



Sunset

Tuesday, 10 January 2017

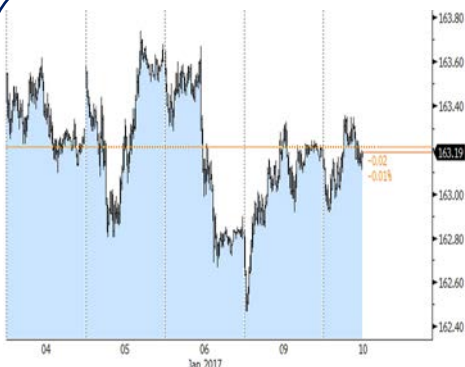
Headlines

- **European stock markets trade little changed in an uneventful session. US equities opened little changed too.**
- **Optimism among America's small businesses** soared in December by the most since 1980 as expectations about the economy's prospects improved dramatically in the aftermath of the presidential election. The NFIB's index jumped 7.4 points last month to 105.8, **the highest since the end of 2004**, from 98.4 (vs. 99.5 expected).
- **Czech inflation surged more than expected in December**, from 1.5% Y/Y to 2.0% Y/Y, the highest level since the end of 2012. The inflation rate hit the central bank's target six months earlier than the CNB anticipated in November 2016 and **raises rumours about scrapping the EUR/CZK 27.00 peg** at the start of Q2 2017.
- Christmas food promotions dragged **Norway's inflation rate lower than economists had expected** in December (3.5% Y/Y vs 3.9% Y/Y expected). Underlying inflation declined from 2.6% Y/Y to 2.5% Y/Y.
- The **Turkish lira slumped to new lows**, passing EUR/TRY 4.00 for the first time and extending a slide since the start of the year, as a deputy prime minister repeated a warning that the economy was under attack.
- **Germany's BDI industry association sees growth of about 1.5% this year for Europe's biggest economy**, with worries about U.S. President-elect Donald Trump's trade policy and about Chinese state interference dampening expectations.
- **Banks with large London operations say they will step up lobbying European officials** because they are running out of arguments to convince the British government the industry needs single market access after Britain leaves the European Union.
- S&P downgraded almost three times as many countries' sovereign credit ratings as it upgraded in 2016, and **the ratings agency has predicted that the trend is likely to accelerate this year.**

Rates

Listless sideways bond trading.

Today, markets waited in vain for some theme to trade on, but didn't find it. So, sentiment-driven, directionless, thin trading was name of the game. In a daily perspective, German yields are less than 1 bp higher across the curve, while US yields are up between 1.5 and 2 bps. On intra-EMU bond markets, 10-yr yield spreads versus Germany varied between -1 bp (Spain, Ireland) and +2 bps (Belgium). Portugal underperformed (+5 bps). Regarding **economic releases**, French production was unusually strong in November, but the surprise of the day was the surging US small business sentiment in December, another Trump effect. Neither are market movers and consequently didn't affect trading. The auctions went well, but couldn't stir much fuss. **Oil and equities traded sideways and so did core bonds, even as a very small downward bias was visible in the US Treasury market, but too small to give it many considerations.**



German Bund (5 days): sideways in a 100 ticks range.

Later today, the US Treasury issues a \$24B 3-year Note, while tomorrow the great Trump press conference will draw attention.

The Austrian treasury successfully tapped the run 10-yr RAGB (€0.65B 0.75% Oct2026) & 30-yr RAGB's (€0.35B 1.5% Feb2047). The amount sold was the maximum on offer and the Bundesbank set aside an additional 10% of each allotted volume as a quota for the Bund. The auction bid cover was very strong: 2.78. **The Dutch debt agency tapped the on the run 30-yr DSL (€0.94B 2.75% Jan2047).**

