



Sunset

Thursday, 30 March 2017

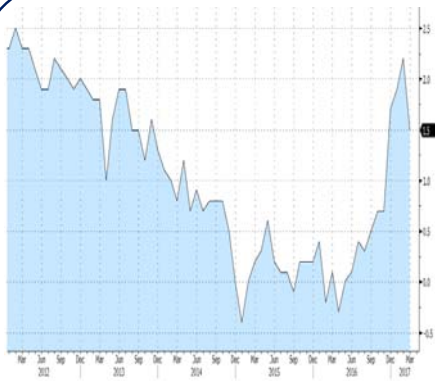
Headlines

- **European stock markets traded sideways today**, ignoring disappointing eco data. US stock markets also opened nearly unchanged.
- **Sentiment towards the euro zone** economy edged down, but stayed buoyant in March. The European Commission's monthly sentiment main index dipped to 107.9 points from 108.0 in February, remaining well above its long-term average of 100.
- **German consumer inflation** slowed more sharply than expected in March. German HICP rose by 1.5 Y/Y after reaching a cycle high of 2.2 percent in February. **Spanish inflation** also tumbled from 3.0% Y/Y to 2.1%. Today's data of the EMU member states indicate a substantial easing of the preliminary EMU inflation to be released tomorrow.
- The **Czech Central bank** kept its policy rate unchanged at 'technically zero'. The bank also maintained the cap on the koruna exchange rate. However, the bank indicated that the koruna cap may end at time after the hard pledge expires.
- South African President Jacob Zuma's battles with his finance minister threaten a long-sought decline in the country's inflation rate, the governor of the country's central bank warned as **the bank announced it would keep its interest rates on hold at 7%**.
- **US eco data were mixed** with a small upward revision to Q4 GDP from 2% Q/Qa to 2.1% Q/Qa, on the back of stronger than forecast personal consumption (3.5% Q/Qa). US weekly jobless claims were higher than expected at 258k, while a decline from 261k to 247k was expected.
- **More than one in two French voters believe struggling Socialist candidate Benoit Hamon should drop out of the presidential race** in favour of a rival left-winger who has overtaken him in surveys of voting intentions, a poll showed.
- **Cleveland Fed Mester** says additional interest-rate increases will be needed if economy continues to improve as expected. She would also be comfortable with changing the reinvestment policy to the shrink balance sheet, beginning later this year

Rates

Disappointing German CPI data support Bund

Global core bonds traded mixed with Bunds outperforming on the back of a bigger than expected drop in Spanish and German CPI readings. German inflation declined from 2.2% Y/Y to 1.5% Y/Y in February, suggesting that the ECB has more breathing room to hold on to its ultra-easy policy and fend off all external pressure to start normalizing its monetary policy in the near term. **The Bund has an intraday upward bias, while the US Note future is trading more sideways.** Bund gains remain contained though. US eco data printed mixed and had no impact on trading. Stock markets and Brent crude traded narrowly mixed in a dull session, also failing to guide rate markets.



German inflation (Y/Y): significant setback. Inflation already topping off?

At the time of writing, changes on the German yield curve range between +1.1 bp (2-yr) and -1.2 bps (30-yr). The US yield curve bear steepens with yields 0.4 bps (2-yr) to 1.8 bps (30-yr) higher. On intra-EMU bond markets, 10-yr yield spreads versus Germany widen up to 2 bps with Portugal outperforming (-6 bps).

The Italian debt agency successfully concluded this week's scheduled EMU bond supply by tapping on the run 5-yr BTP (€2.25B 1.2% Apr2022), 10-yr BTP (€2.5B 2.2% Jun2027), 50-yr BTP (€0.75B 2.8% Mar2067), off the run BTP (€1B 0.65% Nov2020) and a floating rate 7-yr CCTeu (€2.5B Feb2024). The amount sold was the maximum of the targeted €6.75-9B range and the auction bid cover was 1.49, which is strong for Italian norms.

Currencies

Euro remains in the defensive on soft inflation data

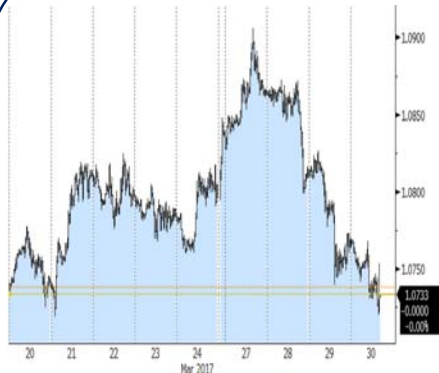
Yesterday's trends basically continued today in EUR/USD and USD/JPY. The euro remained in the defensive. Yesterday's market rumours of the ECB being unhappy with the recent hawkish market reaction, were supported by a sharp decline in the headline inflation of Germany and Spain. EUR/USD drifted a bit further south in the 1.07 big figure. At the same time, the dollar still shows no clear trend against the yen. USD/JPY hovers close to, but mostly slightly north of 111.

