



Sunrise

Monday, 30 January 2017

Rates: German inflation expected to hit 2% - More Bund losses?

German inflation is expected to hit the psychological 2%-mark for the first time since the end of 2012 which could inflict more losses on the Bund in the wake of last week's hawkish German ECB comments and technical break below the neckline of a double top. Risk sentiment is a wildcard for trading following this weekend's executive orders by US President Trump.

Currencies: Trump-migration uncertainty to weigh on the dollar?

At the end of last week, the dollar showed tentative signs of bottoming out. However, the uncertainty on the Trump immigration measures might create some nervousness on global markets. It weighs slightly on the dollar this morning. Is a further risk-off driven correction of the dollar in store?

Calendar

Headlines

S&P	↔
Eurostoxx 50	↘
Nikkei	↘
Oil	↘
CRB	↘
Gold	↘
2 yr US	↘
10 yr US	↘
2yr DE	↔
10 yr DE	↘
EUR/USD	↘
USD/JPY	↘
EUR/GBP	↘

- **On Friday, US equities ended a dull session virtually unchanged**, digesting new all-time highs set earlier in the week. Many Asian markets are closed. The others open in a modest risk off mode on Trump's immigration orders. For similar reasons, **bonds and gold are a bit higher and the dollar weaker**.
- Former French Education **Minister Hamon beats Manuel Valls for the Socialist presidential nomination** by an provisional 59% to 41%.
- **Italy's €20B government rescue fund is sufficient to recapitalize the country's troubled banks**, and about a third of the money will be used for Monte Dei Paschi, Bank of Italy governor Visco said
- **Turkey's rating was cut to BB+ from BBB- by Fitch** with stable outlook. It cited the toll of political developments on the nation's economy as the main reason. S&P and Moody's also have a junk rating for the country, suggesting that more investors may now shun Turkey's debt.
- **Fitch affirmed Denmark's AAA rating stable outlook** which reflects their wealthy, high-value added and diversified economy, strong institutions, low public debt and solid external finances. It also affirmed **Spain's BBB+ rating** (outlook stable). S&P affirmed the **Slovak A+ rating** (stable outlook)
- **Global opposition to U.S. president Trump intensified**, as world leaders including Canadian PM Trudeau and German Chancellor Merkel denounced his decision to limit entry from seven Muslim countries in the name of fighting terrorism.
- **Today, the eco calendar** contains the January **EMU economic confidence report** and **the German inflation data**, while Spain and Belgium report their Q4 GDP. In **the US**, the December personal Income and Spending data are released.

Rates

US GDP couldn't inspire trading

On Friday, core bonds hovered sideways in listless trading with an upward bias after the US eco data and positioning into of the weekend. The minor move higher was rapidly completed, after which more sideways trading kicked in. US equities ended nearly unchanged, while oil prices eased a bit throughout the session. In a daily perspective, the German yield curve bull flattened with yields in the 2-to-10-yr sector down 0.6 bps to 2.2 bps, while the longer end outperformed with the 30-yr yield down 4.1 bps. US yields fell between 0.6 bps (2-yr) and 2.6 (30-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany widened sharply for Greece (+24 bps) and less for Spain/Portugal (+4 bps). In the case of Greece, ongoing bailout disagreements might have played a role. Over the weekend, a draft IMF report showed that Greece's public debt and financing needs will prove explosive without additional debt relief. Belgian spreads widened mainly due to BB benchmark changes. The weak French performance, digesting the earlier issued French green bond which came with a big spread over the regular OAT might have played a role too.

