Sunset

Thursday, 09 November 2017

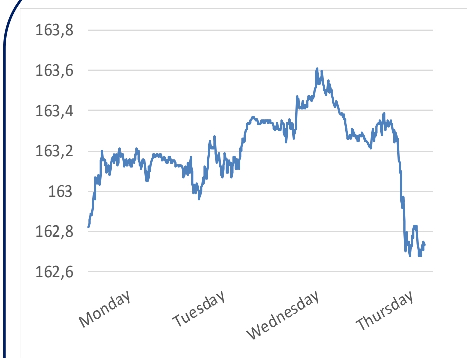
Headlines

- **European equities** initially fend off heightened volatility stemming from Asian trading, but eventually fell prey to profit taking as well. Main indices trade up to 1% lower. US stock markets opened around 0.5% lower.
- **The EU said that it is poised to beat 2017 economic growth expectations,** with strong private consumption and the global recovery propelling the fastest pace of eurozone expansion in a decade (2.2% forecast from 1.7%). **The UK is set to have the lowest growth of almost any EU country when it leaves the bloc in 2019 (1.1%).**
- Even with an increase last week (from 229k to 239k), **the level of US filings for unemployment benefits indicates steady demand for workers,** Labor Department figures showed. The average number of applications filed over the past month was the lowest in 44 years.
- **European financial markets are not deep enough to allow ECB quantitative easing to run on indefinitely,** ECB Executive Board member Coeure said.
- **ECB head of supervision, Nouy, signaled that she's willing to compromise on controversial plans to toughen rules on bad loans** after criticism from the European Parliament. She told lawmakers that the guidance could be changed in response to comments received during a consultation period, and the Jan. 1 start date could be pushed back.
- **The rate of growth of bad debt in Italy, excluding securitisations, has declined to the lowest level since the end of the eurozone debt crisis,** marking the latest sign of the country's turnround. The annual growth rate of bad debt flows net of securitisations was 8.5% in September.
- **Germany's imports and exports both fell in September as its trade surplus widened,** highlighting the importance of domestic consumption as a driver of growth in Europe's largest economy. Seasonally adjusted exports fell by 0.4% on the month while imports were down by 1.0%, Federal Statistics Officedata showed.

Rates

Bund sell-off at odds with moves on other markets

Global core bonds lost ground today with German Bunds significantly underperforming US Treasuries. The weak performance of the Bund is at odds with risk aversion on stock markets, peripheral bond markets and, to a lesser extent, FX markets. European equity indices initially fend off the increased volatility from Asian trading, but eventually fell prey to profit taking as well (strengthening Tuesday's bearish engulfing pattern), losing up to 1%. Peripheral spreads widened a second straight session. The yen's gains on FX markets remain modest. **The eco calendar, central bank speeches and events provide less of an explanation either.** US weekly jobless claims stabilized near multiyear lows, but this was in line with forecasts. ECB Coeuré warned that ECB QE won't last indefinitely, but it wasn't the first time that he raised this concern. Other ECB speakers didn't really touch on monetary policy. The EC upgraded its growth



German Bund (intraday 4 days): spectacular Bund sell-off, but no specific trigger

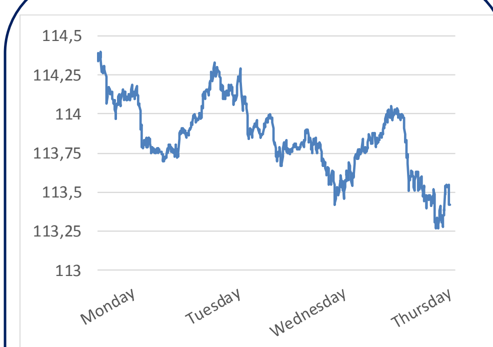
forecasts, but the timing didn't coincide with the start of the Bund sell-off. **Technical factors offer an explanation,** but it goes a long way to exclusively pinpoint today's move to failed tests of support levels in the German 5-yr yield (-0.4%) and 10-yr yield (+0.3%).

At the time of writing, the German yield curve bear steepens with yields 1.3 bps (2-yr) to 5 bps (10-yr) higher. Changes on the US yield curve range between +0.4 bps (2-yr) and +1.6 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads widen up to 3 bps (Italy).

The Irish treasury successfully tapped two on the run IGB's today: €0.8 bn 1% May2026 and €0.45 bn 2% Feb2045. The combined amount sold was the maximum of the targeted €1-1.25 bn with an auction bid cover of 1.81. Year-to-date, the NTMA has issued €15.75 bn benchmark bonds this year, compared with its upwardly revised €16 bn target. **The US Treasury completes its refinancing operation later today with a $15 bn 30-yr Bond auction.** The WI trades currently around 2.8%.

