



Sunset

Thursday, 12 October 2017

Headlines

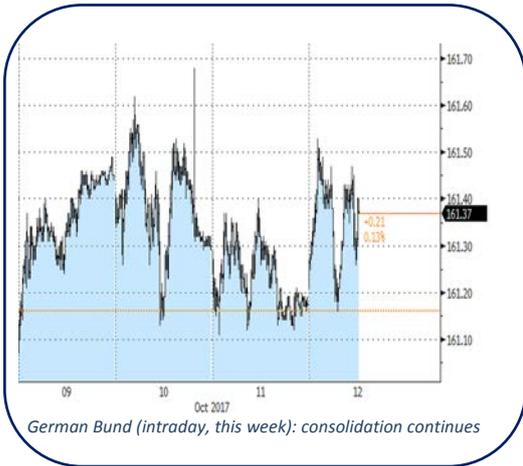
- **European equities trade narrowly mixed**, with the exception of the FX-sensitive FTSE that reached a 5-month high. **US equities open with slight losses**. JPM and Citi go modestly higher after earnings results.
- **The EU's chief Brexit negotiator** has said **talks with the UK over its exit bill have hit a "deadlock"** and he will not tell EU leaders that "sufficient progress" has been made to accelerate talks from divorce to trade negotiations next week. EUR/GBP surged back north of 0.90 for the first time since mid-September.
- **EMU industrial output rose by far more than expected and at its highest rate in nine months in August** as production of capital goods, such as machinery, rose sharply, boding well for economic growth in the second half of the year. Overall output rose 1.4% M/M and 3.8% Y/Y in August.
- **The number of Americans filing for unemployment benefits fell to more than a one-month low last week (243k)** as claims in Texas and Florida continued to decline after being boosted by Hurricanes Harvey and Irma. **US producer prices rose by the most in six months in September (0.4% M/M & 2.6% Y/Y)** as the price of gasoline recorded its biggest increase in more than two years amid production disruptions at oil refineries in Texas caused by Harvey.
- **JP Morgan's quarterly profit and revenue** easily trumped Wall Street's expectations, but a slump in bond trading clouded gains from loan growth and higher interest rates. **Citigroup** reported a 7.6% increase in quarterly profit from a gain on an asset sale, lower costs and better-than-expected trading revenue.
- **Swedish inflation fell short of estimates**, as some suggested price growth may have peaked around the central bank's target. Underlying consumer prices, which adjust for changes in mortgage costs, rose 2.3% Y/Y in September, unchanged from the previous month and less than the 2.5% Y/Y predicted. EUR/SEK rose towards 9.60.
- **British lenders are planning the biggest cutback in consumer loans in nearly 10 years**, the BoE said, after it warned repeatedly about the strong pace of lending to households.
- **The ECB should not keep interest rates low for too long and should tighten policy quickly during an economic upturn**, ECB Weidmann said: "the monetary policy taps should be turned off in a quick and consistent manner."

Rates

Core bonds lack direction

Consolidation on core bond markets continued today. Both the German Bund and the US Note future eke out small gains on a daily basis. The US Note future temporarily lost ground on strong PPI data, but the move didn't last long. We might get a stronger reaction if tomorrow's CPI data are higher than forecast.

At the time of writing, US yields decline 1.4 bps to 1.8 bps across the curve with the belly slightly outperforming. German yields decline by 0.9 bps (30-yr) to 2.3



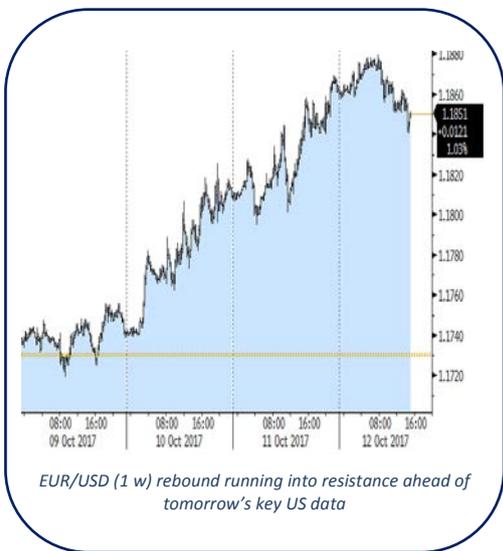
bps (5-yr). **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany narrow up to 3 bps (Italy). Italian BTP's outperform following a good auction (see below) and as the lower house approved via 3 confidence votes changes to the electoral law. It allows parties to form coalition ahead of elections and is considered to be negative for the anti-euro 5SM party of Beppe Grillo. It now goes to the Senate.

The Italian debt agency issued a new 3-yr BTP (€4B 0.2% Oct2020) and tapped the on the run 7-yr BTP (€2B 1.45% Nov2024) and 30-yr BTP (€1.5B 3.45% Mar2048). The combined amount sold was the maximum of the targeted €6-7.5B with an auction bid cover of 1.59 which is strong for Italian standards. **The US Treasury ends its refinancing operation with a \$12B 30-yr Bond auction.** The WI currently trades around 2.88%.

