



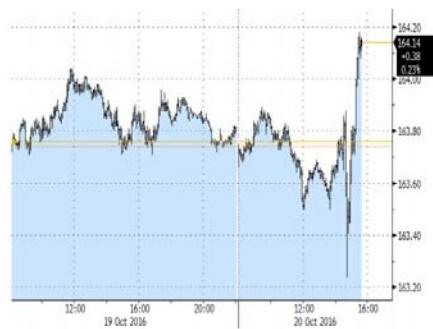
Sunset

Thursday, 20 October 2016

Headlines

- **European equity markets** temporary lost ground during the ECB's press conference but are now back near opening levels. **US stocks opened 0.3% lower**. Verizon, the largest US telecoms group by customers, posted mixed quarterly results, sending the shares falling in early trading.
- The **ECB kept rates on hold** today. **At the press conference, ECB Draghi prepared investors and markets that communication at the December meeting will shape monetary policy in the weeks/months ahead**. He added that extraordinary policies can't exist forever.
- **UK retail sales struggled to recover in September**, recording no growth M/M following a 0.1% drop in August. However, British retail sales recorded their strongest quarter of growth since late 2014 in the three months to September. Warm weather and higher prices dented demand for new clothing towards the end of the period.
- Germany's DIHK Chambers of Industry and Commerce has **raised its 2016 growth forecast for Europe's largest economy to 1.9% from a previous estimate of 1.5%**, but said the longer-term outlook was clouded.
- **Turkey's central bank has opted to leave its interest rates unchanged this month**, citing the recent drop in the lira as a key input into its decision. In a surprise decision, policymakers opted to keep their overnight lending rate (8.25%), benchmark repo (7.5%) and overnight borrowing rate (7.25%) all on hold this month.
- Pushing back the Bank of Japan's forecast of when it will meet its 2% inflation target **does not necessarily mean the central bank will ease monetary policy**, board member Takako Masai said according to an interview with Jiji news agency.
- US eco data printed mixed. The **Philly Fed Business Outlook fell back less than expected** in October (from 12.8 to 9.7) following the impressive surge in September. **US weekly jobless claims remain near historically low levels, but unexpectedly increased from 247k to 260k**.

Rates



German Bund (intraday, 2 days): Bund corrects marginally higher after ECB meeting

Draghi kicks the can to December

Global core bonds traded lackluster in the run-up to the ECB meeting. Draghi ducked most questions on the future of its QE-programma beyond March 2017, but stressed the importance of the December meeting. US eco data were mixed (see headlines) and had no impact. At the time of writing, the German yield curve trades 0.2 bp (2-yr) higher to 3.9 bps (30-yr) lower. Changes on the US yield curve vary between -2.8 bps (30-yr) and +0.8 bps (2-yr). **On intra-EMU bond markets, 10-yr yield spread changes versus Germany vary between -2 bps (Portugal) and +1 bp (Italy/Spain).**

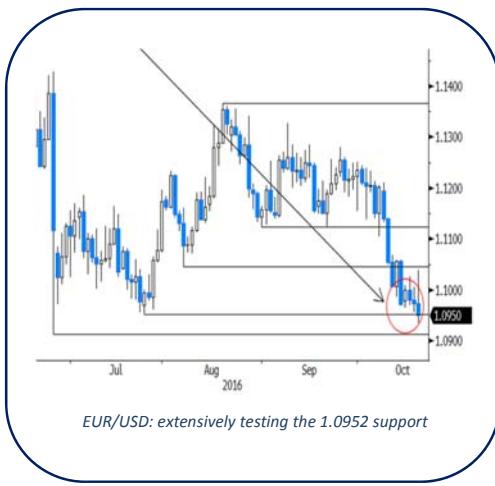
The ECB decided to keep its policy and forward guidance unchanged. The euro zone's economic recovery continues at a steady pace but downside risks, mainly related to the external environment, remain. Therefore Draghi reiterated the ECB's readiness and willingness to act if necessary. The ECB notes a gradual rise in inflation mainly because of base effects and expects that to continue in 2017 and 2018. He added that there are no signs of increasing core inflation yet. More than ever before, Draghi stressed the need of structural reforms and an easy fiscal policy to boost growth and investments. **At the press conference, ECB Draghi prepared investors and markets that communication at the December meeting will shape monetary policy in the weeks/months ahead.** The ECB didn't discuss extending, ending or tapering its QE programme after March 2017, but they did study options in case of shortages in certain parts of the bond market. **The Bund traded volatile, but within a reasonably narrow range during the press conference.** The contract spiked to a new low after Draghi said that extraordinary policies won't exist forever. The downside was capped later on when he said that an abrupt end to QE is very unlikely and the contract gained some ground when the press conference was over, likely a sort of relief reaction.

