



## Sunset

Friday, 29 July 2016

**Next Sunrise report will be released at Tuesday 23 August**

## Headlines

- **European shares found no clear direction** as the BoJ eased monetary policy in less aggressive way than expected. **European indices** show **modest gains** with Spain and Italy outperforming. US equity indices opened little changed.
- The **US economy expanded at a significantly weaker pace than expected in the second quarter**, adding to concerns that weakness in the global economy and trouble in the oil patch may have taken a greater toll than earlier forecast. The world's biggest economy expanded at an annualised pace of 1.2% in the three months to the end of June, from a downwardly revised 0.8% in the first quarter.
- **Growth in the eurozone fell to 0.3% in the three months to the end of June**, falling back from an impressive 0.6% posted at the start of the year. Separate data showed **inflation unexpectedly accelerated to 0.2% Y/Y in July**, the strongest since January. Core inflation stabilized at 0.9% Y/Y. The euro zone unemployment rate held steady at a 5-yr low of 10.1% in June.
- The UK has become the temporary centre of the global oil glut as a lull in demand from refineries has led traders to store crude on ships off the coast. **Brent crude reached a new short term low today, below \$42/barrel.**
- After the close of the European markets, the **EBA publishes the results of its stress tests**. Monte dei Paschi di Siena is widely expected to emerge as the weakest lender. The board of Italy's oldest and most troubled lender threw its weight behind a risky privately funded rescue plan as it seeks to stave off a "bail-in" under new European bank rules.
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## Rates

### Core bonds easily digest disappointing BOJ decision

**Global core bonds corrected lower after the BOJ decision fell short versus expectations. However the down-move was soon digested and core bonds climbed higher again partly in early European trading and partly after disappointing US GDP figures. Currently both US and German yields are slightly lower on the day.**

**At the time of closing of our report**, the US yield curve bull steepened with yields down between 2.8 bps (2-yr) and 0.3 bp (30-yr). Changes on the German yield curve were limited with yields down up to 1 bp.. On intra-EMU bond markets, 10-yr yield spread changes versus Germany are nearly unchanged with the exception of the Spanish 10-year yield that narrowed 4 bps. .



**Intraday**, US Treasuries and the Bunds dropped after the **BOJ decision** not to expand the bond buying programme or to make official rates more negative, but instead buying more ETF's. **The Treasury reset occurred immediate** after the BOJ decision, the Bund reset happened in the opening. The Bund opened at 167.05, about 50 ticks down on yesterday eve's levels. However, the dust settled soon and some upward reaction started, which ran into resistance about 30 ticks from the opening. The Bund and US Treasuries slid into a tight sideways trading range, undisturbed by slightly higher **EMU HICP inflation and as expected Q2 GDP (0.3% Q/Q)**. In the afternoon, **core bonds jumped higher** after **disappointing US Q2 GDP figures**. **The US economy grew** only 1.2% following a downwardly revised 0.5% growth in Q1. Two silver linings in the report: private consumption was strong and inventories were a 1.16% drag on GDP-growth. Lower inventories might stimulate production in coming quarters. Business investment was negative for the third quarter running, which suggests that the uncertainties surrounding the US election are holding back overall growth. As we close the report, core bonds are stabilizing at post-GDP highs.

## Currencies

### USD extends decline on poor US Q2 growth



Today, the dollar extended its post-Fed decline after **disappointing US Q2 GDP growth**. At the same time, the EMU data were marginally supportive for the euro. EUR/USD trades in the 1.1155 area. **The 1.1189 resistance is again within reach**. USD/JPY dropped below the 103 big figure (currently at 102.90). This move is both due to USD weakness and yen strength in the wake of this morning's BOJ decision.

Overnight, the BOJ left its policy rate at -0.1% and didn't change the target of its monetary base expansion (JPY 80 Trillion annual pace). At the same time, it raised its purchases of ETFs and increased an USD lending programme. The BoJ action clearly undershot market expectations that were created after PM Abe announced a JPY 28 billion stimulus package. USD/JPY dropped (temporary) below 103, but rebounded as did Japanese equities. The Nikkei initially lost more than 2%, but soon reversed the losses (effect of ETF buying?). The impact of the BOJ decision on other major cross rates was modest. EUR/USD held in the 1.1080 area.

