



Sunset

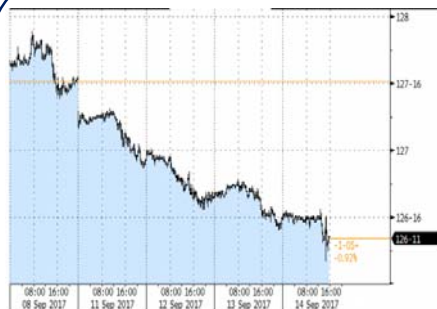
Thursday, 14 September 2017

Headlines

- **Risk sentiment on European stock markets soured around the US opening** as Japanese newspapers report that North Korea shows signs of preparing a missile launch. **Main US stock indices open up to -0.5% lower (Nasdaq).**
- **The Bank of England signaled that officials are preparing to raise interest rates within months** to restrain accelerating inflation, a fresh sign that a decadelong era of ultraloose central-bank policy is slowly drawing to a close. EUR/GBP lost more than one figure, dropping from 0.9020 to sub-0.89 area.
- **US CPI beat forecasts in August**, ending a 5-month run of misses. Headline CPI rose by 0.4% M/M and 1.9% Y/Y. "Increases in the indexes for gasoline and shelter accounted for nearly all of the seasonally adjusted increase in the all items index," said the Labor Department. Core inflation rose by 0.2% M/M to stabilize at 1.7% on a yearly basis.
- **The Swiss National Bank kept its policy rates unchanged, but changed its tone on the franc.** The SNB ditched its nearly three-year mantra that the franc was "significantly overvalued", but still thinks that it is "highly valued". **The central bank reiterated its commitment to "intervene** in the foreign exchange market as necessary".
- **Donald Trump has tied a deal to protect undocumented workers who arrived in the US as children with his campaign promise to increase security along the Mexico border**, denying he struck a deal with Democrats on legislation legalising the status of so-called "Dreamers".
- **North Korea has threatened to destroy Japan with nuclear weapons** and "reduce the US mainland to ashes and darkness" in response to the countries' effort to ramp up sanctions on the isolated east Asian nation. *"The four islands of the [Japanese] archipelago should be sunken into the sea by the nuclear bomb of Juche".*
- **Another prolonged bout of wrangling over the debt ceiling in the US could prompt Fitch to review the country's AAA credit rating with "potentially negative implications",** the agency said.

Rates

North-Korea limits downside US T's after BoE and US CPI



US Note future (intraday, since last Friday): BoE and US CPI inflict more losses, but North-Korean missile threat limits downside

Global core bonds lost ground as the Bank of England signalled policy normalisation in coming months and after higher-than-expected US CPI data. Reports in Japanese newspapers about a possible near term North-Korean missile launch erased part of core bond losses via safe haven flows. US Treasuries nevertheless still underperform German Bunds, especially at the front end of the US yield curve. **At the time of writing**, the US yield curve bear flattens with yield changes ranging between +3 bps (2-yr) and flat. The German yield curve trades 1 bp higher across the curve. On intra-EMU bond markets, 10-yr yield spread changes versus Germany range between +2bp and -2bp.

Core bond trading again started on a lethargic footing with small movements in the European session. Things changed as the Bank of England indicated that “some withdrawal of monetary stimulus is likely to be appropriate over the coming months”. (see FX). **UK Gilts lost significant ground (UK 2y yield +8 bps) and dragged the US Note future and German Bund slightly lower as well** with some investors rethinking their dovish stance/positioning. The sell-off in the US Note future accelerated after higher US CPI data. **The front end of the curve underperformed as the market implied probability of a 2017 Fed rate hike moved back above 50% for the first time since early July.** Reports in Japanese media (Nikkei,...) about a possible near term North Korean ICBM launch created **safe haven flows and volatility immediately after the CPI release.** However, as the US trading session gets going, investors favour again the downside in US Treasuries.

The Irish Treasury ended this week’s scheduled EMU bond with successful taps of two on the run bonds (€0.55B 1% May2026 & €0.45B 1% May2037). The combined amount sold was the maximum target with a good auction bid cover of 2.19. With the completion of today’s auction, the NTMA has issued €10.5B benchmark bonds, from its stated target range of €9B to €13B in the bond markets this year.

Currencies

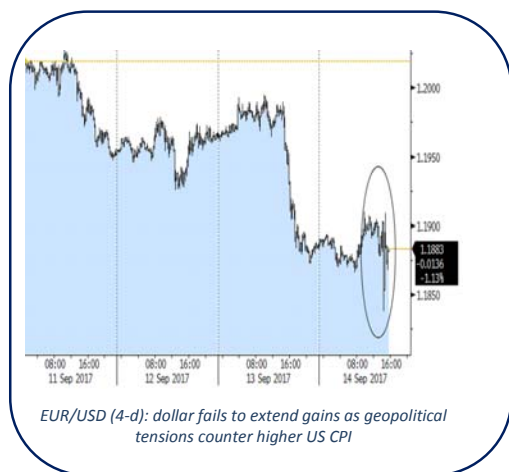
North Korea threat prevents further USD gains

The dollar couldn’t extend sustained gains today. The Interest rate context and the data were supportive. Interest rate markets prepared for a BoE interest rate hike on hawkish BoE speak and the US CPI was higher than expected. However, the positive impact from the eco/monetary news was countered by a flaring up of geopolitical tensions as Japan saw signs of North Korea preparing new offensive actions. This threat prevented the dollar to fully profit from the positive eco news. EUR/USD trades in the 1.1875 area. USD/JPY is changing hands in the 110.75 area in volatile trade.

