



## Sunset

Friday, 28 October 2016

### Headlines

- **European equities** trade marginally lower as European and US macro data failed to give clear guidance. **Major US equity indices** opened marginally stronger on mixed earnings.
- **The ECB will provide stimulus until a sustained inflation rebound**, even as its unprecedented measures come with side effects and face constraints, two policymakers said (Coeure and Lane).
- **Euro zone economic sentiment was much better than expected** in October driven by higher optimism in industry and services. The EC's economic sentiment indicator rose to 106.3 in October from 104.9 in September, well above market expectations of a small decline to 104.8.
- **The American economy expanded at a 2.9% annualised rate in the third quarter**, a rise from 1.4% notched in the second quarter, according to a first reading on gross domestic product from the Commerce Department. Economists expected a reading of 2.6%.
- **Inflation in Germany rose to its highest level in two years** in October, in the latest sign of strength in Europe's largest economy. Prices rose 0.7% Y/Y in October, the fastest rate of increase since October 2014.
- **Shares in brewing behemoth Anheuser-Busch InBev** are among the biggest fallers in Europe on Friday morning, after its earnings missed expectations in the third quarter, dragged down by slumping demand in Brazil.
- **Turkey's currency has hit a fresh record low** against the dollar and is still sliding this morning, after being hit with a double whammy of disappointing tourism statistics and higher inflation forecasts yesterday

### Rates

#### Consolidation on bond markets

**Core bond markets consolidated today following this week's sell-off, but yesterday's important technical breaks are confirmed. At the time of writing,** changes on the German yield curve range between -2 bps (30-yr) and +0.6 bps (2-yr). US yields decline by 1.2 bps (2-yr) to 0.1 bp (30-yr), bull steepening the curve. **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany widen up to 3 bps with Greece (+11 bps), Italy (+7 bps) and Portugal (+6 bps) underperforming.

The Bund immediately tested the downside at the start of European dealings, but the move lacked Wednesday's and yesterday's momentum. The contract returned towards opening levels and hovered around them for the remainder of trading. **Rate markets ignored better than expected EMU EC confidence data and the highest German inflation reading since the end of December 2014.** During US dealings, the US Note future made a final attempt to reach new



intraday lows as Q3 GDP beat expectations. **The move lacked follow-up selling and we think that some investors will now take some chips off the table going into the weekend.** End-of-month extension buying could also be at play.

**The Italian debt agency tapped the on the run 5-yr BTP (€2.75B 0.35% Nov2021) and 10-yr BTP (€2.5B 1.25% Dec2026).** The combined amount sold was the maximum of the targeted €4.25-5.25B. The auction bid cover was relatively low (1.36), but in line with Italian averages. Additionally, the Italian treasury raised €3.25B with a new 7-yr floating rate note (CCTeu).

## Currencies

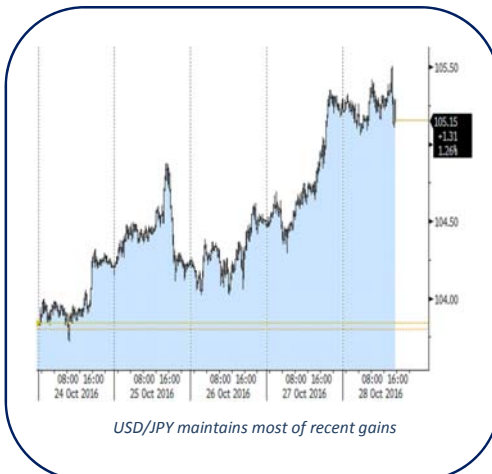
### US Q3 growth not strong enough for further USD gains

**The dollar showed no clear directional trend today. Interest rates initially showed some nervous swings but didn't provide a clear guidance for USD trading. US Q3 GDP was marginally stronger than expected, but not strong in enough to support sustained further USD gains. EUR/USD hovers in the lower half of the 1.09 big figure. USD/JPY maintains most of its recent gains and trades in the 105.20 area.**

