



Sunset

Wednesday, 11 January 2017

Headlines

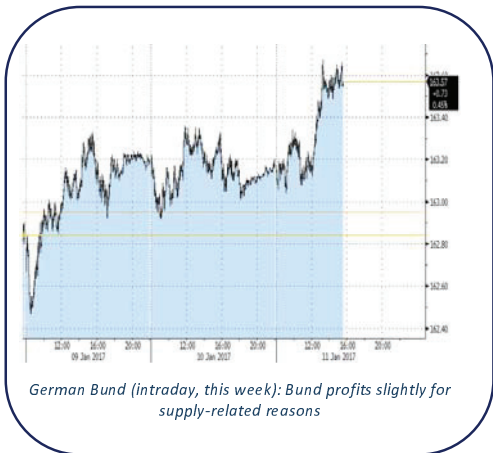
- **European main equity markets** show negligible gains at the closure of our report. An early dip was fast undone and followed by sideways trading just above opening levels. **We expect a nearly unchanged opening in the US**, as traders await the press conference of Donald Trump.
- **UK November industrial production** increased by more than expected in November (2.1% m/m) following an upwardly revised 1.1% m/m decline in October. **UK trade data** painted a less bright picture with a huge deterioration of the trade deficit (from £9.89B to £12.16B).
- **Poland has kept its key interest unchanged at its record low level (1.5%)** in January in the face of a slowing economy and a worsening in its public finances.
- **Berlin's chief economist has firmly rebuffed suggestions that Europe's largest nation should spend more** in an attempt to lift growth across the continent, accusing some of the world's foremost economic institutions of being "short sighted". In 2016, **Germany managed to post a €5-7B budget surplus, according to sources.**
- **A potential assembly election in Northern Ireland will not disrupt the UK government's plans to invoke Article 50** to begin the process of leaving the EU by the end of March, UK prime minister May has said.
- **Italy's constitutional court has rejected a bid by the country's top union to hold a referendum on a key provision of the 2015 labour market reform** which makes it easier for companies to fire workers, handing a victory to Matteo Renzi, the former prime minister who engineered the overhaul. However, it approved a plebiscite on two other less important measures.
- **U.S. President-elect Donald Trump** said that Russia had never tried to use leverage with him and blamed intelligence agencies for news reports that Moscow had compiled compromising information on him. Later today, the US president-elect holds **his first formal press conference since the November elections.**
- The head of the euro zone banking watchdog said she had **no concerns about how EU bank failure rules had been applied in the public rescue of Italy's Banca Monte dei Paschi di Siena.** Rome used a clause on banking liquidation to reduce losses on BMPS creditors.

Rates

Bund outperforms (supply) while Treasuries sidelined

Global core bonds traded with a small upward bias in a trading session to rapidly forget about. German Bunds outperformed US Treasuries. The German yield curve bull flattened with yield changes ranging between flat and -3.4 bps (30-yr). Changes on the US yield curve vary between -0.4 bps (2-yr) and -0.8 bps (5-yr). **On intra-EMU bond markets**, taking into account a Bloomberg German 10-yr benchmark change, peripheral 10-yr yield spreads versus Germany narrow 3 bps (Spain/Italy) to 9 bps (Portugal). **Italian BTP's profited from the constitutional court's trade union request rejection** to hold a referendum on a key provision in Renzi's 2015 labour market reform. However, it approved a

plebiscite on two less important measures. BTP's aren't out of the woods yet though this week with a planned **DBRS rating review** on Friday. DBRS is the only rating agency which rates Italy in the "A" category. **Portuguese bonds** outperformed following a successful 10-yr syndicated bond sale (see below).



German Bund (intraday, this week): Bund profits slightly for supply-related reasons

Intraday, core bonds traded listless until European noon amid an empty eco calendar. Afterwards, Bunds outperformed US Treasuries. We think the reason is supply-related. First, today's German Bund auction was well received. Second, German Finance Ministry's chief economist Schuknecht renounced suggestions that Germany has leeway issue more debt for fiscal spending. Third, Reuters reported that the country ended 2016 with a €5-7B budget surplus. **From the US side, we think that investors shunned position taking ahead of US president-elect Trump's first press conference later today.**

The German Finanzagentur successfully issued a new 10-yr Bund (€5B 0.25% Feb2027). Total bids amounted to €7.13B, way above the €4.35B average at the previous 4 Bund auctions. The Bundesbank set aside €0.982B for secondary market operations, resulting in a solid 1.8 bid cover. The auction had a small, 1 cent, tail. **The Portuguese debt agency launched a new 10-yr benchmark via syndication (€3B Apr2027).** The bond was priced to yield MS + 352 bps, tighter than initial guidance in the MS+355/360 bps area. Portugal aims to raise between €12B and €14B via bonds this year. **Later today, the US treasury continues its mid-month refinancing operation with a \$20B 10-yr Note auction. Currently, the WI trades around 2.38%.**