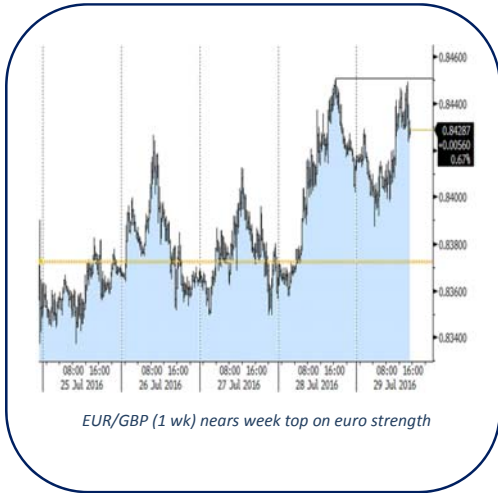
The small BoJ easing step had only a limited impact on markets outside Japan. Yields in the US and Europe rose a few basis points., but with no negative impact on equities. At first, there was no clear trend in EUR/USD. **However, the downside in most euro crosses was well protected**. **During the morning trade the EUR/USD gradually gained a few ticks**. **The moved accelerated slightly after the publication of the EMU GDP and CPI data**. EMU Q2 GDP growth was as expected at 0.3% Q/Q and 1.6% Y/Y. Inflation was marginally higher than expected at 0.2% Y/Y (0.9% Y/Y for the core). As such, these data have no policy implications, but it was enough to push EUR/USD north of 1.11. **At the same time the dollar traded a bit weakish**. The topside in USD/JPY was blocked and the pair drifted back lower in the 103 big figure. EUR/USD traded near 1.1110 around noon. USD/JPY changed hands in the 103.55 area.

In the US, **Q2 GDP was substantially weaker than expected at 1.2% Q/Qa, even as consumption was very strong (4.2% Q/Qa.)** Yields declined and the dollar drifted further south against the yen and the euro. EUR/USD trades currently at 1.1155. The key 1.1189 post-Brexit top is again within reach. USD/JPY is changing hands at 102.90.

### Sterling driven by USD and euro performance

This morning, July GfK consumer confidence dropped sharply, but the report had again only a limited impact on sterling. The UK currency traded marginally stronger against the dollar. However this was mostly due to dollar softness. In technical trade, cable tried to regain the 1.32 barrier, but the attempt failed. EUR/GBP initially hovered in the low 0.84 area. Mid-morning, the **UK lending data were not too bad**, but it didn't help sterling. EUR/GBP even trended higher and the move accelerated as EUR/USD returned north of 1.11. EUR/GBP already neared yesterday's top (0.8450) around noon.

The US Q2 GDP was slight negative for the dollar. Remarkably, **in this move cable even slightly outperforms EUR/USD.** EUR/GBP trades currently at 0.8435. Cable jumped sharply higher to trade in the 1.3225 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	-0.51%			-0.10%			0.36%		
Greece	#VALUE!	#VALUE!	#VALUE!	8.16%	826	10.3	#VALUE!	#VALUE!	#VALUE!
Portugal	1.72%	224	-3.1	2.95%	305	-0.6	3.80%	344	0.9
Italy	0.30%	81	-0.8	1.19%	128	-0.5	2.19%	183	0.6
Spain	0.19%	70	-1.9	1.04%	114	-3.9	2.10%	174	-3.3
Ireland	#VALUE!	#VALUE!	#VALUE!	0.44%	54	-0.1	1.12%	76	-0.4
Belgium	-0.45%	6	-0.3	0.14%	24	-0.1	0.94%	58	-0.6
France	-0.38%	13	-0.3	0.12%	22	0.1	0.85%	49	-0.6
Austria	-0.43%	8	-0.2	0.07%	17	-1.2	0.69%	33	-0.1
Netherlands	-0.45%	6	-0.3	0.01%	10	-0.9	0.44%	8	-0.2
Finland	-0.46%	5	-1.1	0.04%	14	-1.0	0.44%	8	-0.4
US	1.05%	156	-3.2	1.49%	158	-1.1	2.23%	187	0.8
UK	0.30%	81	0.7	0.71%	81	0.9	1.59%	123	-0.2

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