



Sunset

Tuesday, 27 September 2016

Headlines

- **European shares opened in positive territory, but soon reversed their gains.** The Dax underperforms, losing more than 1%, after Deutsche Bank shares hit a record low. **US Equities opened slightly lower.**
- **Saudi Arabia and Iran dashed hopes that OPEC oil producers could clinch an output-limiting deal in Algeria this week** as sources within the group said the differences between Saudi Arabia and Tehran remained too wide. Both **the Brent and WTI oil price dropped more than 2%** today with the Brent hovering around \$46/barrel.
- **British retail sales fell unexpectedly this month** after a strong showing in August, the CBI survey showed, but retailers expected sales to recover in October.
- **Euro zone M3 money supply unexpectedly picked up in August**, accelerating to 5.1% Y/Y from 4.9% Y/Y in July. Lending data were however slightly disappointing with loans to non-financial corporations falling from the previous month, while lending to households accelerated slightly.
- **The World Trade Organization cut its forecast for global trade growth this year to 1.7% from 2.8% in April**, reflecting a slowdown in China and falling levels of imports into the United States.

Rates

Lower stocks & oil: bullish combo for core bonds

Global core bonds profited further from deteriorating risk sentiment on stock markets, declining oil prices, and central banks' "lower for longer" attitude. At the time of writing, the German yield curve bull flattens with yields 2.4 bps (2-yr) to 3.8 bps (30-yr) lower. The US yield curve shifts in similar fashion with yields changes ranging between flat (2-yr) and -3.8 bps (30-yr). **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany widen 1-2 bps with Spain (+2 bps), Italy (+7 bps) and Portugal (+9 bps) underperforming. Italy probably underperforms Spain because of its troubled banking sector.

Intraday, the Bund opened lower on the back Asian relief rally following the US presidential debate (Clinton victory). However, **European equities had all the difficulties in the world to hang on to opening gains and risk sentiment rapidly crumbled.** The car and banking sectors led the way lower. Bloomberg reported that the US Justice Department is assessing how big a criminal fine it can extract from **Volkswagen** over the emissions-cheating scandal without putting the firm out of business. **Deutsche Bank** shares tumbled to all-time lows on capital concerns while the echo from last week's comments from **ECB president Draghi** ("Europe has too many banks") still resounded. European stock markets lost up to 1% providing a safe-haven bid for core bonds. Simultaneously, **oil prices**



German Bund breaks firmly above upper bound sideways range since Brexit. Confirmation needed in GE 10yr yield.

made another U-turn (lower) as the latest comments from Saudi Arabia and Iran indicated that there wouldn't be an oil production freeze agreement soon. Brent crude fell back towards \$46/barrel, pushing the Bund above important resistance (165.63; upper bound post-Brexit trading range). **A break below -0.2% support in the German 10-yr yield, which didn't occur yet, is necessary to confirm the bullish outbreak of the Bund.** EMU M3 money data were higher than expected (5.1% Y/Y), but ignored. Lending data showed suggested that the recovery of credit growth to firms and households continues at snail's pace. **US housing data** (S&P Case Shiller) were too close to consensus to have impact.

The Dutch debt agency tapped the off the run 30-yr DSL (€1B 4% Jan2037). The auction was plain vanilla and the total amount sold was in the middle of the €0.75-1.25B target range. **Later today, the US treasury continues its end-of-month refinancing operation with a \$34B 5-yr Note auction.** Currently, the WI trades around 1.11%.

Currencies

Euro sold as financial and political uncertainty weighs

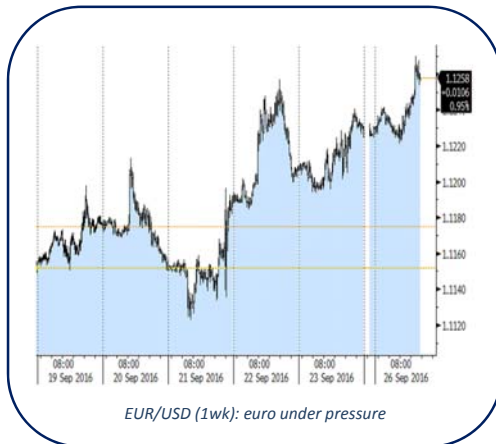
Today, a positive risk sentiment after the US presidential debate evaporated soon. Especially sentiment on European market deteriorated and weighed on the single currency. EUR/USD dropped from the mid 1.12 area to the 1.12 big figure. The risk-off trade also put EUR/JPY and USD/JPY under pressure. USD/JPY trades in the 100.20 area. Investors ponder whether the BOJ will step in if the pair would drops decisively below 100.

