



Sunset

Monday, 27 February 2017

Headlines

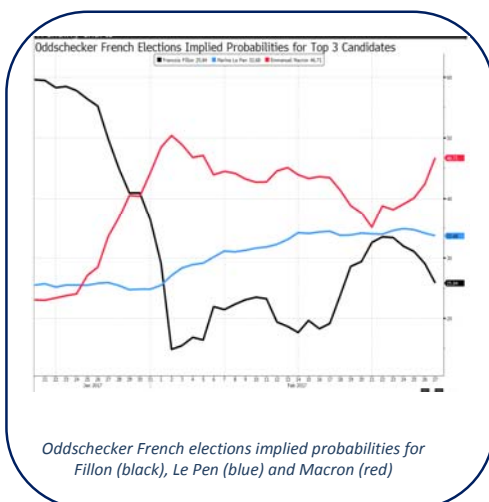
- **European equities** show minor losses in an uneventful trading session. **US stock markets** also opened nearly unchanged **anticipating tomorrow's speech by US President Trump**.
- The **European Commission's EMU economic sentiment indicator inched up in February from 107.9 to 108.0** (vs 108.1 expected), the highest level since March 2011, thanks to more optimism in industry and the services sector and despite weaker readings among consumers and in the retail.
- **EMU household credit growth picked up pace at the start of the year** in another encouraging sign of the robust economic recovery. Annual growth in household loans accelerated to 2.2% Y/Y in January, up from December's 2%. **Loan growth to non-financial businesses kept a healthy pace at 2.3% Y/Y**.
- **Headline US durable goods orders rebounded** in January (1.8% M/M), a sign companies were feeling encouraged to invest at the start of the year as the economy improved. However, **shipments of non-defense capital goods excluding aircraft, used in calculating GDP, fell 0.6%** following an upwardly revised 1.6% M/M rise in December.
- **The ECB will not announce another round of long-term cheap loans** after the current ones expire next month, **according to all 19 euro money market traders polled by Reuters**, citing weak demand. The final TLTRO is scheduled for March 23.
- The threat of a new Scottish independence referendum is creating unnecessary uncertainty and division, a British government spokesman said today, **reiterating Prime Minister Theresa May's view that there was no need for another vote on the issue**.

Rates

Core bonds tread water

Today, global core bonds moved sideways in a tight range, digesting last week's strong rally. Investors stayed side-lined ahead of more important data releases and some key events later this week like the speech of US president Trump before Congress on Tuesday night and a potential key speech of Fed chairwoman Yellen on Friday. Investors were also held back by **key yield support** in the 10-yr US and German sovereign bonds. **Eco releases couldn't** inspire traders neither (see headlines). EMU economic sentiment survey and the M3 money supply were close to expectations. During the US session, core durable orders for January printed pretty weak, except for the volatile transportation orders. The report was also ignored.

Intraday, the Bund hovered between 166 and 166 31 and trades now at 166.15, near the opening level. The T-Note future slid slightly in the Asian session, but shuffles listless between 125-12 and 125-16 since the European open. At the time of writing, US yields are 1.4 bps (2-yr) to 2bps (10-yr) higher, while German yields add 1.1 bp (5-yr) to 2.3 bps (30-yr). On the intra-EMU bond market,



peripheral yield spreads narrow 5-to-7 bps with Italy outperforming after a decent auction. The French 10-yr yield spread narrows 4 bps, outperforming its OLO peer (-2 bps). Polls show continuing progress for Macron, the centre-candidate.

The Italian debt agency launched a new 5-yr BTP (€4B 1.2% Apr2022) and tapped the off the run BTP (€1B 1.6% Jun2026) and on the run 10-yr BTP (€2B 2.2% Jun2027). The combined amount sold was the maximum of the targeted €5.5-7B. The auction bid cover was 1.36 which is average for Italian BTP auctions. Apart from the regular BTP's, the treasury also taps two floating rate CCTeu's (Dec2022 & Feb2024) for a combined €3B..

