



Sunset

Tuesday, 06 December 2016

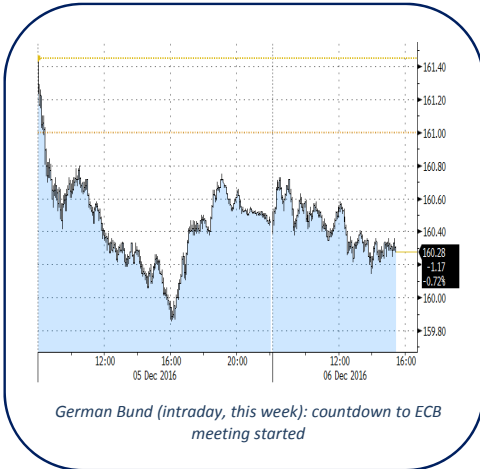
Headlines

- **European equity markets gain up to 0.5% in uneventful trading with Spain and Italy outperforming (+1.5%)** supporting by a rebounding financial sector (apart from BMPS). **US stock opened marginally lower.**
- **German industrial orders** rose in October at their fastest pace in more than two years (4.9% M/M vs 0.6% M/M forecast), suggesting the industrial sector will prop up growth in Europe's largest economy in the coming months. Eurostat confirmed **EMU Q3 GDP** at 0.3% Q/Q. Household and public sector spending supported euro zone growth as the impact of foreign trade turned negative.
- **Italy is preparing a state bailout for Monte dei Paschi di Siena** as the bank's hopes of being saved by private funding fade following Prime Minister Matteo Renzi's decision to quit, sources close to the matter said.
- **Italian interior minister** Alfano, head of a small centre-right party that is a crucial part of Renzi's ruling position **forecasts that there will be early elections in February.**
- **Bernard Cazeneuve has been appointed as France's prime minister** after Manuel Valls resigned, triggering a government reshuffle less than five months before presidential elections. The move follows Mr Valls' decision to compete for the centre-left presidential nomination in a primary contest in January.
- **UK chancellor Philip Hammond has slammed plans by the EU to force overseas banks to set up holding companies in Europe** as protectionist, saying the measures had been proposed without prior consultation.
- **Negotiations over the UK's exit from the EU need to be wrapped up within an 18-month period** (by October 2018), with the U.K. leaving the bloc by March 2019, European Commission's chief Brexit negotiator Barnier said.
- **Chancellor Angela Merkel has for the first time called for a burka ban in Germany**, in a clear hardening of her approach to integrating Muslims following intense criticism of her refugee policy under which over a million mainly Muslim asylum seekers have arrived in the country since early last year.

Rates

Belgium releases 2017 funding outlook

Global core bonds traded listless ahead of Thursday's ECB meeting. German Bunds slightly underperformed US Treasuries. The eco calendar was empty apart from very strong German factory orders and the final revision of Q3 EMU GDP growth (confirmed at 0.3%) which didn't impact trading. European stock markets traded with a positive bias, while oil prices ceded ground as US traders entered dealings. This conflicting signal again failed to inspire core bonds. At the time of writing, the German yield curve shifts 0.3 bps (2-yr) to 1.9 bps (5-yr) higher. Changes on the US yield curve vary between -0.8 bps (5-yr) and +0.3 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany narrow up to 4 bps in (semi-)core countries with Italy (-6 bps), Portugal



German Bund (intraday, this week): countdown to ECB meeting started

(-8 bps) and Spain (-9 bps) outperforming. As the Italian referendum didn't cause market turmoil, investors seem to be using the recent spread widening to pick up new sovereign debt. The uncertain faith of BMPS seems no issue.

The Kingdom of Belgium published its 2017 funding plan. The Belgian Debt Agency expects the 2017 gross borrowing requirements to amount to €38.98B. This represents a decrease of €2.54B compared to the 2016 borrowing requirements. The OLO funding need is €35B, down from €37.63B raised this year and despite higher redemptions (€28.58B vs 25.88B). The treasury expects to launch three new fixed-rate OLO benchmarks via syndication (including 10Y & 15Y or 20Y) and keeps its options open for an OLO floater and syndicated taps on existing longer term OLO benchmarks. Throughout 2017, the Belgian debt agency aims to keep the average life of its debt portfolio above 8.5 years (8.69 years at the end of October).

Currencies

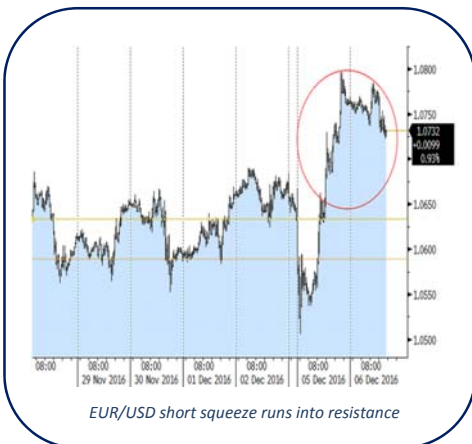
Euro rally stalls

Global (currency) trading shifted into wait-and-see modus after yesterday's impressive euro short squeeze. EUR/USD initially tried to extend its comeback, but failed to take out yesterday's top just below 1.08. Data and interest rate differentials failed to give clear guidance. The pair trades currently in the 1.0730 area. USD/JPY also didn't go anywhere despite decent gains on European equity markets. USD/JPY held a tight range close to the 114 pivot.