The French Treasury tapped the on the run 5-yr OAT (€4.01B 0% May2021) and off the run OAT (€1.99B 3% Apr2022) for a combined €6B, the maximum targeted amount. Demand was strong with an auction bid cover of 2.24. Additionally, the French Treasury raised €1B via inflation-linked bond. **The Spanish debt agency auctioned the on the run 3-yr Bono (€1.15B 0.25% Jan2019), off the run Obligacion (€1.48B 5.9% Jul2026) and on the run 50-yr Obligacion (€1.13B 3.45% Jul2066)** for a total amount of €3.76B, near the upper end of the aimed €3-4B. The auction bid cover was solid (2).

Currencies

EUR/USD declines while Draghi gives no clear hint

This morning, trading in EUR/USD and USD/JPY was still order driven and technical in nature as investors awaited the ECB press conference. Draghi didn't bring much news on the policy outlook, but hinted no abrupt end to the APP. EUR/USD drifted below the 1.0952 support. USD/JPY remains well bid (103.70 area) even as equities are losing momentum.

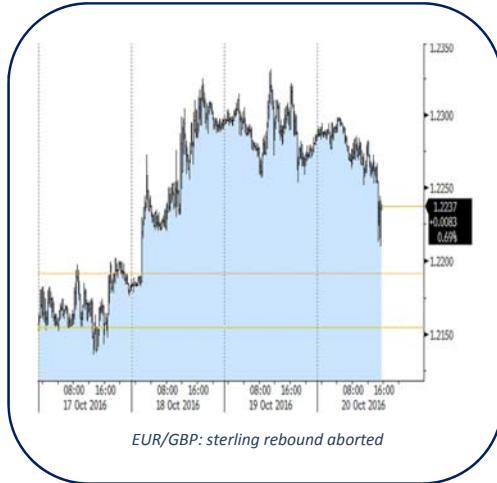


Overnight Asian equities record gains of up to 1%. Clinton cemented her advantage over Donald Trump in the last TV debate before the election. **The outcome creates a cautiously positive risk sentiment and is slightly supportive for the dollar.** USD/JPY traded in the 103.65/75 area at the start of European dealings, off the Asian low near 103.35. EUR/USD changed hands at around 1.0960/65, within reach of the 1.0952 support.

There was again little news with market moving potential in Europe. European equities showed only very modest gains as most investors stayed sidelined ahead of the ECB meeting. Core bond yields were marginally higher after correcting lower over the previous days. However, it didn't help the dollar. EUR/USD trended gradually higher as the 1.0952 support blocked the downside. USD/JPY didn't go anywhere and hovered sideways just north of 103.50. The US the jobless claims were slightly worse than expected, but still at the very low level. The Philly Fed were better than expected. The data were neutral for the

dollar. In his written statement at the press conference, ECB's Draghi held close to the September assessment. **At some point, the ECB president said that current monetary conditions couldn't last forever. The bund spiked temporary lower and EUR/USD jumped temporary north of 1.10. However, the move was reversed very soon as Draghi said that an abrupt halt of APP was also unlikely. EUR/USD currently even tests the 1.0952 support.** USD/JPY is changing hands in the 103.60 area. So, USD strength still slightly prevails.

Sterling slightly softer in technical trading



Today, sterling was still captured in technical trading. At the margin, the UK currency traded with a slightly negative bias intraday, but no important technical levels were at risk. This morning, the **UK September retail sales** were marginally softer than expected, but August was revised slightly higher. So, the report didn't contain much new info for sterling trading. Even more, sterling trading has become less data dependent of late as it isn't easy for markets to predict how much weight the BoE will give to the recent weakening of sterling when making its assessment on further easing. During the day there were plenty of headlines on Brexit as PM May met her EU colleagues in Brussels. However, we didn't see any really 'new news'. Global volatility did rise during the afternoon trading (ECB press conference, modest decline in equities). This nervousness weighed on sterling. **In volatile trading, EUR/GBP is currently changing hands in the 0.8945 area. Cable trades near 1.2240. Euro weakness/dollar strength at least partially explains current sterling levels.**

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,50%			0,01%			0,61%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,44%	843	1,8	#VALUE!	#VALUE!	#VALUE!
Portugal	1,78%	228	-0,4	3,16%	314	-2,3	4,09%	348	0,4
Italy	0,36%	86	0,2	1,38%	136	0,8	2,49%	188	3,6
Spain	0,12%	62	0,0	1,11%	110	1,4	2,23%	162	4,8
Ireland	#VALUE!	#VALUE!	#VALUE!	0,46%	45	-1,3	1,31%	69	0,4
Belgium	-0,43%	7	-0,6	0,24%	22	-0,4	1,18%	56	0,2
France	-0,38%	12	-1,0	0,29%	27	-0,7	1,09%	48	0,1
Austria	-0,40%	10	-0,1	0,20%	18	-0,5	0,96%	34	0,1
Netherlands	-0,41%	9	-0,7	0,12%	10	-0,3	0,67%	6	-0,1
Finland	-0,46%	4	-0,2	0,14%	12	-0,6	0,66%	5	-0,2
US	1,22%	172	-0,4	1,73%	172	0,2	2,48%	187	1,5
UK	0,48%	98	1,8	1,09%	108	2,5	1,75%	114	4,6

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