R.J. O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.