



Sunset

Thursday, 27 October 2016

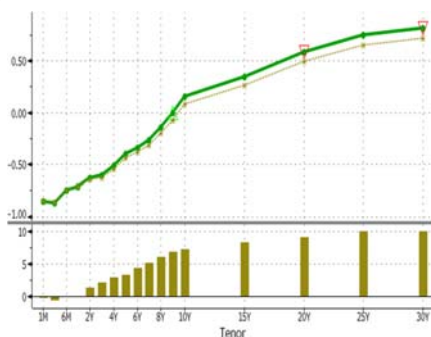
Headlines

- **European equities** trade mixed around opening levels. **US stock markets** open with limited gains. **Twitter** said it would cut 9% of its global workforce to keep costs down as the microblogging service reported quarterly results that beat Wall Street expectations, lifting shares.
- The **Swedish Riksbank** kept its monetary policy unchanged, but assesses that the repo rate needs to be held at -0.50% for six months longer than previously thought, until early 2018. The probability that the rate will be cut further has increased. The Riksbank is prepared to extend the purchases of government bonds if necessary.
- **Norway's central bank** kept its key interest rate unchanged at 0.50% , in line with forecasts, as the economy continued to show signs of recovery after a two-year slump and rates were low or negative among Norway's trading partners.
- The **UK economy** slowed less than economists' forecast in the quarter after the Brexit vote because of a surge in services, providing ammunition for critics of those who warned of a possible fallout before the referendum. The 0.5% Q/Q expansion was better than the 0.3% Q/Q median forecast.
- Belgium agreed a deal with its regional parliaments to approve a **landmark EU-Canada free trade agreement**, breaking a deadlock that has blocked the pact for weeks.
- **Shipments of US non-defense capital goods**, which are used in calculating gross domestic product, fell an annualized 4.4% in the three months ending in September. They were up 0.3% from a month earlier after being little changed in August. **Weekly jobless claims** remain close to historically low levels (258k).

Rates

“Panic in needle park”: Core bonds hammered

Core bonds sold off for a second consecutive session with German Bunds underperforming both gilts and US Treasuries. **A stronger than expected UK Q3 GDP (see headlines) triggered the selling, but that isn't the complete story.** Technical elements played a role too. The Bund future fell through the key 163 support level and dropped even below 162.56 (intraday low on a failed test in September). The German 10-yr yield rose above 10 bps resistance, adding weight to the technical break of the Bund. Around European noon, a smaller selling wave pushed the contract to a 162.23 low, nearly 100 ticks below opening levels, before sideways trading kicked in going towards the US data releases. **Other eco data, equities, oil, the euro or other “event” news couldn't justify the extend of the sell-off. Nervousness on European bond markets increased since a Bloomberg article suggested early October that an informal consensus was building amongst policymakers that asset purchases would**



German yield curve steepens sharply (up to 10 bps).

have to be tapered, but not necessarily immediately after the end of March.

Given the one-side positioning of the market, it make sense that some investors want to take some chips from the table. Interestingly, these sharp sell-offs occur in high volume sessions.

The US eco data, claims and durable orders, were too close to expectations to have a noticeable impact. Core bonds tried to regain some ground, but the sellers left the dug-out again and pushed the Bund to 162.13 (new low) and the T-Note to 129-14+. **The technical picture of US Treasuries also becomes bearish. The 5, 10- and 30-yr yields trade above key yield resistance at 1.27%, 1.75% and 2.5% respectively. Next key resistances stand at 1.42%, 2% and 2.75% respectively.**

At the time of writing, the German curve bear steepens with yields between 0.9 (2-yr) and 9.5 bps (30-yr) higher. The US curve steepens as well with yields 1.4 bp (2-yr) to 4.6 bps (30-yr) higher. Sterling yields increase by 5.2 bps (2-yr) to 11.5 bps (30-yr).

Currencies

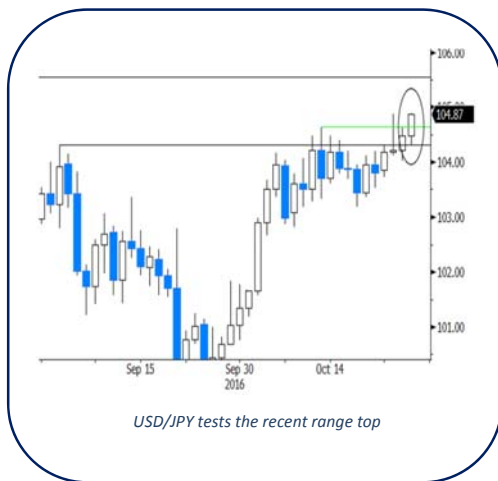
USD/JPY 105 level within reach

Today's trading dynamics was in line with yesterday's price action. Core bonds yields rose again quite sharply and interest rate differentials moved in favour of the euro. EUR/USD rose marginally and trades currently around 1.0920. USD/JPY remains well bid and tests the recent highs.

