



Sunset

Thursday, 20 April 2017

Headlines

- **European equities** traded stable near opening levels throughout dealings with **France outperforming** as investors scaled back worst case scenario bets ahead of this weekend's first presidential election round. **US equities opened unchanged.**
- **US eco data slightly disappointed.** Weekly **jobless claims** rose from 234k to 244k (vs 240k expected), but remain near historically low levels. The **Philly Fed business outlook** declined from 32.8 to 22 in April while a more modest setback to 22 was forecast.
- **Dallas Fed President Kaplan** said he still thinks **3 rate hikes are appropriate this year** and advocates **starting to wind down the balance sheet at the end of 2017/early 2018.** Despite his generally hawkish profile, he said that the **neutral rate may be closer to 2% than 3%.**
- **North Korean state media warned the US** of a "super-mighty pre-emptive strike" after US Secretary of State Tillerson said the United States was looking at ways to bring pressure to bear on North Korea over its nuclear programme.
- Consensus is building towards **agreement to extend an OPEC deal** to limit output by three to six months as the producer group seeks to achieve its goal of bring down inventory stocks, **Saudi Arabia's oil minister** al-Falih said.
- In the first poll since PM May called the June 8 election the Conservative Party are enjoying a 24% lead. The poll from YouGov, taken between April 18-19, shows **voting intentions for the Conservative Party at 48% with Labour second at 24%.**

Rates

German 10-yr yield regains 0.2%

Global core bonds worked away overbought conditions today. German Bunds underperformed US Treasuries as investors scaled back safe haven bets ahead of the 1st French presidential election round. French assets were the star performers with both bonds (OAT's) and stocks (CAC40) outperforming. The increase in German yields was disproportional given general risk sentiment (other bourses nearly unchanged; oil prices flat). Yesterday's ECB survey about the malfunctioning of several money markets (as QE creates scarcity of high quality collateral) might still have been in play as well. US eco data (weekly jobless claims, Philly Fed business outlook) were marginally weaker than expected but ignored.

At the time of writing, the German yield curve bear steepens with yields 2.1 bps (2-yr) to 5.2 bps (30-yr) higher. Technically, the German 10-yr yield firmly regained 0.2% support. Changes on the US yield curve ranged between +1.6 bps (2-yr) and +2.5 bps (5-yr), the belly underperforming the wings. On intra-EMU



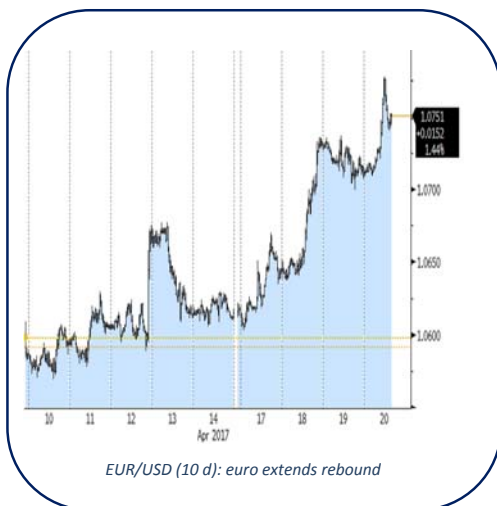
bond markets, 10-yr yield spread changes versus Germany narrowed up to 4 bps for France. Core spreads widened 1 bp.

The French treasury tapped the on the run 3-yr BTAN (€3.43B 0% Feb2020) and 5-yr BTAN (€2.07B 0% May2022). The combined amount sold was the maximum of the targeted €4.5-5.5B range. Demand was lower than usual, but shouldn't surprise ahead of this weekend's presidential elections. The auction bid cover amounted 1.78. Additionally, the French Treasury sold three inflation-linked bonds for a combined €1.25B. **The Spanish debt agency** tapped the on the run 5-yr Bono (€1.63B 0.4% Apr2022), 10-yr Obligacion (€1.42B 1.5% Apr2027), 30-yr Obligacion (€0.94B 2.9% Oct2046) and off the run Obligacion (€0.99B 6% Jan2029) for a combined €4.97B, in the middle of the eyed €4.5-5.5B range. Demand was plain vanilla with an auction bid cover of 1.61.

