



Sunset

Wednesday, 22 March 2017

Headlines

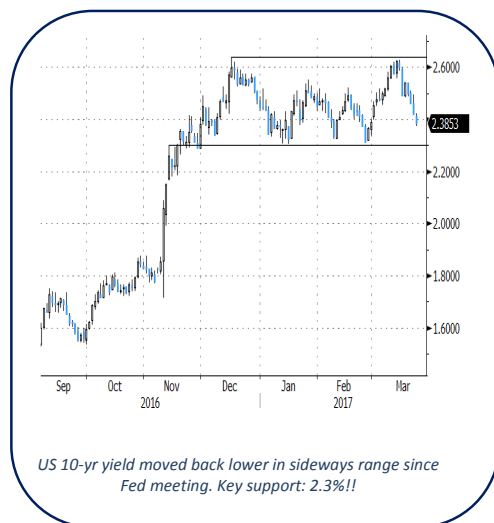
- **European stock markets** lost up to 1% at some stage, but partly erased losses as Brent crude manages to stay above \$50/barrel support. **The Trump reflation trade continues to show signs of fatigue though** with US equities slightly extending losses in the opening. **US existing home** sales disappointed (-3.7% M/M in February), but are ignored.
- **The PBOC pumped \$5.8B into China's money market**, intervening for a third day after the benchmark money rate hit its highest level since April 2015 as some smaller lenders were said to have missed payments in the interbank market.
- **Profitability is now the most important challenge facing the eurozone's banks**, France's top central banker has said, in an acknowledgement of the pain caused by low interest rates. **However, ECB Villeroy added it was necessary for the ECB to keep its ultra-loose monetary policy in place for now.**
- **Greece said it hopes for a deal with its international lenders within the month of April** and is working to bridge differences on labour, pension and energy reforms. The onus for an agreement was not only on the Greek government, but on its EU and IMF lenders too, government spokesman Tzanakopoulos told reporters.
- **Right-wing presidential candidate Fillon was back under fire** following new media reports of conflicts of financial and political interest while a party ally, the head of the influential national association of French mayors, attacked a key part of his radical economic recovery programme.
- **Portugal's PM has joined the chorus of southern European leaders for the resignation of Dutch FM Dijsselbloem** as head of the Eurogroup. Costa said that Dijsselbloem's comments that crisis-hit eurozone countries had wasted their money on "drinks and women" were "absolutely unacceptable" and "very dangerous".
- **Negative interest rates in Sweden have "had the intended effect"** without significantly damaging the wider economy or financial markets, **the Riksbank** has said, as it strongly defended its programme of monetary stimulus despite the strength of the wider economy.

Rates

Reflation trade shows more signs of fatigue

Global core bonds eked out gains as the Trump reflation trade shows more signs of fatigue. German Bunds outperform US Treasuries in a catch-up move. At the time of writing, the German yield curve bull flattens with yields 2 bps (2-yr) to 5.8 bps (30-yr) lower. Changes on the US yield curve vary between -1.6 bps (2-yr) and -3.1 bps (10-yr). Key support in US yield terms stands at 1.13% (2-yr), 1.8% (5-yr), 2.3% (10-yr) and 2.9% (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany are unchanged with Spain (-4 bps) outperforming.

Intraday, the Bund profited from a bad equity market opening (catching up with US yesterday) and downward pressure on oil prices from the start of European trading. The up-leg lost steam around noon, after which sideways trading kicked



in going into the start of US dealings. European stock markets recovered some of the opening losses and Brent crude held above the psychological \$50/barrel mark. **ECB Villeroy** said that at this stage ECB stimulus is still needed while **ECB Lautenschlaeger** didn't touch on monetary policy. During US dealings, USD/JPY dropped below key support (111.60; see FX) and pushed core bonds to new intraday highs. In this move, US Treasuries profited more than German Bunds. US existing home sales disappointed in February (-3.7% M/M), but didn't influence trading.

The German Finanzagentur tapped the on the run 10-yr Bund (€3B 0.25% Feb2027). Total bids amounted to a disappointing €3.73B (vs €5.24B average at previous 4 Bund auctions) despite the highest auction yield since early 2016 (0.41%). The Bundesbank retained €0.48B of the amount on offer for secondary market operations, resulting in an official bid cover of 1.5.