Currencies

USD trades soft as markets await Trump

USD trading took a very slow start today. There were few eco data with market moving potential. Bond and equities provided little directional guidance for USD trading. Investors kept side-lined ahead of a key appearance of US president Trump before Congress tomorrow. This investor caution held the dollar near the recent lows against the yen. USD/JPY hovers sideways in the low 112 area. EUR/USD drifted higher and is testing the 1.06 big figure.

Overnight, Asian equities didn't join the rebound in the US on Friday, but the losses remained contained. The yen held near its short-term highs. USD/JPY changed hands in the low 112 area. So, the 111.60 range bottom came within reach. EUR/USD showed no clear trend holding in the 1.0565 area.

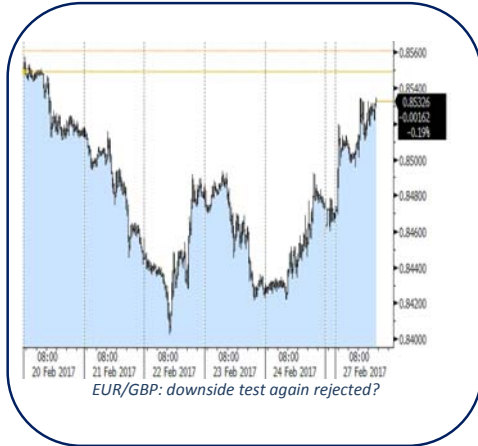
European equities tried to regain ground after Friday's setback, but the move lacked any traction. There was no important news to guide trading. Investors basically kept side-lined, awaiting Trump's address before Congress tomorrow. Last week's decline of core bond yields halted. However, it didn't help the dollar. In technical trade, EUR/USD drifted higher in the 1.05 big figure. USD/JPY hovered sideways in the low 112 area.

The **US January durable orders report** was a mixed bag. Headline orders were strong at 1.8% M/M, but core measures (ex-transportation) were rather weak and so were shipments. As such, the report again didn't contain a clear signal for USD trading. EUR/USD was little changed after the report. USD/JPY profited from a slight rise in core (US) bond yields at that time, but we doubt it had anything to do with the durable orders release. Even so, it was only a small, temporary ripple in a calm ocean. USD/JPY is currently again trading in the 112.25 area. EUR/USD is hovering around 1.06. **So, there is some tentative USD weakness going into Trump's appearance before Congress.**



Sterling loses ground as Brexit noise persists

Sterling traded with a slightly negative bias today. The UK currency lost about 0.5% in Asia this morning. The decline was at least partially due to press headlines indicating that the UK government is preparing a strategy to handle a new referendum on Scottish independence. However, at this stage, it is all hypothetical thinking. A spokesman of PM May said during the day that there was no need for a new Scottish referendum. **EUR/GBP gained some further ground during the European session, but this move was mainly driven by the broader rebound of EUR/USD.** EUR/GBP trades currently in the 0.8530 area. Cable basically hovered sideways in the low 1.24 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	-0,58%			0,20%			0,96%		
Greece (2-10-20)	7,88%	846	-12,5	7,13%	693	-5,8	7,64%	668	-6,5
Portugal	1,84%	242	-3,5	3,90%	370	-5,2	4,86%	390	-6,9
Italy	0,92%	150	-6,6	2,14%	194	-6,6	3,25%	228	-6,2
Spain	0,52%	110	-5,4	1,66%	146	-5,7	2,88%	192	-7,1
Ireland (4-10-30)	-0,36%	22	-1,1	0,92%	72	-3,5	1,99%	103	-5,5
Belgium	-0,22%	37	-0,5	0,72%	52	-2,3	1,70%	73	-3,5
France	0,02%	60	-2,1	0,90%	70	-4,2	1,87%	90	-4,8
Austria	-0,44%	15	-0,3	0,44%	24	-2,1	1,41%	45	-0,5
Netherlands	-0,41%	17	-0,9	0,48%	28	-1,5	1,06%	10	-1,3
Finland	-0,29%	29	-0,3	0,35%	15	-1,9	1,20%	24	-1,2
US	1,83%	241	1,2	2,33%	213	0,6	2,96%	200	-1,1
UK	0,56%	114	21,0	1,16%	96	6,7	1,78%	82	-5,9

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