European data in focus

The US data, PCE and pending home sales won't affect markets much. The former figures are already included in Friday's released Q4 GDP report and the latter is no market mover. The euro area data are more interesting. German inflation is expected to have dropped sharply on a monthly basis, but due to an energy basis effect, the Y/Y inflation is expected to jump to 2% Y/Y from 1.7% Y/Y in December. This is political sensitive, even if it largely a basis effect, and will increase resistance from German side against the ECB's very accommodative policy. The EMU confidence data (source: EC) are expected to have broadly stabilized. Based on the PMI and national data, that looks to be correct. So after a substantial improvement in the previous months, we side with consensus. Some EMU countries publish Q4 GDP figures, notably Spain and Belgium. Tomorrow, we get the EMU Q4 GDP. Markets expect a 0.4% Q/Q and a 1.7% Y/Y increase (for EMU). We see risks on the upside. We got firm hard and soft data in Q4, which point to risks for a 0.5% Q/Q increase and/or an upside revision to Q3 GDP (0.3% Q/Q). Spanish GDP is expected to have grown 0.7% Q/Q and 3% Y/Y, which is already a fast pace of growth, but the Belgian economy should have accelerated from a disappointing 0.2% Q/Q and 1.3% Y/Y in Q3. The outcome of the Spanish and Belgian GDP is a too small basis to make forecasts for EMU growth, but we expect firm figures anyway for both countries.

Dull trading session without strong driver

German curve bull flattens

US yields modestly lower too

Greek spreads continue to widen

Italian underperformance on Spain interrupted, but for how long?

	US yield	-1d
2	1,21	-0,02
5	1,93	-0,04
10	2,47	-0,05
30	3,06	-0,04

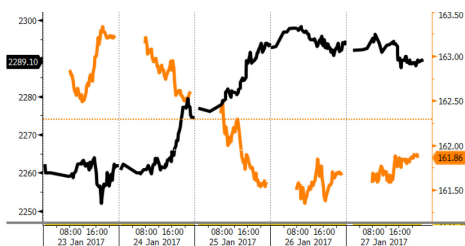
US eco data uninteresting

German inflation expected to hit 2%

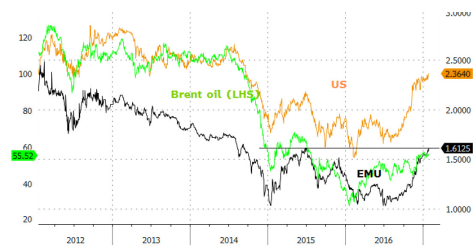
EMU confidence to stabilize

Strong Spanish and Belgian GDP

	DE yield	-1d
2	-0,67	-0,02
5	-0,37	-0,01
10	0,46	-0,02
30	1,19	-0,04



Bund future (orange) and S&P future (black) (5 days): Trump risk-on again at work early in the week, with correction on Friday



Inflation expectations (10-yr swap) still moving higher, despite sideways oil price. Will new EMU inflation data still have an impact?

R2	164,90	-1d
R1	164,45	
BUND	161,85	0,31
S1	160,72	
S2	159,91	

Investors willing to buy Italian debt?

The Italian debt agency starts this week's scheduled EMU bond supply today by tapping the on the run 5-yr BTP (€2.25-2.75B 0.35% Nov2021) and launching a new 10-yr BTP (€3.5-4B 2.2% Jun2027). Grey market trading suggests that the new BTP will be launched with an 11.2 bps pick-up in ASW spread terms over the current 10-yr benchmark (1.25% Dec2026). That corresponds with a 9 bps pick-up in yield terms. The 5-yr BTP cheapened in the run-up to the auction and trades normal on the Italian curve. Will investors be eager to pick-up Italian debt with an early election risk looming following last week's High Court decision? We expect plain vanilla demand with some market participants attracted by the higher yield and decent pick-up. Additionally, the Italian debt agency tries to raise €1.75-2.25B by tapping a 7-yr floating rate CCTeu (Feb2024). On Wednesday, **the German Finanzagentur** holds a 5-yr Bobl-auction (€4B 0% Apr2022). On Thursday, **the French treasury** taps the on the run 10-yr OAT (0.25% Nov2026) and 15-yr OAT (1.5% May2031) for a combined €6-7B. **The Spanish Tesoro** taps the on the run 3-yr Bono (0.25% Jan2019), 15-yr Obligacion (1.95% Jul2030) and off the run Obligacion (4.2% Jan2037). The amount on offer still needs to be determined.