Overnight, Asian indices opened in the red more or less in line with the US yesterday as uncertainty ahead of the US presidential debate weighed on risky assets. During the debate, **investors concluded that Clinton won and global equities rebounded.** It supported currencies like the Mexican peso. Globally, high yield/risk currencies profited. Among the majors, the dollar outperformed as equities rebounded and as core bonds yields rise slightly. USD/JPY rebounded from the 100.10/20 area to the 100.85/90 area. The move of the dollar against the euro was again very modest. EUR/USD held a tight range in the mid 1.12 area.

The risk-on rebound from Asia after the US presidential debate hardly inspired European markets. European equities opened with modest gains but soon drifted again in negative territory. Tensions in parts of the financial sector and potential upcoming political event risk (Referendum date in Italy is fixed at 4 Dec) were said to prevent risk taking in Europe. The EMU lending data were also mediocre. The risk-off sentiment propelled core bonds. Initially, EUR/USD was hardly affected. USD/JPY reversed the intraday rebound in Asia and soon returned to the 100.30/40 area.

EUR/USD finally came also under pressure when US traders joined the fray.

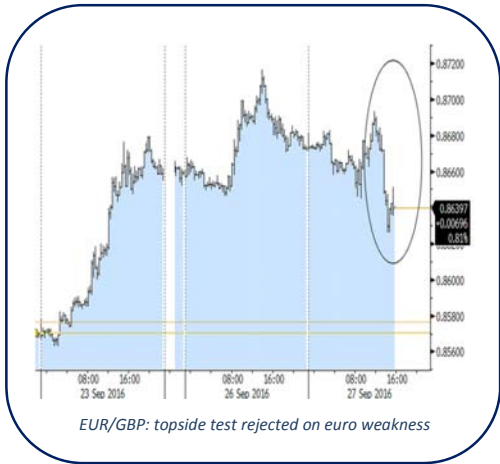
Sentiment on Europe turned further negative. Intra-EMU spreads widened and interest rate differentials between the US and Germany also rose a few bps. EUR/USD dropped to fill bids just below 1.12. EUR/JPY dropped to the 112.35 area. The risk-off move also kept USD/JPY under pressure. EUR/USD is currently trading in the 1.1200 area. USD/JPY is changing and in the 100.20/25 area. Investors probably try to assess the potential BOJ reaction if USD/JPY would



drop decisively below 100. This uncertainty/fear for BOJ action slows the risk-off decline of USD/JPY, at least temporary.

Euro weakness rather than sterling strength

The swings in the sterling cross rates were inspired by conflicting factors. Sterling was better bid early in the session as sentiment on risk improved temporary. However, this bid evaporated soon. Cable basically hovered sideways in the 1.29 big figure. The story for EUR/GBP trading was more complex. Sterling came under pressure first with EUR/GBP again nearing the 0.87 big figure. **However, later in the session euro weakness prevailed even as the CBI reported sales were weak and as EU's Moscovici said the UK needs to trigger Brexit before April 2017 to avoid unwanted uncertainty.** Global euro weakness pushed EUR/GBP back to the 0.8627 area. The pair trades currently near 0.8645/50. Cable is changing hands near 1.2965.



EUR/GBP: topside test rejected on euro weakness

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,60%			-0,14%			0,42%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,36%	850	-1,7	#VALUE!	#VALUE!	#VALUE!
Portugal	2,05%	265	5,2	3,45%	359	9,5	4,32%	389	7,9
Italy	0,27%	87	5,1	1,23%	137	7,2	2,28%	185	5,3
Spain	0,06%	66	2,2	0,92%	106	2,4	2,03%	161	1,8
Ireland	#VALUE!	#VALUE!	#VALUE!	0,35%	49	1,9	1,18%	75	2,8
Belgium	-0,51%	10	0,3	0,10%	25	1,0	1,05%	62	1,9
France	-0,46%	14	0,3	0,16%	31	0,6	0,96%	54	1,2
Austria	-0,50%	10	0,1	0,07%	21	0,9	0,75%	32	0,5
Netherlands	-0,49%	11	0,7	-0,03%	12	0,2	0,50%	7	0,5
Finland	-0,54%	6	-0,5	-0,02%	13	0,7	0,51%	9	0,4
US	1,11%	171	2,0	1,57%	171	0,8	2,29%	187	-0,6
UK	0,17%	77	1,4	0,66%	80	-1,0	1,36%	94	-1,5

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