



Sunset

Monday, 17 July 2017

Headlines

- **European stock markets** trade volatile near opening levels today with the German Dax (-0.35%) underperforming. Markets are mainly counting down to Thursday's ECB meeting. US stock markets opened nearly unchanged.
- **Eurozone CPI rose 1.3% Y/Y in June (0.0% M/M)**, according to the final reading which came **in line with an initial estimate**. Inflation fell back from 1.4% in May having spiked at a three-year high of 1.9% in April. Details showed **stronger services inflation** was one of the reasons for a rise in core inflation to 1.1% in June (from 0.9% in May).
- A **Bloomberg national poll shows** that, in nearly every measure of his performance, **Trump's presidency is not wearing well with the public**. 55% view him unfavourably, up 12 points since December. The American people do however **feel fairly optimistic about their jobs, the strength of the economy and their own fortunes**.
- The **New York Fed Empire manufacturing index disappointed** with a reading of 9.8 in July (consensus of 15.0). A decline from the 19.8 in June was expected but the extent of the decline surprised markets. **Indexes assessing the six-month outlook suggest that firms remain positive about the future**, though less so than in June.
- Bankers with knowledge of the matter stated that **Greece is looking, for the first time in three years, to sell five-year government bonds this week or next**. This is remarkable given that Athens has received three bailouts in the past seven years and the debate over whether debt write-downs are needed continues as the IMF deems Greece's debt unsustainable and on an "explosive" path.

Rates

Countdown to ECB policy meeting

Global core bonds traded with a minor upward bias in an uneventful European trading session. European stock markets traded volatile, but couldn't influence the Bund's performance. EMU eco data (final CPI inflation) also failed to trigger a market reaction ahead of Thursday's ECB meeting. Many investors turn more cautious ahead of that meeting. Will Draghi downplay some of his hawkishly interpreted comments in Sintra or will he confirm them? The latter could spark unwanted market volatility as an official announcement on QE tapering is only expected in September. **Core bonds painted an intraday topping off pattern during US dealings** despite a weaker-than-expected US Empire Manufacturing index. A JPM report arguing in favour of a Fed balance sheet announcement at the July 26 FOMC meeting might have played a role. We only expect such an announcement at the September meeting.

At the time of writing, the German yield curve drops up to 1.5 bps lower with the belly of the curve outperforming the wings. Changes in the US yield curve vary between -0.4 bps (2-yr) and -1.3 bps (10-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany range between -1 bp and +1 bp.



German Bund corrects marginally higher in the run-up to ECB meeting, but remains below technically important 161.68

Currencies

USD struggles not to lose further ground

Trading in the major FX cross rates took a very slow start for the new week. EUR/USD settled close to the recent top, but there was no trigger to kick-start a real test. USD/JPY traded with a slightly negative bias intraday as did core bond yields. The pair trades in the 112.40 area.

Chinese data, including Q2 GDP printed stronger than expected this morning.

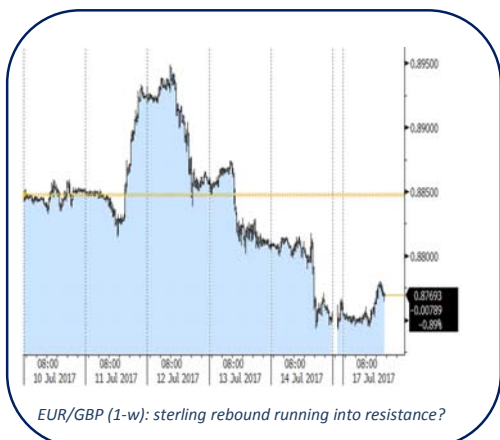
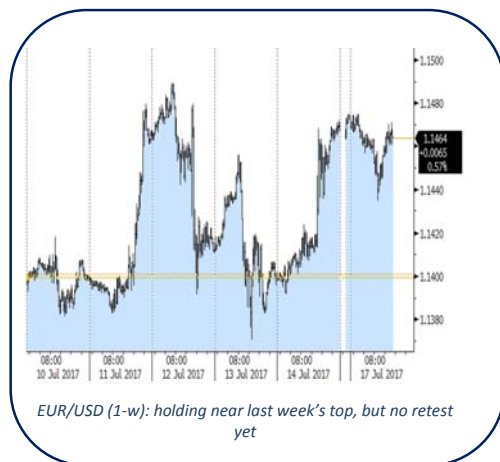
The impact on regional equity sentiment was mixed given headlines that Chinese authorities considered more regulation and less easy financial conditions. USD/JPY stabilized in the 112.40/70 area after Friday's sell-off. AUD/USD held north of 0.78, maintaining last week's impressive gains. EUR/USD (1.1460/75 area) hovered near the recent top, but no test occurred.

There was absolutely no story to guide USD trading this morning. European equities failed to join the positive momentum from the US on Friday. EUR/USD and EUR/JPY fell prey to short-term profit taking as investors looked forward to Thursday's ECB meeting, but the move didn't go far. Dollar weakness still prevailed going into the open of the USD markets. EUR/USD reversed the earlier dip. USD/JPY struggled not to return below the 112.40/50 area. The EMU CPI was confirmed at 1.3% Y/Y but was largely ignored.

By default dollar softness persisted early in US dealings. The Empire manufacturing survey eased from 19.8 to 9.8 (15.0 was expected). The reaction of the dollar was again negligible. USD/JPY trades in the 112.40/50 area. EUR/USD is still going nowhere in the 1.1465/70 area. **The dollar continues to trade weak, but there is still no strong enough trigger to push the pair beyond the 1.1489/1.15 resistance. Will this change before Thursday's ECB meeting?**

Sterling rebound slows

Last week's sterling rally slowed this morning and the UK currency fell prey to a modest reversal. Last week, there was no high profile story behind the sterling comeback. This was also the case for today's setback. There were plenty of headlines on discord within the UK government going into the next round of negotiations with the EU. Market doubts the UK government's ability to execute a coherent Brexit-strategy which prevents further sterling gains. Cable dropped off this morning's top north of 1.31 and trades currently again in the 1.3070 area. EUR/GBP shows tentative signs of a bottoming out process. **The pair is changing hands in the 0.8770 area. EUR/USD strength is also slowing last week's correction of EUR/GBP.**



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,11%			0,58%			1,32%		
Greece (2-10-20)	3,54%	365	-9,2	5,28%	470	-2,8	6,50%	518	2,5
Portugal	1,33%	144	-0,4	3,13%	255	-0,7	4,00%	268	-1,3
Italy	0,91%	102	-1,1	2,26%	167	-1,9	3,34%	202	-1,7
Spain	0,37%	48	-0,3	1,62%	104	-1,7	2,89%	157	-3,0
Ireland (4-10-30)	-0,24%	-13	-1,0	0,89%	31	-0,4	1,96%	64	-1,0
Belgium	-0,04%	7	-1,8	0,86%	27	-0,3	1,84%	52	-0,4
France	0,00%	11	-0,4	0,85%	26	-0,4	1,88%	56	-0,8
Austria	-0,11%	0	-1,9	0,75%	16	-0,5	1,66%	34	0,4
Netherlands	-0,17%	-6	-1,4	0,70%	12	-0,6	1,39%	7	0,0
Finland	-0,09%	2	-0,3	0,57%	-2	0,8	1,47%	15	-1,3
US	1,86%	197	0,5	2,32%	174	0,2	2,91%	159	-0,1
UK	0,65%	76	-2,5	1,27%	69	-2,6	1,89%	57	-2,0

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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