Will German inflation inflict more losses on the Bund?

Overnight, Asian stock markets trade slightly lower but a lot are closed for regional holidays (China, South Korea, Malaysia). The US Note future and the Japanese yen gain a bit ground, suggesting minor risk aversion at the start of European dealings. However, we don't expect much impact on the Bund.

Today's main item on the agenda is the German inflation reading. Inflation is expected to hit the psychological 2%-mark which could be sufficient to inflict more losses on the Bund with last week's hawkish ECB comments in mind. US eco data are outdated and less relevant. Risk sentiment on stock markets is a wildcard following Trump's new executive orders.

From a technical point of view, the Bund's break below the neckline of a double top is negative. We expect the Bund go for a test of the bottom/cycle low. The US Note future trades in the 122-14+ - 125-09 sideways range. We expect also a move towards the lower bound of the range. We hold our negative views on both German Bund and US Note future on the back of accelerating growth and inflation. US investors still have to adapt to the Fed's 2017 rate hike scenario (3 hikes) while European investors might face another "recalibration" of the ECB's APP-programme in H2 2017. ECB's Lautenschlager, Weidmann and Knot opened the debate last week.



German Bund: break below neckline double top paves way to range bottom?



US Note future: 125-09 resistance 'unbreakable'. Heading towards December low?

Currencies

Trump measures to block USD comeback?

Dollar losing a few ticks on US Q4 GDP data

On Friday, the focus of USD traders was on the US Q4 GDP. The report was slightly softer than expected. The dollar lost a few ticks, but the move is technically insignificant. EUR/USD closed the day at 1.0699 (from 1.0682). USD/JPY finished the day at 115.10 (from 114.53).

Dollar trades softer as markets ponder the impact of the immigration measures

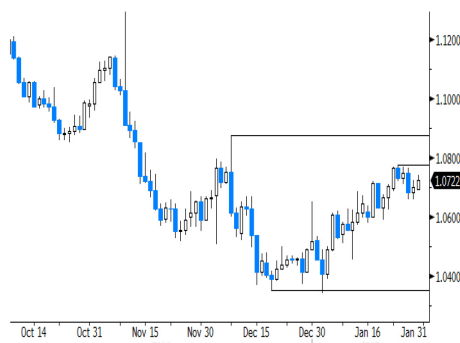
This morning, a lot of Asian markets are closed for the Lunar New Year. The immigration measures of US President Trump are modestly negative for global risk sentiment. The Trump-driven uncertainty weighs on the dollar and supports the yen. USD/JPY is trading in the 114.50/60 area. Japanese Dec retail data disappointed, but had limited impact on yen trading. EUR/USD is changing hands in the 1.0725 area, as markets await the impact of the Trump measures on European and US (equity) markets.

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0720	0,0057
S1	1,0341	
S2	1,0000	

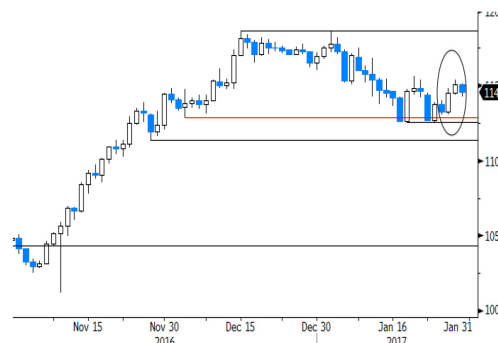
Today, the US data, PCE and pending Home sales, won't affect markets much. The former are already included in Friday's Q4 GDP report. The latter are no market mover. In EMU, German inflation is expected to have dropped sharply M/M, but Y/Y inflation is expected to jump to 2% from 1.7% Y/Y (energy base effect). If confirmed, the release might be politically sensitive and increase German resistance against the ECB's very accommodative policy. The EMU confidence data (source: EC) are expected broadly stable after a substantial improvement in previous months. Finally, we get the first EMU Q4 GDP figures of Spain and Belgium ahead of tomorrow's EMU Q4 GDP. Markets are expecting a 0.4% Q/Q and a 1.7% Y/Y increase (for EMU). We see risks on the upside. The EMU data might be slightly euro supportive, but the focus for FX trading will be on global issues. Investors will try to assess the impact of the US immigration measures on specific parts of the economy and on global markets sentiment. Of late, it mostly ignored potential negative side-effects the Trump policy. The jury is still out whether recent measure will derail the reflation trade. In a day-to-day perspective, investors might turn a bit more cautious on global risk and on the dollar. So, last week's USD bottoming out process might stop. Especially, EUR/USD 1.0775 resistance remains with reach and might come again under pressure. The downside of USD/JPY looks a bit better protected. Markets dislike being too yen long ahead of tomorrow's BOJ meeting.