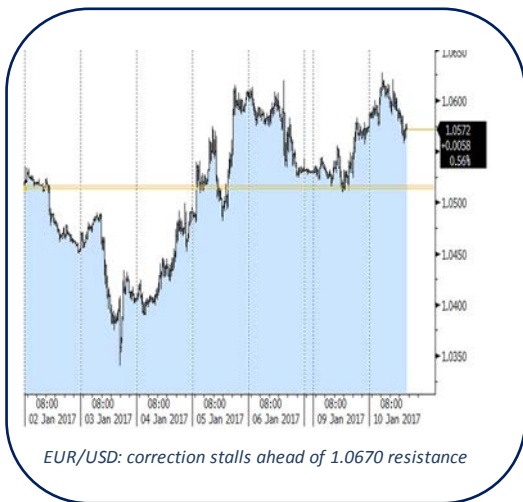
Currencies

USD correction looking for a bottom

Trading in the major dollar cross rates was technical in nature as there was no important economic news today. The dollar faced some follow-through losses on yesterday's correction in Asia, but the decline slowed in Europe and rebounded slightly later in the session. EUR/USD trades currently in the 1.0570/75 area. USD/JPY is trading in the low 106 area.

Early in Europe, there was no unequivocal story to guide USD trading. Global trading developed a bit nervous/in risk off modus. However, equities soon found their composure and settled in a sideways consolidation pattern near yesterday's closing levels. **In technical trade, the dollar bottomed out and even started a very gradual intraday rebound.** The move was supported by a limited rise in the interest rate differential between the US and German/Europe.

The **US NFIB small business confidence** jumped to a multi-year top. There was no instant reaction of the dollar, but the US currency gained further ground later as US traders joined the fray. USD/JPY trades currently in the 116.10 area. EUR/USD returned south and trades currently in the 1.0570 area. **So, yesterday's USD correction halted and no important technical levels were broken. USD traders are waiting for new input before engaging in a new directional move.** The eco calendar is again thin tomorrow, but maybe the speech of President elect Trump might inspire global (currency) trading.



Sterling decline halts, but EUR/GBP stays north of 0.8668

Yesterday, sterling came under further pressure as comments from British PM May were seen raising chances on a hard Brexit. This Brexit-driven decline of sterling continued in Asia this morning. The BRC like-for-like for like retail sales were ok, but didn't help sterling. **EUR/GBP extended its rally north of 0.87 and touched a new intraday top in the 0.8760/65 area.** During the morning session, the rise of EUR/GBP stalled. A gradual decline of EUR/USD probably also capped the topside in EUR/GBP. At the same time, the decline of cable slowed, too. In technical trade, EUR/GBP returned to the 0.87 area. Cable stabilized in the mid 1.21 area. Even so, EUR/GBP holds north of the 0.8668 previous top. The recent decline still suggests that sterling has again become more vulnerable to negative headlines on Brexit and to a deterioration in global risk sentiment on risk.



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,48%			0,28%			1,05%		
Greece (3-10-20)	6,99%	747	-5,1	6,90%	662	0,0	7,42%	637	2,1
Portugal	1,96%	244	0,5	4,02%	374	4,6	4,94%	388	1,4
Italy	0,64%	112	-1,0	1,90%	162	0,4	3,05%	200	-3,1
Spain	0,25%	72	-1,9	1,46%	118	-1,3	2,74%	169	-3,3
Ireland (4-10-30)	-0,37%	11	-0,1	0,92%	64	-1,0	1,99%	94	-0,5
Belgium	-0,32%	16	0,2	0,69%	41	1,5	1,77%	72	0,6
France	-0,02%	45	-0,4	0,80%	52	0,4	1,76%	71	0,2
Austria	-0,31%	17	-0,9	0,53%	25	0,5	1,46%	41	-1,9
Netherlands	-0,29%	18	-0,7	0,43%	15	-0,2	1,14%	9	-0,1
Finland	-0,38%	10	0,6	0,45%	18	-1,1	1,16%	11	1,1
US	1,88%	236	0,2	2,38%	210	1,7	2,98%	192	2,1
UK	0,58%	106	0,7	1,34%	106	0,3	1,98%	93	-0,2

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