Currencies

USD/JPY losing first important support area

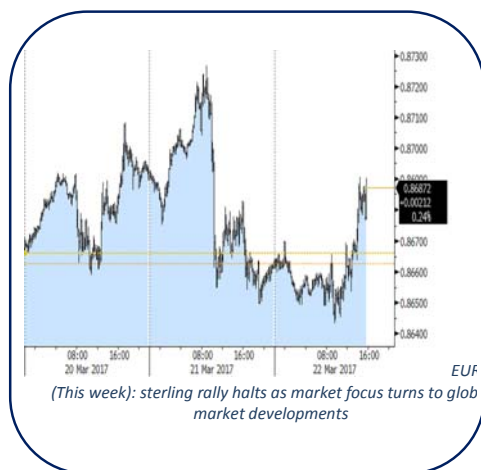
Today, investors tried to find out what could be next after yesterday's risk-off correction. Risk sentiment remained fragile and core yields declined further, which weighed on the dollar. USD/JPY was still vulnerable. The pair slipped below the 111 big figure. There were no further dollar losses against the euro as the US-German interest rate differential didn't widen further. EUR/USD hovers around the 1.08 big figure.

Overnight, Asian equities joined the risk-off correction from the US, with Japanese equities hit the hardest. USD/JPY tested the key 111.60/36 support area. EUR/USD is held north of 1.08, within reach of the recent highs.

The risk-off correction continued **early in Europe**. European equities lost up to around 1%, but the decline gradually petered out, as investors were **awaiting guidance from the US** about the fate of the correction on the reflation trade. USD/JPY hovered in the key support area in the low 111 area. The 111.60/36 support levels were broken, but a new real down-leg didn't occur (yet). **The trading pattern of EUR/USD was different.** The pair returned below 1.08 as interest rates between the US and Europa widened slightly after the recent narrowing. Maybe the euro also wasn't considered as a safe haven. Admittedly, the correction didn't go far as USD weakness remained the mainstream trend.



US existing homes sales were slightly softer than expected, but the focus for global trading was on the fate the reflation trade. **US equities opened little changed, but with few signs of a sustained comeback. At the same time, core bond yields are declining further. This is weighing in the dollar with USD/JPY still showing the most vulnerable pair.** It is drifting below the 111 figure. EUR/USD reversed this morning's decline and is trading in the 1.0810/15 within reach of the recent top. However, a clean break of the 1.0829/1.0874 won't be easy.



Sterling stabilizes after yesterday's rally

Today was an uneventful trading for sterling traders. There were no data or other high profile UK specific news. Sterling tried to establish some follow-through gains on yesterday's post-CPI rally. However, the focus was on the global trading dynamics after yesterday's US equity sell-off. In this context, EUR/USD and cable broadly followed a similar intraday trading pattern. Cable even slightly underperformed. However, EUR/GBP was locked in a narrow range in the upper half of the 0.86 big figure (currently in the 0.8670 area). Cable dropped off the overnight top just north of 1.25 and trades in the 1.2455 area. The jury is still out on yesterday's global correction. However, the BoE should be cautious to raise interest rates anytime soon if the global (financial) markets would turn more uncertain. This is a potential negative for sterling.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,33%			0,41%			1,14%		
Greece (2-10-20)	8,25%	858	3,4	7,40%	699	-1,0	7,67%	653	-2,6
Portugal	2,39%	272	-0,1	4,16%	375	-0,1	4,73%	359	-0,6
Italy	0,92%	125	-0,1	2,27%	186	-0,1	3,38%	224	-0,1
Spain	0,52%	85	0,0	1,74%	133	-2,7	2,96%	183	-2,5
Ireland (4-10-30)	-0,15%	18	-0,2	1,09%	68	0,9	2,16%	102	-0,2
Belgium	-0,03%	30	-1,4	0,93%	52	0,0	1,88%	75	0,5
France	0,16%	49	-3,8	1,04%	64	-0,4	2,00%	86	-0,5
Austria	-0,25%	8	-0,5	0,61%	21	0,1	1,51%	38	0,3
Netherlands	-0,24%	9	0,0	0,66%	25	0,7	1,22%	9	0,0
Finland	-0,10%	23	-0,8	0,51%	11	-0,2	1,32%	19	-0,1
US	1,92%	225	0,6	2,39%	198	2,1	3,00%	187	2,9
UK	0,59%	91	-1,6	1,18%	77	-2,3	1,77%	63	-0,6

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