Overnight, Asian equities caught up with the risk rally yesterday, reporting gains of 0.5% to 1.0%. Core bond yields declined from intraday highs during the US session, but stabilized this morning. This also brought some calm for USD trading after yesterday's wild swings. The dollar is looking for a short-term floor. EUR/USD hovered in the mid 1.07 area. USD/JPY tried to regain the 114 big figure. The Reserve Bank of Australia as expected left its policy rate unchanged at 1.5% and kept a neutral policy bias. The Aussie dollar lost slightly ground and settled in the mid 0.74 area.

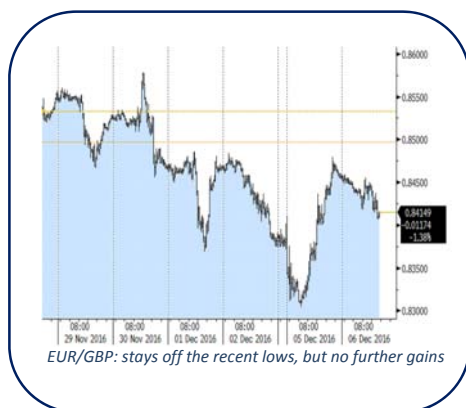
After yesterday's impressive euro short-squeeze, **trading in EUR/USD and in most other major dollar cross rates was order driven and technical in nature.** Changes in interest rates/interest rate differentials were too small to give trading a clear directional guidance. EUR/USD remained well bid early in the session. Strong German order data maybe helped EUR/USD to try a new up-leg early in European dealings. EUR/USD filled offers in the 1.0785 area, but the move clearly lacked momentum to break beyond yesterday's top. In order driven trade, EUR/USD dropped back to the mid 1.07 area. Selling pressure from EUR/JPY was said to weigh on the euro overall. USD/JPY also struggled to hold above the 114 big figure even as European equities recorded nice gains.

The trading dynamics of EUR/USD and USD/JPY hardly changed during the US trading session. The US trade balance widened sharply in October from \$36.4B to \$42.6B, potentially weighing on Q4 growth. However, the report was close to expectations. The impact of the report on the dollar was close to non-existent. EUR/USD trades currently in the 1.0730 area. USD/JPY holds close to the 114 big figure.



EUR/USD short squeeze runs into resistance

EUR/GBP drifts cautiously lower in the 0.84 big figure



Sterling trading also entered calmer waters after yesterday's sharp swings in EUR/GBP. There were no important UK data, except for this mornings' (disappointing) like for like BRC sales. **Sterling trading was mainly driven by global price moves.** Early in the session, a global bid in the euro pushed EUR/GBP temporary to the 0.8450 area. However, contrary to yesterday, the euro move had no strong legs. In order driven trading EUR/GBP gradually drifted back south in the 0.8400 big figure . European politicians again tried to convince the UK not to wait too long to start Brexit negotiations and to give insight in what kind of Brexit the UK government intends to realise. For now, the headlines had no big impact in sterling trading. **EUR/GBP is currently trading in the 0.8420 area, mostly following a moderate intraday decline of EUR/USD.** Cable was captured in a relatively tight sideways range in the mid 1.27 area.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,36%			0,36%			1,02%		
Greece	#VALUE!	#VALUE!	#VALUE!	6,70%	634	13,9	#VALUE!	#VALUE!	#VALUE!
Portugal	2,09%	244	-15,3	3,64%	328	-8,9	4,52%	351	-7,8
Italy	0,84%	120	-6,4	1,95%	159	-6,0	2,97%	196	-9,5
Spain	0,38%	74	-9,5	1,48%	112	-9,5	2,70%	169	-12,6
Ireland	#VALUE!	#VALUE!	#VALUE!	0,86%	50	-1,8	1,76%	75	-2,5
Belgium	-0,26%	10	-2,4	0,67%	31	-2,5	1,60%	59	-3,8
France	-0,02%	34	-2,8	0,78%	42	-3,4	1,61%	60	-3,8
Austria	-0,24%	11	-2,1	0,57%	21	-1,7	1,38%	37	-1,1
Netherlands	-0,23%	13	-1,6	0,49%	13	-1,2	1,07%	6	-0,7
Finland	-0,28%	8	-0,3	0,51%	15	-1,1	1,08%	6	-0,7
US	1,83%	219	-3,8	2,38%	202	-3,7	3,06%	204	-2,7
UK	0,59%	95	-1,7	1,40%	104	-2,8	2,03%	101	-1,7

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