Data to stay mildly positive

US immigration debate to weigh (slightly?) on the dollar?



EUR/USD: USD comeback to slow on Trump immigration measures



USD/JPY: holding well of recent lows

Global context: EUR/USD touched a multi-year low (1.0341) early this month. **After the Trump rally, plenty of good USD news was discounted while US/EMU rate differentials narrowed (correction), causing a dollar correction. Longer-term,** the absolute interest rate support should provide a USD floor, if US data remain good and as long as there are no profound doubts on Trump’s pro-growth policy. **The day-to-day USD momentum improving slightly at the end of last week, but the jury is still out whether this might be the start of a new upleg. A return above EUR/SD 1.0874 would question the USD positive outlook.** On the downside, **EUR/USD 1.0341 is the first key support.** USD/JPY is trading well off the post-Trump highs (118.60/66). The rebound off the 112.57/53 reaction low was quite constructive. USD/JPY 111.16 (38% retracement of the 99.02/118.66 rally) is a tough support

Sterling rebound slows

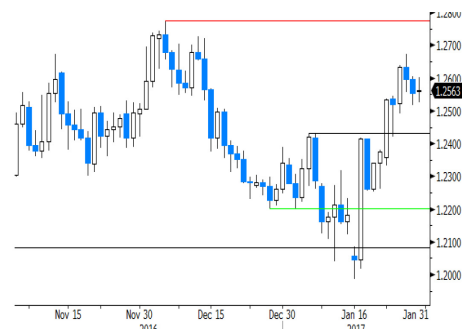
On Friday, sterling trading entered calmer waters, as investors awaited the outcome of the meeting between UK PM May and US president Trump. EUR/GBP gradually returned north of 0.85. **Political comments suggest that the UK labour party won’t be very aggressive in trying to amend the Brexit bill in order to reach a softer Brexit.** This was slightly negative for sterling. **The meeting between UK May and US president Trump developed in a constructive environment, but the direct impact on sterling was limited.** Negotiations on a trade agreement might start in the near future. EUR/GBP closed the session at 0.8526 (from 0.8480). Cable finished the day at 1.2555 (from 1.2597). So, sterling softness prevailed.

Today, the UK calendar is uneventful. Cable hardly profits from USD weakness overnight and EUR/GBP is trading relatively strong in the 0.8535 area. So, it looks that sterling still trades with a soft bias at the start of the new week. The global context (slightly risk-off?) will set the tone for sterling trading. It might be a slightly negative for the UK currency. Markets will also look forward to Thursday’s BoE meeting. Despite recent good eco data, the BoE probably will maintain a wait-and-see stance and give no indication on a rate hike. **Longer term, we still look to sell sterling as long as there is no clear indication that the BoE prepares to tighten policy to fight rising inflation. The Brexit divorce remains a complicated process. Sterling momentum was strong of late, but eased a bit at the end of last week.** EUR/GBP 0.8579 50% retracement and 62% retracement (0.8515) of the 0.8304/0.8854 rebound is broken. The correction low comes in at 0.8451 and should provide strong support. A break would be technical significant. **We look for confirmation of last week’s bottoming out process in EUR/GBP**