Currencies

Yen hardly profits from volatility up-tick



USD/JPY (4 day, intraday): yen hardly profits from global risk-off

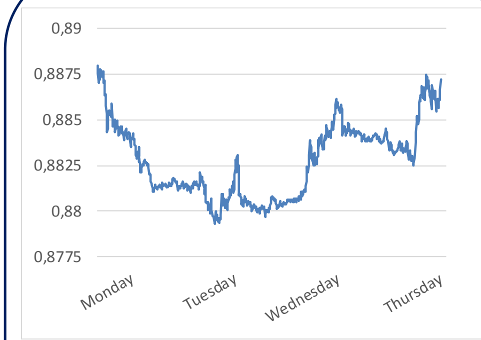
Global markets were spooked by an unexpected uptick of volatility on equity markets. At the same time, Bunds and Treasuries came under pressure.The dollar and the euro both received interest rate support, despite the equity correction. This prevented a meaningful gain of the usual safe havens (Japanese yen, Swiss franc). EUR/USD trades little changed in the low 1.16 area. USD/JPY trades at around 113.55.

Trading on Asian markets turned much more volatile than what we've got used to recently. Japanese markets took the lead in this turnaround. The Nikkei set a 25-yr top, but fell off a cliff later in the session. There was no specific news or event to explain the move. Other regional equity markets developed a similar, but more modest pattern. EUR/USD was hardly affected and traded stable in the 1.16 area. USD/JPY dropped from the 114 area to around 113.50.

European equities opened little changed. Initially it looked that European markets could avoid the volatility uptick in Asia. However, the Asian swing had planted seeds of uncertainty in European investors' minds. The topside in European equities was blocked and indices finally dropped below first intraday support levels. **Remarkably, safe haven bunds couldn't profit.** On the contrary, the Bund also fell prey to an aggressive selling move. Moves in the T-Note future were much more modest. The combination of higher core/EMU yields and substantial equity losses still pushed USD/JPY a few ticks lower. However, the (LT) interest rate differential narrowed substantially in favour of the euro. **This prevented the 'usual' sell-off in the likes of EUR/JPY. EUR/USD even temporary rebounded to the 1.1640/45 area.**

In the US trading session, Treasuries gradually joined the rise in European yields, supporting the dollar. USD/JPY settled in the mid 113 area. EUR/USD returned to the 1.16 pivot. US jobless claims were higher/worse than expected but no issue for (currency) markets. **In the end, save haven currencies like the yen and the Swiss franc profited only slightly from the uptick in equity volatility as it was counterbalanced by higher interest rate support for the euro and the dollar.**

Brexit and global risk-off weigh on sterling



EUR/GBP (4 day, intraday) extends rebound north of 0.88

Sterling came again under pressure yesterday due to a flaring up of political uncertainty in the UK. This correction continued today. There were no important eco data in the UK. Investors kept a close eye on the next round of official Brexit negotiations that started in Brussels today. **EU negotiators were said to maintain a very cautious approach as they tried to ponder the consequences of the political turmoil in the UK. The overall risk-off context is usually a negative for sterling, too.** EUR/GBP trades in the 0.8865/70 area. Cable is changing hands around 1.31.

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,35%			0,37%			1,26%		
Greece (2-10-20)	3,00%	335	-2,3	5,16%	479	-0,3	5,99%	474	0,2
Portugal	0,73%	108	0,8	2,08%	171	2,5	3,45%	220	2,7
Italy	0,60%	95	3,7	1,83%	146	3,7	3,02%	176	4,0
Spain	0,26%	61	2,5	1,55%	118	1,9	2,83%	158	3,1
Ireland (4-10-30)	-0,22%	14	-0,4	0,60%	23	1,6	1,78%	52	2,0
Belgium	-0,27%	8	0,4	0,61%	24	0,5	1,73%	47	-0,6
France	-0,11%	25	0,5	0,74%	37	0,4	1,74%	49	-0,2
Austria	-0,25%	10	-0,5	0,53%	16	0,1	1,52%	26	0,6
Netherlands	-0,40%	-5	-0,2	0,48%	11	0,3	1,27%	1	-0,1
Finland	-0,25%	10	-0,3	0,53%	16	-0,4	1,34%	9	0,0
US	2,01%	237	-2,3	2,33%	196	-4,4	2,81%	155	-3,5
UK	0,72%	107	-0,2	1,25%	88	-1,5	1,82%	57	-2,9

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	**Brussels**	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	**Prague**	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	**Bratislava**	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	**Budapest**	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)