



## Sunset

Monday, 24 October 2016

### Headlines

- **European equity markets** profited from positive Asian risk sentiment and gained 0.5%-1%. The move mainly occurred in the opening, after which sideways trading developed. **US stock markets** also opened around 0.5% higher.
- **Euro-area economic momentum accelerated to the fastest pace this year**, adding to evidence that growth is becoming more resilient. The October composite PMI rose to 53.7 in October from 52.6 in September (vs 52.8 expected), IHS Markit said. This is the fastest pace since the beginning of 2016.
- **The Belgian government says that it cannot yet give the necessary backing to the European Union's free trade deal with Canada**, making it unlikely that the bloc can sign the deal officially on Thursday as planned.
- **Oil prices were muted today** as details for any coordinated supply deal among the world's biggest producers remained scant, despite the Saudi energy minister saying the Kingdom and Russia "are getting closer" to reaching a common viewpoint.
- **AT&T's blockbuster \$85.4B deal to buy Time Warner promises to reshape the media landscape**—if the companies can navigate a series of obstacles, including possible opposition from U.S. antitrust authorities and objections by lawmakers and media and telecom rivals.

### Rates

#### Lackluster start to trading week

**Global core bonds traded lacklustre today.** An initial surge higher of European equities didn't weigh on the Bund. The EMU October PMI's surprised on the upside of expectations, but also failed to impact trading. The composite reading even surged to the highest level since the end of last year (53.7). On a national level, German PMI readings also printed very strong, while French PMI's painted a mixed picture. **St-Louis Fed governor Bullard** repeated his deviating view on US monetary policy. He favours one more rate hike this year, but no more over the rest of the Fed's forecast horizon. **Oil prices** edged lower as oil production cut talks between Saudi Arabia and non-OPEC members advance with difficulty. **At the time of writing**, changes on German yield curve range between -0.3 bps (10-yr) and + 0.9 bps (30-yr). The US yield curve shifts up to 1 bp higher. On intra-EMU bond markets, Portugal (-7 bps) and Spain (-3 bps) outperform. Portuguese bonds profit from DBRS's decision to keep the BBB- rating unchanged, while Spanish bonds advance as the political stalemate could end as the Socialists' party no longer will veto a Rajoy-led minority government.



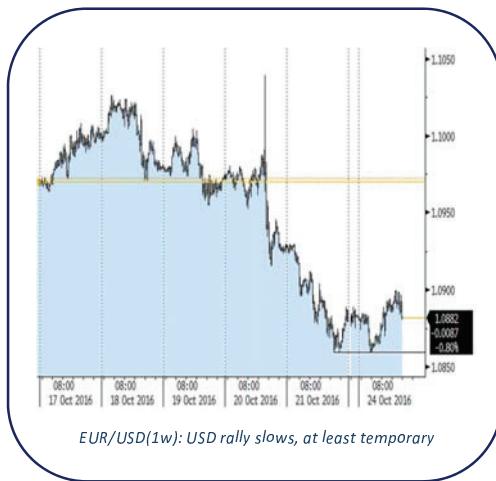
German Bund (intraday, 3 days): consolidation after one-off correction higher post-ECB.

The Belgian debt agency successfully tapped the on the run 10-yr OLO 77 (€0.49B 1% Jun2026), on the run 15-yr OLO 75 (€0.68B 1% Jun2031) and off the run 30-yr OLO 71 (€0.64B 3.75% Jun2045). The total amount sold was the maximum of the relatively low amount on offer (€1.5-1.8B) with a high auction bid cover of 2.26. The Belgian treasury now raised €34.69B of this year's upwardly revised €36.5B OLO funding target (95%). Austria mandated bank to manage a new 7-yr syndication (Jul2023) in the near term and also explored the possibility of a 70-yr (!) tranche.

## Currencies

### USD rally runs into resistance even as equities gain

Today, the recent dollar rebound ran into resistance. Risk sentiment was constructive, but it didn't help the dollar as the US currency lacked additional interest rate support. USD/JPY holds close to the 104 mark. EUR/USD trades off the recent lows and changes hands around 1.0890.



**Overnight**, Asian equities traded in positive territory. Chinese equities outperformed even as the yuan declined further and as capital outflows rose. The off-shore yuan traded near the historic lows. CNY traded at the weakest level in more than six years. The trade-weighted dollar reached the highest level since February. EUR/USD traded in the 1.0860/75 area, near the recent lows. USD/JPY stabilized in a tight range mostly just below 104.

European equities joined the positive sentiment from Asia, opening with good gains. However, there was no obvious impact from the equity rally on global bonds or on the dollar. EUR/USD dropped a few ticks at the start of European equity trading. However, the decline of the euro/rise of the dollar was blocked. A modest decline in core bond yields maybe capped the topside of the dollar. The EMU PMI's printed stronger than expected (53.7 from 52.6; 52.8 expected). **The strong PMI also helped to put a floor for EUR/USD. The pair drifted gradually higher in the 1.08 big figure. Remarkably, USD/JPY again didn't profit from the equity rally.** The pair was locked in a tight sideways range just below 104. There was no high profile macro news in the US. US equities opened strong, but as was the case in Europe, failed to impact bonds or the dollar. EUR/USD still trades just below the 1.09 barrier. USD/JPY records only very modest gains even as equities continue to trend north. The pair currently tries to regain the 104 mark..



### Sterling drifts sideways in technical trade

There was no obvious story to guide sterling trading. **Trading in the UK currency was mostly order driven and technical in nature.** The **CBI data/reports** showed a mixed picture. Business see a rise in external competitiveness due to the weaker pound. There are also tentative signs of an improvement in investment intentions. However, October orders disappointed. The report had hardly any impact on sterling trading. EUR/GBP held a tight sideways range around the 0.89 big figure. Cable rebounded from the 1.2200 area this morning to the 1.2230/40 area currently. However, this move is mostly the result of this morning's limited decline of the dollar, rather than anything else.

16:00 CET

**Daily EMU spread changes (bps)**

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,50%			0,01%			0,64%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,43%	842	-2,1	#VALUE!	#VALUE!	#VALUE!
Portugal	1,76%	226	-4,1	3,11%	310	-8,6	4,06%	342	-7,6
Italy	0,35%	84	-1,5	1,36%	135	-1,4	2,47%	183	-2,7
Spain	0,10%	59	-2,3	1,08%	107	-3,6	2,19%	156	-4,4
Ireland	#VALUE!	#VALUE!	#VALUE!	0,46%	45	-0,8	1,32%	68	-1,0
Belgium	-0,43%	6	-1,4	0,22%	21	-1,4	1,18%	54	-1,4
France	-0,38%	11	-0,6	0,28%	27	-1,1	1,10%	46	-0,9
Austria	-0,40%	9	0,0	0,19%	18	-0,3	1,01%	37	2,8
Netherlands	-0,41%	8	-0,6	0,11%	10	-0,6	0,70%	6	0,1
Finland	-0,46%	4	-0,8	0,13%	12	-0,8	0,68%	4	-0,6
US	1,25%	175	0,7	1,75%	174	0,8	2,50%	187	-0,1
UK	0,49%	98	-0,1	1,08%	107	-1,5	1,72%	108	-3,6

## Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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