



Sunset

Tuesday, 24 January 2017

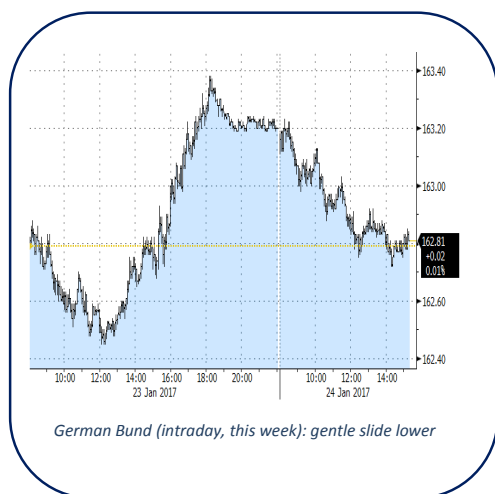
Headlines

- **European eke out some very modest** gains in a sideways oriented session, helped by the Brexit judgment. Telecom is worst performer after BT plunged 15% on write-down at Italian unit. **US equities open marginally higher.**
- Britain's Supreme Court ruled that **PM May must seek approval from Parliament** before triggering the country's withdrawal from the EU, potentially complicating her path out of the bloc. In a victory for the government, the court ruled that May **didn't need to consult with the devolved administrations in Scotland, Wales and Northern Ireland.**
- The **EMU composite PMI** remained in growth at 54.3 in January, slipping a tad from the 54.4 recorded at the end of the year. **Manufacturers had their best month since April 2011,** helped along by a weaker euro, rising new orders and healthy levels of optimism about future business.
- **Alibaba** blew through analysts' earnings estimates, lifting revenues 54% to Rmb53.25B (\$7.7B) in the last three months of the year and raising its forecasts for full-year revenue growth. **Verizon,** the largest US telecoms group by customers, posted mixed Q4 results, sending its stock lower in pre-market trading.
- **Turkey's central bank pushed up the cost of borrowing but left its main interest rate (8%) on hold,** disappointing investors who had hoped for a significant rate hike to support the lira and ease concerns about the bank's independence. **The Hungarian central bank kept its policy rate unchanged at 0.9%.**
- **China increased interest rates on the medium-term loans it uses to manage liquidity, the strongest signal yet of tightening** as it shifts focus to curbing risk in the financial system. The PBoC raised the one-year Medium-term Lending Facility rate to 3.1% from 3% and the six-month rate to 2.95% from 2.85%.
- **EMU FM's will not sign off on a review of Greece's bailout reforms at a meeting on Thursday,** but they hope to do so as soon as possible, EU Economic and Financial Affairs Commissioner Pierre Moscovici said.
- **About 25 African, European and South American countries are set to join the China-led Asian Infrastructure Investment Bank** this year, reinforcing Beijing's determination to push a global agenda even as US president Donald Trump rails against the ills of economic globalisation.

Rates

Gentle slide lower

Global core bond traded with a tiny downward bias. European risk sentiment was slightly constructive, EMU PMI data remained strong in January (composite 54.3) and the supply calendar was heavy. The slide lower occurred very gradual without disruptive news or events. Unlike Friday and yesterday, US Treasuries doesn't seem to be preparing an intraday U-turn as US trading gets going. At the time of writing, the German yield curve shifts 1.3 bps (2-yr) to 2.9 bps (10-yr) higher. Changes on the US yield curve vary between +2.7 bps (2-yr) and +4 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany are nearly unchanged with Italy (-2 bps) and Portugal (-3 bps) slightly outperforming.



The Dutch debt agency tapped the on the run 5-yr DSL (€2.5B 0% Jan2022). The amount raised was in the middle of the €2-3B target range, which is often the case at Dutch auctions. **The Spanish treasury successfully launched a new 10-yr Obligacion (Apr2027) via syndication.** They managed to print €9B. The bond was priced to yield MS + 77 bps compared with MS +high 70s guidance. **France raised €7B in the largest ever offering of a “green bond” (Jun2039) where proceeds must be used for environmental spending.** The order book was in excess of €23.5B as the Treasury lured investors with a 13 bps premium over French Treasury Notes. **Tonight, the US Treasury starts its end-of-month refinancing operation with a \$26B 2-yr Note auction.** Currently, the WI trades around 1.19%.

Currencies

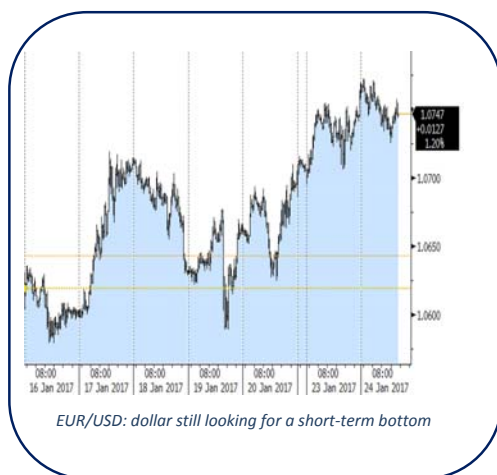
USD decline slows, but no sustained rebound yet.