Currencies

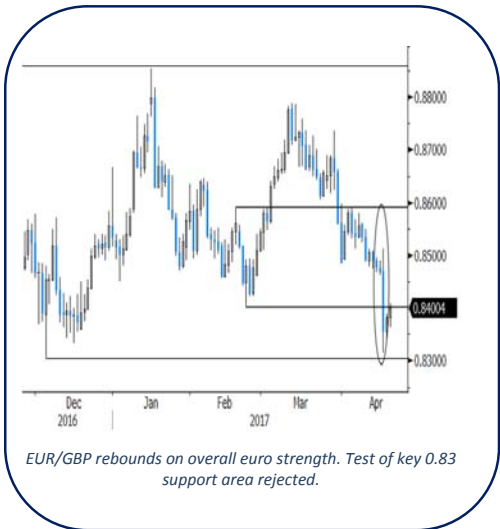
Euro rebounds going into French elections

The rebound of the euro that started early this week continued. European yields recovered from the recent lows and interest rate differentials narrowed slightly in favour of the single currency. The euro rally petered out later in the session, but EUR/USD (currently 1.0760) still trades in positive territory on a daily basis. We see the move as a positive repositioning of the euro ahead of the first round of the French presidential election. At the same time, the dollar isn't in really good shape. USD/JPY profited only slightly from the rise in core yields. The pair still hovers in the 109 area.



In a daily perspective, EUR/USD hovered in the low 1.07 area in Asia. The euro received a better bid at the start of European trading. The move coincided with a rise in European yields. There were no important data in EMU, but European equities performed quite well given the mediocre performance of US equities yesterday evening. The CAC 40 outperformed. This suggests that European investors are adapting positions for a potential favourable outcome of the first round of the French presidential elections. European core yields rose (albeit slightly) more than their US counterparts. EUR/USD touched an intraday top in the 1.0775 area after which the pair moved sideways. **USD eco data (jobless claims and Philly Fed) were slightly softer than expected.** The reports had no impact on the dollar.

The swings in USD/JPY were less pronounced than in EUR/USD. The pair dropped briefly to the 108.75 area late in Asia, but soon rebounded supported by a rise in core yields and a decent European equity sentiment. The pair returned to the 109 area and gained slightly further ground (109.30/35 currently) as yields resumed their uptrend during the US session. USD/JPY is trading off the recent lows (108.13) but the performance of the dollar isn't still convincing, given the rise in US/European yields. The picture of EUR/JPY is more constructive. The pair trades in the 117.50 area compared to a correction low below 116 on Monday.



Sterling awaiting new guidance after recent rise

Sterling trading was mostly driven by global moves and technical considerations. There were no UK eco data or other important news. **Dollar softness continued to support cable, but the momentum eased as the session continued.** The pair currently struggles not to fall back below the 1.28 handle. At the same time, EUR/GBP was supported by the overall euro rebound . **EUR/GBP returned to the 0.84 area.** For now, there is no big story behind the rise of the euro/European yields. A repositioning/reduction of euro shorts ahead of the French elections is likely. Even so, today's rebound suggests that a break below the key EUR/GBP 0.83 support is difficult. This might a fortiori be the case if this weekend's first round of the French election would turn out market friendly.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,44%			0,25%			0,97%		
Greece (2-10-20)	7,28%	771	-3,9	6,72%	647	-1,9	7,06%	610	-4,7
Portugal	2,20%	264	-3,6	3,82%	357	-4,2	4,48%	351	-6,2
Italy	1,10%	153	0,2	2,29%	205	-2,8	3,31%	234	-3,0
Spain	0,48%	91	-0,1	1,72%	147	-0,1	2,97%	200	-2,4
Ireland (4-10-30)	-0,18%	25	-1,6	0,93%	68	-2,1	1,98%	102	-2,7
Belgium	-0,12%	32	-0,3	0,80%	55	-1,1	1,70%	74	-2,1
France	0,09%	53	-4,8	0,95%	70	-4,6	1,84%	88	-4,3
Austria	-0,36%	8	-1,3	0,47%	22	0,4	1,35%	38	-0,4
Netherlands	-0,32%	12	0,6	0,51%	26	1,0	1,05%	8	-0,4
Finland	-0,19%	25	0,5	0,39%	14	1,3	1,16%	19	0,1
US	1,76%	219	-2,0	2,23%	198	-2,9	2,88%	191	-4,3
UK	0,53%	96	-3,8	1,08%	83	-3,2	1,68%	71	-3,6

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