Currencies

Dollar decline halts, awaiting tomorrow's data.

Today, the USD bottomed after a decline in past days. The swings in EUR/USD and USD/JPY were again modest. A further decline in US jobless claims and rise in the core US CPI were also slightly supportive for the dollar. EUR/USD trades in the 1.1845/50 area. USD/JPY hovers around 112.40. Tomorrow's US retail sales and CPI might decide whether there is room for sustained USD gains.



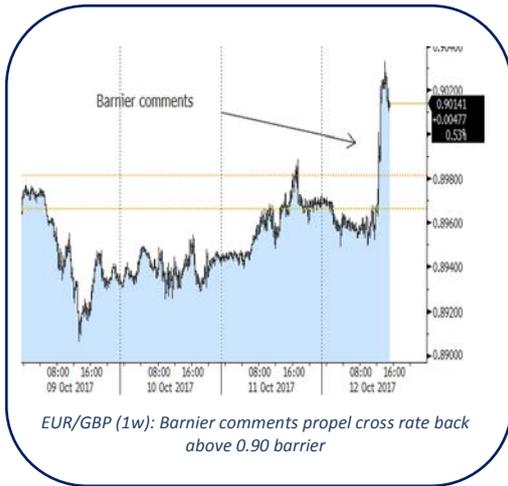
New record closing levels on WS supported equity gains in Asia overnight. However, **the dollar didn't receive additional interest rate support.** USD/JPY traded marginally lower despite strong equities. EUR/USD regained the previous 1.1823 range bottom and traded around 1.1875 ahead of European trading. The Spanish/Catalan crisis entered a period of 'distress' as the Catalan leaders have five days to clarify whether they declared independence. The euro still felt no negative fall-out from the Catalan crisis.

There was no obvious story to guide (FX) trading in Europe. EUR/USD declined slightly off the overnight top in Asia, but the moves in EUR/USD and USD/JPY remained modest. **EMU production data were very strong.** However, the report is outdated and had no lasting impact on the euro. We also didn't see any 'new news' on Catalonia.

In the US, the focus turned to the eco data. The US jobless claims declined more than expected. The headline PPI was in line with the consensus (0.4% M/M and 2.6% Y/Y), but PPI core inflation rose more expected from 2.0% to 2.2% Y/Y (a stabilisation was expected). **The dollar gained a few ticks after the release but the move stalled soon.** EUR/USD trades in the 1.1840/50 area. USD/JPY is changing hands in the 112.40 area. Tomorrow's US retail sales and CPI might decide whether there is room for a more protracted USD up-leg.

Barnier comments push sterling of a cliff

There were few eco data in the UK. **However, Brexit again came to haunt sterling.** At the end of the fifth round of negotiations between the EU and the UK, EU Brexit negotiator Barnier said there weren't any great steps forward. The state of the negotiations doesn't allow him to recommend the start of talks on post-Brexit UK/EU trade relationships at next week's EU summit. It was no secret that the Brexit talks hadn't yield much progress yet. However, **Barnier spoke very harsh on the financial separation bill as he said the negotiations on this topic were in a deadlock.** So, any talks on trade are likely delayed till after the next EU summit on December 14. The comments pushed sterling off a cliff. EUR/GBP jumped north of the psychological barrier of 0.90. The pair trades around 0.9010/20. Cable also reversed part of this week's rebound. The pair trades again in the 1.3140/50 area.



Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.28%			0.45%			1.29%		
Greece (2-10-20)	3.17%	345	2.6	5.58%	513	2.1	6.51%	522	0.5
Portugal	0.93%	121	1.4	2.31%	187	-0.7	3.59%	230	-0.9
Italy	0.82%	110	-0.4	2.11%	167	-3.5	3.25%	196	-2.8
Spain	0.32%	60	0.4	1.61%	117	-0.8	2.87%	157	0.5
Ireland (4-10-30)	-0.16%	12	-0.4	0.67%	23	-1.4	1.82%	52	-0.7
Belgium	-0.20%	8	-0.4	0.72%	27	-0.5	1.78%	48	-0.4
France	-0.01%	27	-0.1	0.86%	42	-0.7	1.82%	52	-0.4
Austria	-0.17%	11	0.1	0.63%	19	-0.4	1.58%	29	0.0
Netherlands	-0.32%	-4	0.0	0.56%	11	-0.3	1.30%	1	-0.2
Finland	-0.17%	11	-0.1	0.61%	16	0.1	1.39%	10	-0.2
US	1.94%	222	0.7	2.33%	188	-0.4	2.86%	157	-0.7
UK	0.80%	108	2.3	1.37%	93	0.8	1.94%	65	0.0

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