Today, trading in the major dollar cross rates was confined to tight ranges as there was little high profile news. The EMU PMI's were too close to expectations to affect euro trading. On the USD side of the equation, there were no follow-through USD losses on the recent protectionist steps from the new US government. EUR/USD hovers in the mid 1.07 area, still within reach of the correction top. USD/JPY struggles not to fall back below the 112.50/113 area.

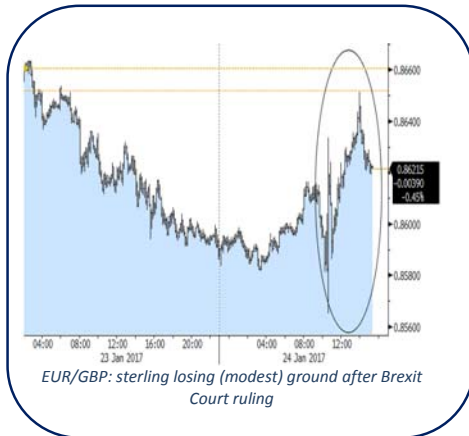
This morning, the dollar still traded within reach of the recent lows against the euro and the yen as investors pondered the significance of US president Trump leaving the TPP trade agreement. While weighing on the dollar, the TPP decision had no big impact on Asian equities. USD/JPY set a minor correction low in the 112.54 area early this morning, but tried to regain the 113 mark at start of European dealings. EUR/USD traded in the 1.0750 area, slightly off the 1.0772 overnight correction top.

The **EMU composite PMI** was reported close to expectations. The report suggests decent EMU growth at the start of 2017, but left hardly any traces on euro trading. European equities traded with a tentative positive bias and core bond yields were looking for a bottom after yesterday's decline. **This cautiously positive risk sentiment also put a floor for the dollar, but the gains were very limited.** USD/JPY settled a tight range in the 113.20/50 area. EUR/USD hovered sideways mostly slightly below 1.0750.

The US earnings season is in full swings, but the earnings' reports were not able to guide US equity futures or other markets. The dollar comeback already lacked any conviction in European morning session and its momentum faded further in uninspiring trading early in the US. EUR/USD is changing hands in the 1.0750 area. USD/JPY is drifting back south to the low 113.00/25 area. **The Turmp deflation trade has run its course and markets, are desperately looking for a new driver.**



Sterling trades softer after Brexit High Court ruling



Today, the High Court ruled UK PM May needs an act of Parliament to trigger article 50 and formally start the Brexit procedure. At the same time, the Court said no approval was needed from parliaments in Scotland, Wales and Northern Ireland. Of late markets (including sterling) often reacted positively when Parliament got a bigger role in the Brexit process. Parliamentary involvement was seen as diminishing chances of a hard Brexit. **Sterling spiked briefly higher upon the announcement of the ruling. However, this time, the gains could not be sustained.** Markets concluded the ruling contains a risk of delaying/complicating the start of the Brexit procedure. Sterling gradually weakened after the Court decision. EUR/GBP touched offers in the 0.8650 area and trades currently around 0.8625 area. Cable dropped from levels north of 1.25 to trade now around 1.2465.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,43%			0,39%			1,15%		
Greece (3-10-20)	7,04%	748	-1,8	7,02%	663	0,0	7,59%	644	-1,5
Portugal	1,84%	228	-1,5	3,80%	341	-2,5	4,80%	365	-4,9
Italy	0,66%	109	-2,2	2,00%	161	-1,9	3,18%	203	-2,6
Spain	0,23%	66	-0,2	1,45%	106	-1,3	2,77%	162	-1,1
Ireland (4-10-30)	-0,25%	19	-1,6	1,02%	63	-0,6	2,10%	95	-1,7
Belgium	-0,28%	15	-0,7	0,70%	31	-1,2	1,85%	70	-1,1
France	-0,01%	43	-0,2	0,87%	48	-1,3	1,89%	74	-1,6
Austria	-0,30%	13	-0,2	0,58%	19	-0,5	1,52%	37	-0,6
Netherlands	-0,27%	17	-0,3	0,50%	11	-0,5	1,25%	10	-0,6
Finland	-0,33%	10	-1,1	0,54%	15	-0,4	1,26%	11	-0,4
US	1,90%	233	1,8	2,43%	204	0,3	3,01%	186	-0,6
UK	0,58%	102	-0,8	1,39%	100	-0,6	2,03%	88	-2,3

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