



Sunset

Thursday, 27 July 2017

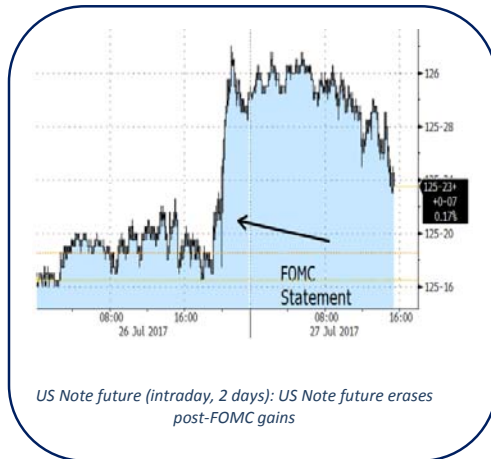
Headlines

- **European equities** started the session with a rally that run fast into resistance and was followed by a slide towards yesterday's closing levels. The price action was driven by multiple earnings results that were mixed. **US equities** start positively on generally better than expected earnings.
- The **number of Americans filing for unemployment benefits** rebounded from a three-month low last week (from 234k to 244k), but **remained below a level consistent with a tightening labour market**. The **US trade deficit narrowed more than estimated in June** (to \$63.9 billion from \$66.3 billion) in a positive sign for economic growth.
- The US economy is experiencing **steady but slower growth in business investment** as orders for capital equipment eased last month (-0.1% M/M) **following a May increase that was bigger than previously reported** (0.7% M/M from 0.2 M/M).
- **Growth in bank lending was unexpectedly weak in June**, a potentially worrying sign for policymakers even if a one-off factor may have contributed to the slowdown. Lending to EMU non-financial corporations slowed to 2.1% Y/Y in June from 2.5% Y/Y in May. Lending to households meanwhile grew by 2.6% Y/Y in June, unchanged from May.
- The head of the Financial Conduct Authority has called for **Libor**, the interbank lending rate at the heart of a multibillion banking scandal, **to be phased out in 2021 and replaced by more reliable alternatives**.
- US President Trump's newly appointed **communications director Scaramucci shook up relations both in the White House and on the international stage**, dialling in to a live broadcast on CNN to warn that Mr Trump "may veto" the Russian sanctions bill, and that his relationship with chief of staff Priebus was potentially irreparable.
- **The BoE has appointed a veteran civil servant to become its new deputy governor. Dave Ramsden** – currently the chief economic adviser to the Treasury and head of the Government Economic Service – will become the new deputy governor of markets and banking, starting his five-year term on September 4.

Rates

2nd reading of Fed statement opens investors' eyes

Global core bonds failed to hang on to gains on "the day after". Yesterday's rise of US Treasuries proved to be exaggerated and suggests more downside, especially if tomorrow's eco data don't disappoint (Q2 GDP & Core PCE). The Fed kept policy unchanged, keeping the door open for a September announcement on the start of the balance sheet run-off and a December rate hike. Today's price action suggests that **markets overreacted to a subtle change on the assessment of current inflation (EUR/USD back below 1.17)**. German Bunds outperform US Treasuries on the daily scorecard, but that's because of the catching-up effect. European markets were already closed by the time of the



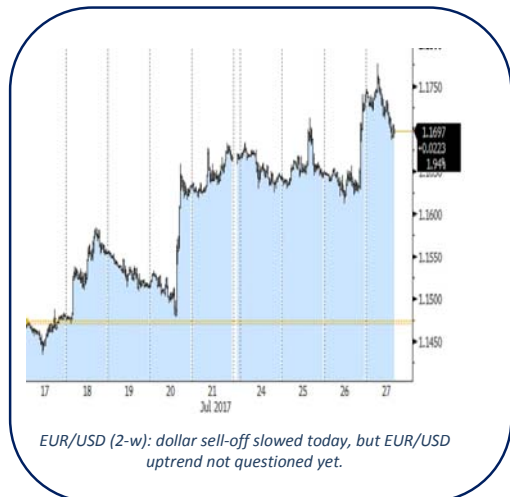
US Note future (intraday, 2 days): US Note future erases post-FOMC gains

release of the Fed statement yesterday. **European stock markets and oil prices trade currently near opening levels while EMU/US eco data printed rather close to consensus (see headlines).** None of these factors had any intraday importance for core bond trading. The US Treasury concludes its end-of-month refinancing operation tonight with a \$28B 7-yr Note auction. The WI currently trades around 2.13%.

At the time of writing, German yields decline by 0.8 bps (2-yr) to 2.5 bps (10-yr) with the belly underperforming the wings. The US yield curve bear steepens with yields 0.8 bps (2-yr) to 3.7 bps (30-yr) higher. **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany are nearly unchanged with Greece (+5 bps) underperforming.

Currencies

Dollar sell-off slows, but nothing more than that...



