



Sunset

Tuesday, 20 June 2017

Headlines

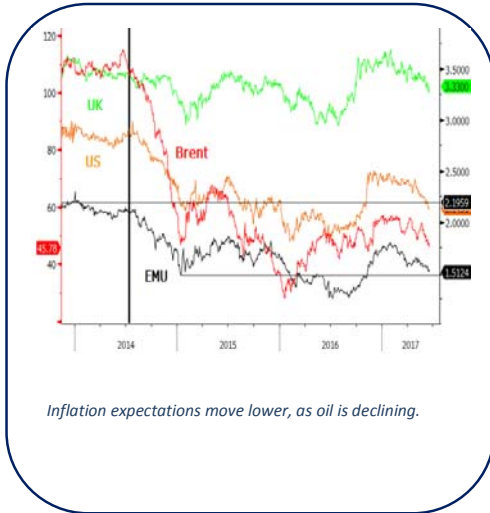
- **European stock markets trade mixed near opening levels in a session devoid of eco releases. US stock markets opened in similar, lacklustre, vein.**
- **“Now is not yet the time” to tighten monetary policy, BoE governor Carney said** in his delayed Mansion House speech, in comments that weighted on sterling. The speech is the governor’s first public appearance since three members of the Bank’s currently eight-person monetary policy committee voted to raise interest rates last week.
- **Boston Fed Rosengren** said that persistently low interest rates mean monetary policy will be less capable of fighting off future financial shocks and recessions. **Vice-Chair Fischer** warned that low rates may have led to “high” house prices.
- **The Czech central bank may put off raising interest rates to beyond the third quarter** if the crown keeps strengthening at the pace seen in recent weeks, bank board member Marek Mora said.
- **The Germany economy is firing on all cylinders, according to the country’s influential Ifo think-tank**, which has delivered a healthy bump to its GDP growth forecasts for the eurozone’s largest economy over the next year (1.8% for 2017 & 2% for 2018), describing it as “strong and stable”.
- **Hungary’s central bank kept its policy rate unchanged at 0.9%** and decided to lower its cap on three-month deposits to 300 billion forints by the end of September from 500 billion at the end of June. **The bank also reiterated that it would be ready to loosen monetary conditions further via unconventional tools if needed.**
- **Oil dropped to the lowest in seven months (Brent crude <\$46/barrel)** amid a revival in output from Libya and rising volumes of fuel held in floating storage. Tonight and tomorrow, weekly inventory data are scheduled for release.
- **The ECB is in no hurry to talk about tapering**, though it has just six months of its current bond-buying program left. Officials see no need to make a decision until at least September, **people familiar to the issue said**. That means plans for 2018 may be disclosed only at the October meeting or even in December.

Rates

Boring trading as new impetus is missing.

Core bonds moved in a tight range as no eco data of importance were released and central bankers spoke about macro-prudential issues and at best sideways about the economy or policy outlook. The US curve bull flattened with yields down between flat (2-yr) and 2.7 bps. German yields increased by 0.8 bp at the 2-yr and declined between 0.2 bp (2 yr) and 2.3 bps (30-yr).

Fed Rosengren said the low interest rate environment limited the central bank’s ability to respond in case of negative shocks and could result in greater reliance on less traditional tools rather than interest rates. He added that policymakers



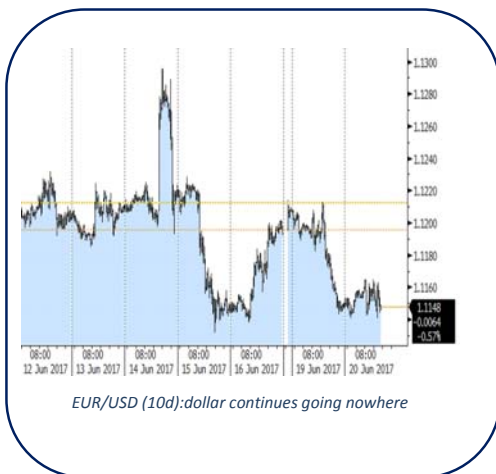
need to factor in “exit strategies from very low rates” and how policy should respond to downturns. One could interpret this as hawkish in the sense that he wants rates to be away from very low levels ahead of a downturn. Rosengren in March favoured 4 rate hikes this year, but we don’t know whether he changed his rate projection in June. **However, we wouldn’t draw too much conclusion from the summary we got from his remarks on a conference on macro-prudential policies.**