Asian equities traded mixed. China and Japan mostly showed modest losses. Other regional indices traded with a slightly positive bias. USD/JPY settled in the mid 110 area, nearing 110.67/95 resistance. EUR/USD set a minor correction low in the 1.1865/70 area.

There was hardly any high profile news to guide USD trading during the European morning session. Core yields drifted sideways to marginally higher ahead of the BoE’s policy decision and the US CPI release. EUR/USD returned to the 1.19 area. USD/JPY failed to try a real test of 110.67/95 resistance. USD bulls took a more cautious approach after recent gains.

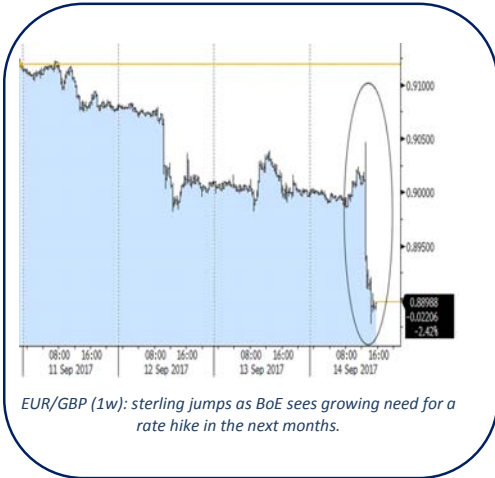
The BoE left its policy rate unchanged but signalled that a rate hike in the near future has become a real possibility. **The subsequent rise in core yields also helped to put an intraday floor for the dollar.** The US August CPI rose more than expected from 1.7% to 1.9%. Core inflation was stable at 1.7%, while a decline was expected. **US/core yields rose further and the dollar spiked higher.** EUR/USD filled bids around 1.1840. USD/JPY tested the 111 area. However, the USD soon lost part of the post-CPI gains, just to try another comeback. **The**



volatility in the dollar (and in other markets) was due to headlines on North Korea preparing a new missile launch in the direction of Japan. North-Korea press reports also said the country was ready to use a nuclear weapon. This geopolitical uncertainty partially countered the positive impact of stronger US CPI for the dollar. Currently, the dollar trades quite close to the levels that were on the screens going into the start of European trading this morning. EUR/USD is changing hands in the 1.1875 area. USD/JPY is changing hands around 110.70.

Sterling jumps as BoE sees strong case for a rate hike

Sterling trades were keen to see the BoE's policy assessment as inflation rose sharply in August. The BoE didn't want to shock the market and as expected left its policy rate unchanged. The vote for an unchanged policy rate was 7-2 as was the case in August. However, a majority of the MPC members judged that if the economy continues to follow a path consistent with the prospect of a continued erosion of slack and a gradual rise in underlying inflationary pressure then, with the further lessening in the trade-off that this would imply, some withdrawal of monetary stimulus is likely to be appropriate over the coming months in order to return inflation sustainably to target. So, the BoE's assessment might be considered as hawkish even as the vote remained 7-2. Sterling started a new upleg EUR/GBP declined more than one big figure and is falling below the 0.89 big figure. Cable also set a new ST top north of 1.33 (currently 1.3350) despite overall USD strength after higher than expected US CPI data.



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.31%			0.41%			1.22%		
Greece (2-10-20)	2.80%	310	-6.9	5.43%	502	-2.2	6.51%	529	-1.8
Portugal	1.18%	149	-4.7	2.82%	241	-0.9	3.88%	267	-1.0
Italy	0.72%	103	-0.8	2.06%	165	0.6	3.25%	203	0.9
Spain	0.26%	57	0.7	1.60%	119	1.2	2.86%	165	1.3
Ireland (4-10-30)	-0.39%	-9	-2.2	0.72%	31	-1.2	1.89%	68	-1.1
Belgium	-0.21%	10	0.2	0.70%	29	0.2	1.80%	59	-0.1
France	-0.18%	13	-0.2	0.70%	29	0.1	1.83%	61	0.2
Austria	-0.27%	3	-0.6	0.59%	18	-0.7	1.61%	39	0.1
Netherlands	-0.35%	-4	-0.4	0.54%	12	0.3	1.28%	6	0.2
Finland	-0.19%	12	-0.1	0.59%	17	0.0	1.38%	17	0.3
US	1.79%	210	0.9	2.20%	179	-0.0	2.79%	157	-0.5
UK	0.64%	94	6.7	1.21%	79	4.9	1.84%	63	3.7

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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