EUR/USD (2-w): dollar sell-off slowed today, but EUR/USD uptrend not questioned yet.

Today, the decline of the dollar slowed. US data (durable orders, trade balance, claim) painted a very diffuse picture and gave no guidance for USD trading. EUR/USD and USD/JPY are trading slightly off the recent lows, but the moves are insignificant from a technical point of view. The battle for the key 1.11714/35 LT EUR/USD resistance continues.

Overnight, the post-Fed USD decline continued, but the pace of the down-move slowed. EUR/USD traded temporary north of the key 1.1714/35 resistance in Asian, but returned to the 1.1735 pivot at the start of European trading. USD/JPY reversed an earlier dip below 111. AUD/USD jumped above the psychological barrier of 0.80.

In Europe, trading in interest rate markets and in the dollar entered calmer waters after yesterday's brisk moves in the wake of the Fed policy statement. In technical trading, the dollar regained slightly ground after yesterday's sell-off. EUR/USD drifted to the low 1.17 area. Interest rate differentials were again no relevant factor for the EUR/USD swings. USD/JPY traded in the 111.40 area around noon.

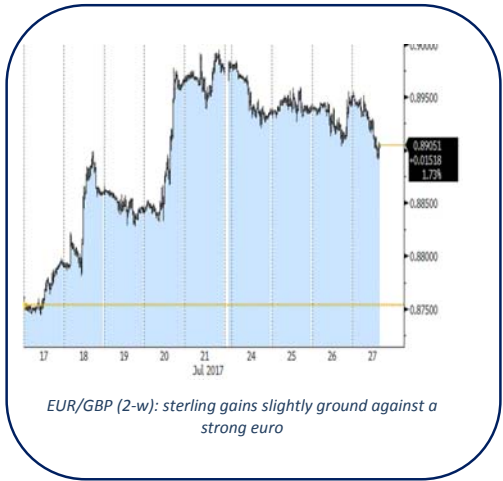
Over the previous days, the sentiment on the dollar tended to worsen in the run-up to the US trading session. This wasn't the case today. If anything, the dollar gained a few more ticks going into the US eco data. **The US data were very diffuse.** Durables were marginally better than expected, given upward revision of the previous month figures, claims were slightly higher than expected and the trade deficit was a bit smaller than expected. **Too many conflicting signals to trigger a directional USD move.** The focus turns to tomorrow's US Q2 GDP report. EUR/USD hovers near the 1.17 level. USD/JPY trades in the 111.50 area. **The USD sell-off took pause, but the gains are insignificant from a technical point of view. The test of the key 1.1714/35 LT resistance is ongoing and there no clear indication to what side the balance will tilt.**

Among the smaller currencies, the decline of the Swiss franc accelerates. Low

global volatility and expectations that the SNB will lag the policy normalisation in the EMU (and globally) triggers some kind of 'CHF long squeeze'.

Sterling extends cautious rebound

Yesterday and this morning sterling performed rather well given the overall USD weakness. There was only a modest and temporary spill-over effect of the overnight the EUR/USD rally into EUR/GBP. **In technical trading, cable slightly outperformed EUR/USD this morning, pushing EUR/GBP lower in the 0.89 big figure.** The CBI July retail data were stronger than expected. The indicator is often ignored in sterling trading. This time, the report triggered a small further strengthening of sterling. EUR/GBP dropped temporary below 0.89., but the move petered out soon. Cable is changing hands at about 1.3130/40. The BOE named Dave Ramsden as deputy governor of the BoE, replacing Charlotte Hogg. Ramsden was chief economic adviser at the Treasury.



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.18%			0.53%			1.30%		
Greece (2-10-20)	3.30%	348	-2.3	5.33%	480	5.4	6.55%	525	3.9
Portugal	1.20%	138	-0.3	2.96%	243	1.6	3.91%	261	1.6
Italy	0.77%	95	-0.5	2.10%	156	-0.6	3.23%	193	0.3
Spain	0.28%	46	-1.6	1.51%	98	-0.9	2.81%	151	-0.3
Ireland (4-10-30)	-0.29%	-11	-0.4	0.84%	31	0.6	1.93%	63	1.8
Belgium	-0.09%	9	-0.3	0.82%	29	1.3	1.84%	53	3.2
France	-0.08%	10	0.2	0.80%	27	1.1	1.87%	56	2.3
Austria	-0.18%	0	-0.4	0.69%	16	-0.4	1.63%	33	0.2
Netherlands	-0.24%	-6	-0.1	0.64%	11	-0.4	1.37%	6	0.0
Finland	-0.15%	3	0.6	0.53%	-1	0.7	1.45%	15	0.4
US	1.85%	203	4.9	2.31%	178	4.9	2.92%	162	5.5
UK	0.57%	75	0.1	1.22%	69	1.4	1.86%	56	1.7

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