Overnight, Asian equities mostly showed moderate losses even as US indices held near record high levels. USD/JPY struggled to extend its rebound off the recent lows early in Asia, but ran into resistance very soon. The dollar remained well bid against a weak euro. EUR/USD traded in the 1.0750 area, near yesterday's correction low.

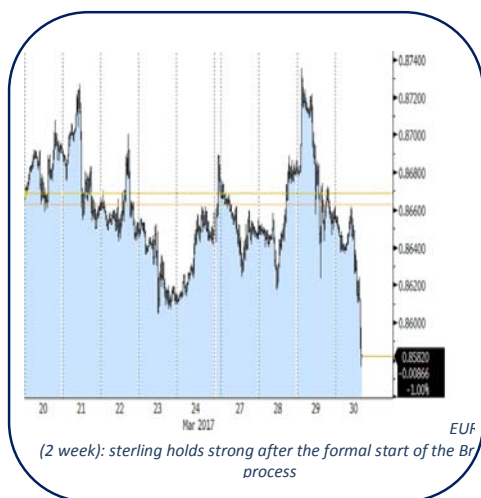
Yesterday's rumours of the ECB being 'unhappy' with the recent hawkish market reaction put the spotlights on EMU inflation (or the lack of it). Spanish inflation declined much more than expected (from 3.0% Y/Y to 2.1% Y/Y, 2.7% Y/Y expected). The first regional German CPI data were also much softer than expected (finally reported at 1.5% Y/Y). Last but not least, the confidence indicators of the EC also came out on the softer side of market expectations.

European bond yields declined further. EUR/USD fell to the 1.0730/35 area. The interest rate differential between the US and Germany didn't widen much further, but kept well off the recent lows.

In the US, the Q1 GDP final GDP was revised slightly higher at 2.1% Qa/Qa. The core PCE deflator was also marginally higher than expected at 1.3%. At the same time, US jobless claims declined again less than expected (to 258 000). The dollar gained slightly ground after the data, but the move was negligible and didn't last long. EUR/USD trades currently in the 1.0740/50 area. USD/JPY is changing hands in the low 110 area.



EUR/USD: Euro declines as soft CPI data ease ECB normalization speculation



Sterling resilience persists

There was little high profile news in the UK today. For now, the start of the 'official' Brexit procedure didn't cause any negative sentiment on the UK currency, on the contrary. Regarding the other majors, the euro was under pressure as the market adapted positions for a prolonged period of easy ECB policy. This euro softness is also filtering through in EUR/GBP. The pair is currently drifting below the 0.86 barrier. At the same time, sentiment on the dollar isn't that convincing (cf USD/JPY). Cable rebounded to the 1.25 area. So, global FX conditions maybe fell in place to trigger some by default GBP buying/short covering as the start of Brexit didn't bring any negative GBP-event risk yet.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,37%			0,33%			1,10%		
Greece (2-10-20)	7,72%	809	8,3	6,95%	662	1,7	7,28%	618	-0,1
Portugal	2,24%	261	-6,1	3,94%	361	-5,1	4,60%	349	-5,5
Italy	0,82%	119	-1,2	2,14%	181	1,4	3,24%	214	-0,1
Spain	0,49%	86	-0,1	1,65%	131	1,4	2,88%	178	1,0
Ireland (4-10-30)	-0,21%	16	-0,7	0,97%	64	1,6	2,04%	94	0,4
Belgium	-0,09%	28	0,7	0,84%	51	2,3	1,85%	74	4,1
France	0,10%	47	1,8	0,94%	61	2,3	1,95%	85	3,3
Austria	-0,32%	5	-1,9	0,54%	21	0,5	1,45%	35	-0,2
Netherlands	-0,27%	10	0,0	0,59%	26	0,6	1,19%	8	0,0
Finland	-0,16%	21	-0,4	0,46%	12	0,4	1,26%	16	-0,4
US	1,94%	230	0,8	2,39%	206	2,5	3,00%	190	2,9
UK	0,57%	94	-3,3	1,13%	80	-0,7	1,73%	63	-0,3

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