Overnight, Asian equities corrected slightly further, but losses remained modest. The rise in global yields and the strong dollar are mixed for Asian markets. The trade-weighted dollar held within reach of the seven month top. USD/JPY traded in the mid 104 area. **The dollar (and the euro) again outperformed the yen on higher core yields.** EUR/USD changed hands in the 1.0900 area at the start of European dealings, off yesterday's intraday top around 1.0945.

In European trading, the moves in EUR/USD and USD/JPY were rather limited even if the underlying trading dynamics were similar to yesterday. Core yields continue to rise. In the bond sell-off, European bonds underperformed their UK/US counterparts. The decline in the US/EMU interest rate differential marginally supported EUR/USD. The data were again of little importance for trading. EMU lending data were in line with consensus. **The US data (jobless claims slightly higher, durable orders mixed) also contained no clear signal for USD trading.** EUR/USD currently changes hands in the 1.0920 area, marginally higher compared to the start in Europe. USD/JPY continues to profit from higher core (USD/EMU) yields. The pair currently tests the recent highs in the 104.85 area. Contrary to yesterday, equity markets trade in positive territory and don't hamper the topside in USD/JPY.

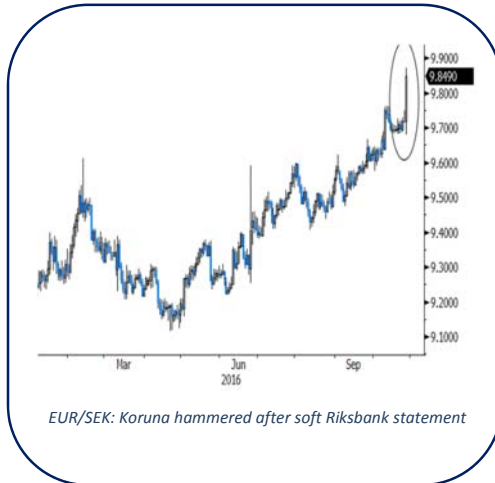
Among the smaller currencies **the Norwegian and the Swedish crown reacted in a different way to policy decisions of their respective central banks.** The NOK gained as the Norges bank left its policy unchanged. Governor Olson indicated that the krone was stronger than anticipated, but the policy assessment was balanced with no hint on further easing. EUR/NOK dropped below 9.00. **The**



Swedish Riksbank remains remarkably soft. The bank still sees a good chance for further easing and delayed the timing of the expected first rate hike. The SEK weakened with EUR/SEK setting new short-term highs north of 9.85.

Sterling doesn't profit from strong UK Q3 GDP

Sterling traders focused on **the first estimate of the UK Q3 GDP**. UK growth was again substantially stronger than expected at 0.5% Q/Q and 2.3% Y/Y with growth based in the services sector. Industrial production and construction contributed in a negative way (-0.4%; -1.4%). Sterling gained temporary ground after the publication of the report, but the gains could not be sustained, even as short-term UK bond yields trended higher. The CBI reported sales also printed stronger than expected, but had no lasting positive impact on sterling. **Markets maybe don't expect the Q3 growth rates to be sustainable as the Brexit debate continues. The ongoing rise in EMU and US yields probably also prevented sterling gains.** EUR/GBP trades currently around 0.8935. Cable changes hands in the 1.22 area. So, the strong GDP data are largely ignored.



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,40%			0,16%			0,82%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,30%	814	-5,6	#VALUE!	#VALUE!	#VALUE!
Portugal	1,79%	219	-2,5	3,28%	311	-0,8	4,21%	339	-3,6
Italy	0,47%	87	1,5	1,52%	136	-1,1	2,65%	183	-2,1
Spain	0,17%	57	1,3	1,20%	104	-0,5	2,36%	154	-0,7
Ireland	#VALUE!	#VALUE!	#VALUE!	0,61%	45	-1,5	1,50%	68	-1,2
Belgium	-0,35%	6	-0,3	0,38%	22	-1,0	1,37%	55	-0,8
France	-0,30%	10	-0,3	0,44%	28	-0,3	1,30%	48	-0,3
Austria	-0,33%	8	-0,1	0,34%	18	-0,9	1,15%	33	-0,3
Netherlands	-0,32%	8	0,8	0,26%	10	-0,5	0,88%	6	-0,3
Finland	-0,37%	3	-0,6	0,29%	12	-0,5	0,85%	3	-0,5
US	1,34%	175	0,5	1,85%	169	-2,3	2,60%	178	-4,1
UK	0,61%	101	3,8	1,26%	110	3,0	1,87%	105	-1,3

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