R2	0,9047	-1d
R1	0,8881	
EUR/GBP	0,8534	0,0026
S1	0,8450	
S2	0,8304	



EUR/GBP: 0.8450 support remains intact for now



GBP/USD: sterling rally takes a breather

Calendar

Monday, 30 January		Consensus	Previous
US			
14:30	Personal Income (Dec)	0.4%	0.0%
14:30	Personal Spending (Dec)	0.5%	0.2%
14:30	PCE Deflator MoM / YoY (Dec)	0.2%/1.7%	0.0%/1.4%
14:30	PCE Core MoM / YoY (Dec)	0.1%/1.7%	0.0%/1.6%
16:00	Pending Home Sales MoM / NSA YoY (Dec)	1.1%/--	-2.5%/1.4%
Japan			
00:50	Retail Sales MoM / Trade YoY (Dec)	A-1.7%/0.6%	0.2%/1.7%
00:50	Dept. Store, Supermarket Sales (Dec)	A -1.3%	-0.3%
EMU			
11:00	Economic Confidence (Jan)	107.8	107.8
11:00	Business Climate Indicator (Jan)	0.80	0.79
11:00	Industrial Confidence (Jan)	0.2	0.1
11:00	Services Confidence (Jan)	12.7	12.9
11:00	Consumer Confidence (Jan F)	-4.9	-4.9
Germany			
	CPI Baden Wuerttemberg MoM / YoY (Jan)	--/--	0.7%/1.6%
09:00	CPI Saxony MoM / YoY (Jan)	--/--	0.9%/1.8%
10:00	CPI Brandenburg MoM / YoY (Jan)	--/--	0.7%/1.7%
10:00	CPI Hesse MoM / YoY (Jan)	--/--	0.9%/1.9%
10:00	CPI Bavaria MoM / YoY (Jan)	--/--	0.7%/1.7%
10:30	CPI North Rhine Westphalia MoM / YoY (Jan)	--/--	0.9%/1.9%
14:00	CPI MoM / YoY (Jan P)	-0.5%/2.0%	0.7%/1.7%
14:00	CPI EU Harmonized MoM / YoY (Jan P)	-0.7%/2.0%	1.0%/1.7%
Belgium			
	CPI MoM / YoY (Jan)	--/--	0.13%/2.03
15:00	GDP SA QoQ / YoY (4Q P)	--/--	0.2%/1.3%
Spain			
09:00	GDP QoQ / YoY (4Q P)	0.7%/3.0%	0.7%/3.2%
Events			
	Chinese markets closed for Lunar New Year		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,47	-0,05		US	1,21	-0,02		DOW	20093,78	-7,13
DE	0,46	-0,02		DE	-0,67	-0,02		NASDAQ	5660,782	5,61
BE	1,01	0,15		BE	-0,42	0,09		NIKKEI	19368,85	-98,55
UK	1,47	-0,04		UK	0,16	-0,03		DAX	11814,27	-34,36
JP	0,09	0,00		JP	-0,21	-0,03		DJ euro-50	3303,33	-15,80
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	-0,04	1,71	0,84	Eonia	-0,3510	0,0010		Libor-1	0,7783	0,0022
5y	0,20	2,00	1,05	Euribor-1	-0,3720	0,0000		Libor-3	1,0390	0,0017
10y	0,83	2,39	1,47	Euribor-3	-0,3280	0,0000		Libor-6	1,3588	0,0019
				Euribor-6	-0,2430	0,0010				
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0720	0,0057		EUR/JPY	122,85	0,00		CRB	193,43	-0,82
USD/JPY	114,59	-0,62		EUR/GBP	0,8534	0,0026		Gold	1194,30	9,80
GBP/USD	1,2562	0,0028		EUR/CHF	1,0695	0,0009		Brent	55,23	-0,96
AUD/USD	0,7549	0,0032		EUR/SEK	9,469	0,0152				
USD/CAD	1,3132	0,0007		EUR/NOK	8,9227	0,0035				

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