



Friday, 22 June 2018

KBC Sunrise Market Commentary

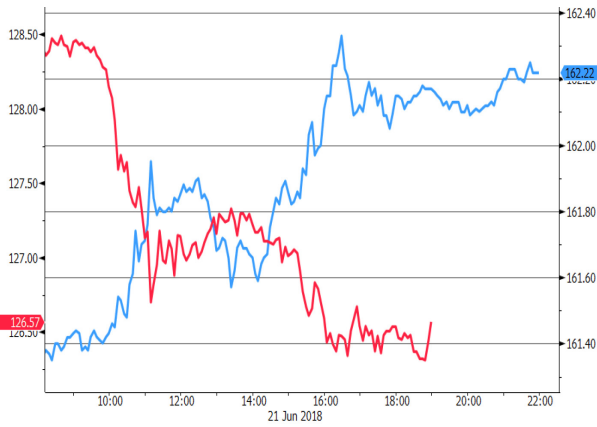
Markets

- Global core bond trading was rather volatile yesterday and largely mirrored moves on the Italian BTP market.** Italian bonds faced new selling pressure after two Eurosceptic Lega lawmakers were tapped to lead key Italian parliamentary committees that deal with economic policy. Tuesday's vague German-France proposal to make it easier to restructure EMU bonds from troubled counties and the Italian government's rejection of a draft pan-European migration solution weighted as well. **Core bonds profited from BTP weakness with Bunds outperforming US Treasuries.** German yields dropped by 2.8 bps (30-yr) to 4.5 bps (5-yr) on a daily basis while US yields ended 2.8 bps (2-yr) to 4.2 bps (10-yr) lower. 10-yr yield spread changes vs Germany widened by 14 bps for Portugal/Spain and by 23 bps for Italy.
- Euro weakness on the back of the Italian issue was especially at play in EUR/USD during European dealings, with EUR/GBP traders more cautious ahead of the BoE meeting. **EUR/USD tested this year's low around 1.1510, but a break didn't occur, causing some euro shorts to retreat.** The mini short squeeze higher accelerated after a disappointing Philly Fed business outlook, causing EUR/USD to close just north of 1.16. It marked the start a turnaround in USD/JPY as well with fragile US stock markets adding to the picture. USD/JPY eventually declined back below 110. **Sterling turned into yesterday's star performer after hawkish signals from the BoE.** An additional member voted in favour of a rate hike (6-3 split) while the BoE wants to start winding down its balance sheet at a lower starting point than previously assumed (policy rate of 1.5% instead of 2%). EUR/GBP ended somewhat lower in the sideways trading range since early May (0.87-0.8850).
- Overnight trading is rather subdued** with mixed Asian stock markets, a slightly softer US Note future and a stable USD/JPY. Japanese inflation data printed largely in line with forecasts while the June manufacturing PMI increased. Today's main item on the eco calendar are **EMU PMI's**. They are expected to extend their decline since January with the composite forecast at 53.9 from 54.1 and compared to the 58.8 January top. **Risks could be on the upside of expectations** as the survey took place after the Italian minicrisis, ahead of the escalation of the US/Chinese trade conflict and with some negatively influencing domestic factors from May dropping out of the equation. **Such scenario could give the euro some more short term momentum, moving further away from 1.1510 key support, and weigh somewhat on the Bund. EUR/GBP will closely follow EUR/USD given the empty UK calendar. Italian politics are a wildcard that could still throw a spanner in the wheels.** The OPEC meeting in Vienna is interesting, but its market impact will probably be muted given the preliminary production cut agreement already reached.

News Headlines

- The Fed stress-tested 35 of the country's biggest banks** and said that **all of them had shown that their balance sheets were strong enough to cope with a financial meltdown** similar to the one in 2008. Only Goldman Sachs and Morgan Stanley came close to breaching the minimum capital levels in the worst-case scenario test.
- Eurozone governments and Greece have reached an agreement on a long-awaited debt relief deal for Greece.** The deal, said to be 'historic' and ending the Greek crisis, pushes back repayment deadlines for almost €100bn of bailout loans and increases Greece's final instalment of bailout money to help build up cash reserves.
- Ahead of the OPEC meeting planned for today, the members and its allies reached a preliminary agreement, despite the strong opposition from Iran, to boost production** by 600,000 b/d. If the agreement gets approved today at the formal meeting, countries like the US, China and India succeeded in pressuring the cartel to boost production.

