



Sunset

Tuesday, 22 August 2017

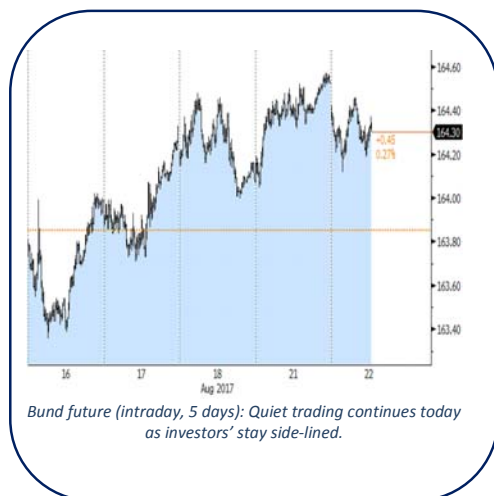
Headlines

- **Most European equity indices gain around 0.7% despite disappointing German ZEW sentiment. US stock markets opened 0.3% to 0.5% higher.** Overall, global trading remained confined to tight ranges in the run-up to the Jackson Hole Economic Symposium at the end of the week.
- **German ZEW investor confidence declined for a third month** amid concern that the widening diesel scandal and the strengthening euro will weigh on Europe's largest economy. An expectations index, which aims to predict economic developments six months ahead, fell to 10 from 17.5 in July, the lowest level since October
- **Indonesia's central bank surprised markets by cutting its benchmark policy rate from 4.75% to 4.50%**, the first change since October, in a bid to boost sluggish lending and economic growth.
- **Hungary's central bank kept its benchmark rate unchanged at a record-low 0.90%** as the strengthening forint, subdued price-growth and a slowing economic expansion create more room for unconventional monetary easing.
- **The UK government deficit in the last financial year was smaller than previously thought**, but borrowing is on track to climb this year despite a healthier than expected balance in July. The ONS' latest estimates of public sector net borrowing for the year to March put the deficit at £45.1B, a £27bn reduction on the previous year.

Rates

Core bonds reverse yesterday's small gains

Quiet bond trading continued. Whereas bonds traded with an upward bias yesterday, the bias was downward today. US Treasuries slightly underperformed German Bunds. There was no big story behind the moves, which were technical and sentiment driven in nature. For the US Treasuries, there might have been **some profit taking** as the T-Note future arrived near the contract high. **Fin Minister Mnuchin** downplayed the idea that the Treasury's debt-ceiling deadline could pass without action and said payments can't be prioritized without disruption. This might have brought the issue of the debt ceiling back in focus, more than easing concerns that it will be fixed in time. German **Bunds kept a more sideways profile** with yesterday's closing of 165.45 (Bund future) as the upper boundary and 164.10 as the lower boundary. The **German ZEW economic sentiment** was mixed (see headlines) with a stronger current situation and lower expectation sub-index. The Bund rose after the release, but the move started 45 minutes before the release. So, we suspect its impact was limited, just like the up-move of European equities.



At the time of writing, US yields are up 1.3 bp (30-yr) to 2.6 bps (5-yr). The German curve steepened a tad with 2- and 5-yr yields down less than 1 bp and the 10-to-30-yr yield up 0.8 to 1.5 bp. **Peripheral bonds traded sluggish**, increasing the 10-yr yield spread versus Germany by 3-to-4 bps (Spain/Portugal) to 8 bps (Italy). There was no specific reason to explain the underperformance, but some profit taking ahead of Draghi's speech or unwinding of carry spreads might have been at play.

Currencies

Dollar regains a few ticks within established ranges

Trading in the major dollar cross rates remained technical in nature today and confined to relatively tight ranges. The dollar reversed part of yesterday's decline as core rates rose a few basis points and as risk sentiment improved. However, USD investors basically remain in wait-and-see modus going into the Jackson Hole speeches.