After the US curve bear steepening yesterday, there was a bull flattening today. The only move worth mentioning was a small jump higher of the Bund when BoE Carney said it was not yet time to raise rates. The Bund rise came in sympathy with a similar jump in the gilt yields. **Oil prices** were under downside pressure and might have helped the curve flatten, but a time consistent move on the bond market was absent. Equities gradually slipped lower after a strong start, but once more its impact on bonds was small. **The overall bond markets remained quiet throughout the session. Volumes remain far below “normal” levels. On intra-EMU bond markets, the peripheral spread narrowing continued, but slowed with Spain outperforming (+4 bps) and Portugal underperforming (+2 bps).**

Currencies

USD holding tight ranges

With no important eco data on the agenda, there was again no great story behind USD trading. EUR/USD hovered close to, mostly slightly north of 1.1150. USD/JPY touched a short-term top in the 111.75/80 area, but reversed earlier gains as core yields and equities declined slightly.



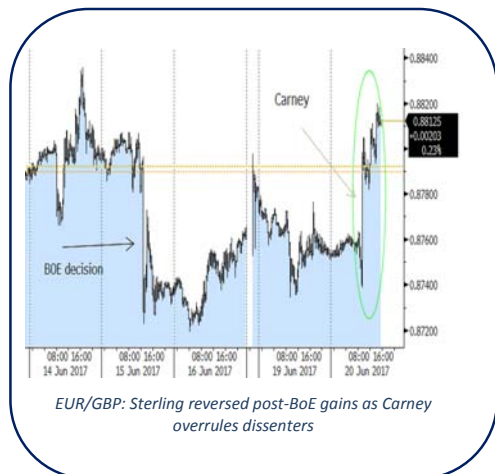
Overnight, Asian equities traded mixed. Japan outperformed. Fed’s Evens spoke more cautious than Dudley, but the dollar maintained yesterday’s gains against the euro (EUR/USD 1.1155 area) and even gained slightly against the yen (111.70 area).

European equities opened strong. The dollar tried to gain some further ground, but the move immediately ran into resistance. European yields declined slightly after the Carney comments, but there was no obvious impact on EUR/USD. The pair hovered up and down in the 1.1140/65 area. USD/JPY gradually slipped off the intraday highs as core bond yields drifted south as the equity rally ran into resistance.

There was still no high profile **news in the US** to give clear directional guidance for USD trading. The US Q1 current account deficit widened less than expected but didn’t help the dollar. Equity gains evaporated further. In technical trade EUR/USD and USD/JPY moved with a marginally negative bias. EUR/USD returned to the mid 1.11 area. The pair is holding within reach of the post-Fed low, but there is no strong enough driver for further USD gains. USD/JPY is changing hands in the 111.40/50 area.

Sterling nosedives as Carney signals no rate hike

Today, sterling traders kept a close eye on a speech of BoE governor Carney. Last week, markets were spooked by an unexpected MPC vote as three members voted to raise rates by 25 basis points to keep inflation in check. The vote triggered a rebound of sterling. Today, markets were keen to see how much weight Carney would give to the recent rise in inflation. **BoE governor Carney gave a straightforward assessment:** ‘Given the mixed signals on consumer spending and business investment, and given the still subdued domestic inflationary pressures, in particular anaemic wage growth, **now is not yet the time to begin that adjustment (a rate hike)**’ The recent political and economic uncertainty apparently also creates discord within the BoE. UK bond yields and sterling nosedived. EUR/GBP rebounded north of 0.88. Cable dropped well below the 1.27 barrier. The pair trades currently in the 1.2650 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	-0.39%			0.28%			1.08%		
Greece (2-10-20)	4.22%	461	-18.4	5.60%	532	-3.0	6.40%	532	1.0
Portugal	1.22%	161	-1.2	2.89%	262	2.5	3.81%	274	2.0
Italy	0.68%	107	-2.8	1.94%	166	-1.3	3.07%	199	-0.3
Spain	0.22%	61	-3.9	1.40%	113	-3.9	2.70%	162	-2.9
Ireland (4-10-30)	-0.35%	4	-0.5	0.67%	40	-0.7	1.80%	72	-0.6
Belgium	-0.23%	16	-0.7	0.60%	33	0.3	1.61%	53	0.5
France	-0.20%	19	-0.5	0.62%	35	0.0	1.56%	48	0.4
Austria	-0.26%	13	-0.7	0.52%	25	-0.4	1.42%	34	-0.1
Netherlands	-0.34%	5	-0.4	0.48%	21	0.1	1.12%	4	0.0
Finland	-0.25%	14	-1.5	0.33%	5	-1.1	1.24%	16	-0.1
US	1.79%	218	-0.6	2.18%	190	-0.7	2.76%	168	-1.0
UK	0.44%	83	-4.1	1.01%	73	-1.9	1.69%	61	0.2

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