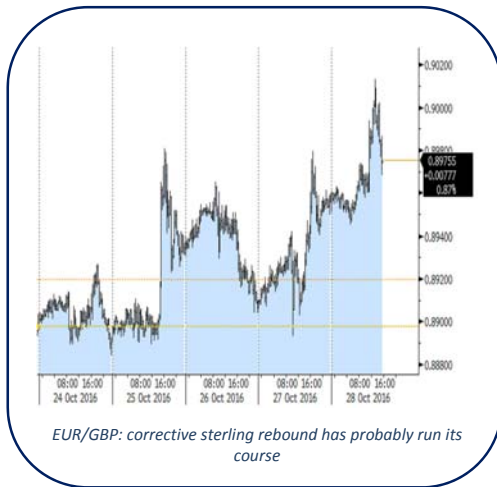
**Overnight,** Asian equities traded mixed. Most indices showed modest losses as investors ponder the potential impact of a strong dollar and higher (core) yields. Japanese eco data were stronger than expected. Above consensus inflation data particularly caught the eye. Japanese yields traded marginally higher, but the rise remained modest given what happened in the US and Europe yesterday. USD/JPY traded north of 105. Japanese equities outperformed on the weaker yen/stronger dollar. EUR/USD showed no clear direction and held near 1.09.

**In Europe,** interest rates initially extended yesterday's rise. However, at the margin, the interest rate differentials moved slightly in favour of the euro rather than the dollar. EUR/USD gained a few ticks in the 1.09 big figure. USD/JPY remained well bid north of 105. The EMU eco data (Spanish GDP, EC confidence data) were good. However, they had no big impact on interest rate markets or on currencies.

**In the afternoon,** German HICP inflation rose to 0.7% Y/Y, close to expectations. US Q3 GDP was marginally stronger than expected at 2.9% Q/Qa (2.6% Q/Qa expected). This was also the case for the core PCE deflator (1.7%). US/core bond yields jumped temporary higher after the publication of the report. However, the rise again didn't help the dollar. **EUR/USD trades currently around 1.0915. USD/JPY changes hands in the 105.20 area.** Both cross rates trade very close to European opening levels. Interest rate markets and the dollar take a breather after recent (sharp) moves.



## Sterling trades again slightly softer after recent rebound



*EUR/GBP: corrective sterling rebound has probably run its course*

There were no important eco data in the UK today. In technical trade, sterling initially traded sideways to marginally lower. The **UK currency temporary spiked lower as a court in North Ireland decided that no approval from lawmakers is needed to start the Brexit process.** The ruling is expected to hand the government some more decision room and raises chances on a hard Brexit. EUR/GBP jumped temporary north of 0.90. Cable filled bids in the 1.2115 area. However selling pressure on sterling eased latter in the session. EUR/GBP trades currently just below 0.90. Cable changes hands in the 1.2160 area. **Today's price action suggest that the recent sterling rebound might be over and that political event risk remains an important source of uncertainty for sterling.**

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%			0,17%			0,81%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,39%	822	0,2	#VALUE!	#VALUE!	#VALUE!
Portugal	1,89%	229	7,5	3,35%	318	7,0	4,32%	351	11,1
Italy	0,56%	95	7,2	1,60%	144	7,4	2,74%	193	9,0
Spain	0,22%	61	3,9	1,23%	106	3,6	2,40%	160	4,7
Ireland	#VALUE!	#VALUE!	#VALUE!	0,63%	46	2,0	1,50%	70	1,8
Belgium	-0,32%	8	0,9	0,40%	23	0,8	1,36%	56	0,7
France	-0,27%	12	1,8	0,47%	30	1,6	1,30%	49	1,0
Austria	-0,31%	8	0,1	0,35%	18	-0,1	1,13%	33	0,0
Netherlands	-0,31%	9	0,2	0,27%	10	0,0	0,87%	6	-0,0
Finland	-0,34%	5	1,8	0,30%	13	0,2	0,84%	3	0,4
US	1,34%	174	-0,8	1,85%	168	0,1	2,61%	180	2,2
UK	0,61%	101	0,7	1,26%	109	1,0	1,90%	109	5,9

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