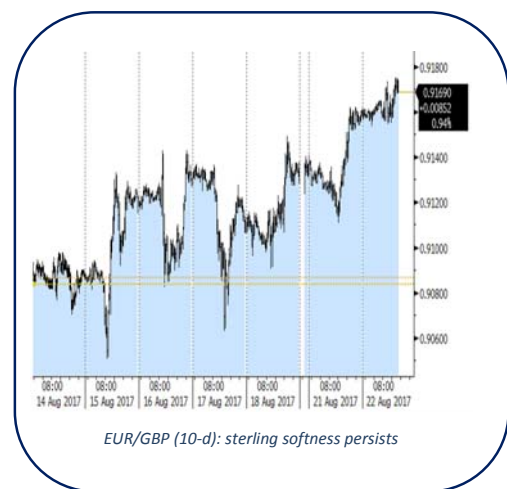
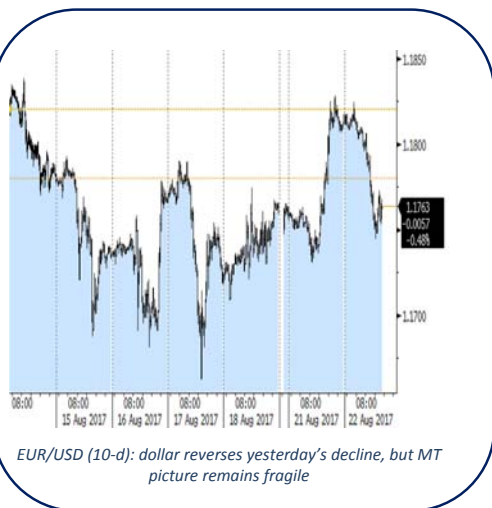
Overnight, Asian equities showed moderate gains in thin volume trading. The yen eased slightly. USD/JPY tried to find a bottom after a protracted decline throughout August. EUR/USD hovered near 1.18.

The dollar finally gained some traction in Europe. EUR/USD reversed a substantial part of yesterday's gain. A positive risk sentiment supported core (EMU and US) yields. Interest rate differentials widened slightly in favour of the dollar. EUR/USD drifted off the 1.18 level. German ZEW confidence was slightly softer than expected, but still points to a healthy economic environment. There was no additional negative pressure on the euro after the report, but the EUR/USD downtrend continued. USD/JPY held north of 109.

The dollar rally ran into resistance during the US session and stabilized against the euro. USD/JPY initially held within reach of the intraday top supported by a constructive risk sentiment. However, the pair finally also lost some of its momentum and trades in the 109.25 area currently. EUR/USD is changing hands around 1.1760. **Today marks a USD positive intermezzo, but the global picture for the dollar hasn't changed as investors remain in wait-and-see modus ahead of the Jackson Hole event.**

Sterling remains in the defensive

Sterling continued trading with a negative bias against the dollar and, to a lesser extent, also against the euro. Cable drifted from the high 1.28 area early in Europe and changed hands in the 1.2810/15 area early in US dealings. Most of the move was due to a rebound of the dollar. However, sterling also held near the recent lows against the single currency. EUR/GBP held a tight sideways range in the 0.9155/75 area and even touched a minor ST top. **The UK data were not to blame.** The UK August public budget showed an unexpected surplus (£ 0.8bln). The CBI order data were also better than expected. However, good eco/activity data don't help sterling these days as long as price rises remain modest and as there is little progress in the EU-UK Brexit talks. EUR/GBP trades in the 0.9170 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	-0,29%			0,41%			1,17%		
Greece (2-10-20)	3,22%	351	-9,2	5,58%	518	-4,3	6,75%	558	-6,1
Portugal	1,11%	139	3,7	2,79%	238	3,4	3,82%	265	4,3
Italy	0,77%	105	6,8	2,12%	172	8,3	3,27%	210	7,8
Spain	0,25%	54	3,3	1,60%	119	4,2	2,79%	162	3,5
Ireland (4-10-30)	-0,38%	-10	-0,5	0,75%	35	0,3	1,82%	66	0,3
Belgium	-0,19%	9	0,3	0,72%	32	0,4	1,76%	59	1,1
France	-0,15%	13	-0,2	0,71%	31	0,8	1,79%	62	1,1
Austria	-0,27%	2	0,2	0,59%	19	-0,1	1,50%	33	0,2
Netherlands	-0,32%	-3	0,4	0,54%	13	0,0	1,23%	6	-0,3
Finland	-0,16%	13	-0,3	0,42%	1	-0,3	1,32%	15	-0,2
US	1,78%	206	2,6	2,20%	180	1,4	2,77%	161	-0,2
UK	0,49%	78	0,0	1,09%	68	1,2	1,74%	58	0,1

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