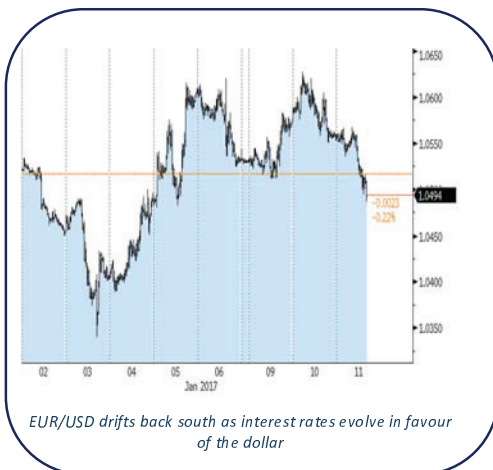
Currencies

USD succeeds cautious rebound ahead of Trump speech

With no important eco data in Europe and in the US, USD trading was again order driven and technical in nature. During the morning session, interest rate developments evolved slightly in favour of the dollar. EUR/USD dropped to the 1.05 area. USD/JPY tried to sustained north of the 116 big figure. Even so, the USD moves are modest as (currency) markets await the speech of president-elect Trump later today.

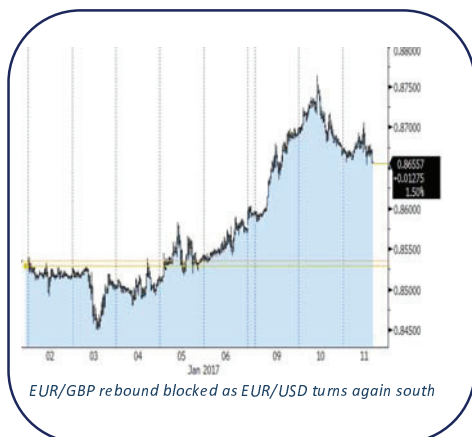
Overnight, most Asian equities traded positively, with China underperforming. The dollar traded marginally stronger despite a rise of commodities and commodity-related assets. USD/JPY hovered in the 116 area. EUR/USD traded marginally softer in the mid 1.05 area going into the start of European trading.

There were no important eco data in Europe today. Even so, European bonds outperformed their US counterparts. **So, interest rate differentials moved again slightly in favour of the dollar.** There was no obvious explanation for the interest rate difference. German politicians rejecting the case of Germany using its strong budgetary position for more fiscal stimulus might have played a role (see fixed income part of this report). Whatever the reason, EUR/USD extended its gradual decline from Asia and filled bids just below 1.05 at the start of US dealings. USD/JPY traded also with a slightly positive bias and tried to sustain north of the 116 big figure. There are also no important eco data in the US. The dollar holds close to the intraday highs against the euro and the yen as investors await a speech of president-elect Donald Trump at 17.00 CET. EUR/USD trades currently in the 1.0490 area. USD/JPY is changing hands in the 116.25 area.



EUR/USD drifts back south as interest rates evolve in favour of the dollar

Sterling ignores big UK trade deficit



Contrary to the US and Europe, there were quite some **interesting eco data in the UK**. UK November production data printed stronger than expected. At the same time construction output was weaker than expected and, even more important, **the trade deficit widened much more than expected as imports rose more than exports**. Investors gave a bit more weight to the rise in the trade deficit. **Sterling lost temporary ground and EUR/GBP returned to the 0.87 area, but the move had no strong legs**. EUR/GBP soon reversed the post-data uptick. The intraday decline of EUR/USD also capped the topside of EUR/GBP. EUR/GBP trades currently again in the 0.8660 area, little changed from yesterday's close. Cable was under moderate downside pressure as the dollar traded strong across the board. The pair trades currently in the 1.2115/25 area. So, after all the UK eco data had again no big impact.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,47%			0,34%			1,03%		
Greece (3-10-20)	7,05%	752	-0,6	6,88%	654	-6,8	7,42%	639	2,0
Portugal	1,97%	244	-1,0	3,95%	361	-15,8	4,94%	390	-1,3
Italy	0,62%	110	-2,3	1,86%	152	-10,4	3,01%	198	-3,1
Spain	0,22%	69	-3,1	1,41%	107	-11,9	2,69%	166	-4,0
Ireland (4-10-30)	-0,36%	12	1,7	0,90%	56	-8,1	1,96%	93	-0,9
Belgium	-0,32%	16	-0,1	0,65%	32	-8,5	1,75%	72	-1,0
France	-0,01%	46	0,5	0,78%	45	-7,6	1,73%	70	-0,9
Austria	-0,31%	16	-0,1	0,51%	17	-7,3	1,43%	40	-0,7
Netherlands	-0,29%	18	0,0	0,42%	8	-8,1	1,13%	9	0,0
Finland	-0,37%	11	0,7	0,44%	10	-7,7	1,14%	10	-0,1
US	1,88%	236	1,0	2,38%	205	-4,4	2,97%	194	2,8
UK	0,58%	106	-1,6	1,35%	101	-7,0	2,00%	97	1,5

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