Graphs & Table



German Bund (blue) and BTP future (red): BTP weakness causes safe haven flows into Bunds



German 10-yr yield: dovish ECB, fragile risk sentiment and BTP weakness pull 10y yield away from 0.5%



EUR/USD: first failed test of this year's low around 1.1510



EUR/GBP: sterling gained somewhat after hawkish BoE yesterday, but remains within sideways trading range

Calendar

Friday, 22 June		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Jun P)	56.1	56.4
15:45	Markit US Services PMI (Jun P)	56.5	56.8
15:45	Markit US Composite PMI (Jun P)	--	56.6
Canada			
14:30	Retail Sales MoM (Apr)	0.0%	0.6%
14:30	Retail Sales Ex Auto MoM (Apr)	0.5%	-0.2%
14:30	CPI YoY (May)	2.6%	2.2%
Japan			
01:30	Natl CPI YoY (May)	0.7% A	0.6%
01:30	Natl CPI Ex Fresh Food YoY (May)	0.7% A	0.7%
01:30	Natl CPI Ex Fresh Food, Energy YoY (May)	0.3% A	0.4%
02:30	Nikkei Japan PMI Mfg (Jun P)	53.1 A	52.8
06:30	All Industry Activity Index MoM (Apr)	1.0% A	0.0%
07:30	Nationwide Dept Sales YoY (May)	--	0.7%
07:30	Tokyo Dept Store Sales YoY (May)	--	1.9%
EMU			
10:00	Markit Eurozone Manufacturing PMI (Jun P)	55.0	55.5
10:00	Markit Eurozone Services PMI (Jun P)	53.8	53.8
10:00	Markit Eurozone Composite PMI (Jun P)	53.9	54.1
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Jun P)	56.3	56.9
09:30	Markit Germany Services PMI (Jun P)	52.2	52.1
09:30	Markit/BME Germany Composite PMI (Jun P)	53.4	53.4
France			
08:45	Wages QoQ (1Q F)	--	0.7%
08:45	GDP QoQ/YoY (1Q F)	0.2%/2.2%	0.2%/2.2%
09:00	Markit France Manufacturing PMI (Jun P)	54.0	54.4
09:00	Markit France Services PMI (Jun P)	54.3	54.3
09:00	Markit France Composite PMI (Jun P)	54.2	54.2

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2,90	-0,04	US	2,54	-0,03	DOW	24461,7	-196,10	
DE	0,34	-0,04	DE	-0,67	-0,03	NASDAQ	7712,952	-68,56	
BE	0,73	-0,02	BE	-0,54	-0,02	NIKKEI	22497,55	-195,49	
UK	1,28	-0,02	UK	0,73	0,02	DAX	12511,91	-183,25	
JP	0,04	-0,01	JP	-0,13	0,00	DJ euro-50	3403,51	-36,09	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	2,88	1,14	Eonia	-0,3650	-0,0010	Libor-1	2,0836	0,0000
5y	0,25	2,91	1,30	Euribor-1	-0,3700	0,0000	Libor-3	2,3319	0,0000
10y	0,88	2,96	1,51	Euribor-3	-0,3230	0,0000	Libor-6	2,5009	0,0000
				Euribor-6	-0,2680	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1604	0,0032	EUR/JPY	127,64	-0,08	CRB	194,40	-0,58	
USD/JPY	109,99	-0,37	EUR/GBP	0,8764	-0,0020	Gold	1270,50	-4,00	
GBP/USD	1,324	0,0068	EUR/CHF	1,1509	-0,0020	Brent	73,05	-1,69	
AUD/USD	0,7379	0,0011	EUR/SEK	10,3207	0,0381				
USD/CAD	1,3315	0,0005	EUR/NOK	9,4307	-0,0348				

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