



Sunset

Monday, 23 October 2017

Headlines

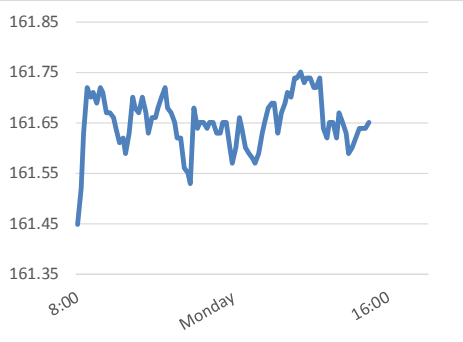
- **European equities** trade positive in this week's opening session with the French CAC outperforming (+0.5%). US stock markets opened near Friday's closing levels and fail to gain momentum.
- **British manufacturers' sentiment on business conditions soured in the three months to October** a CBI survey found, in the latest sign of worries sparked by Brexit talks.
- **Trump's tax plan picked up momentum** as White House budget director Mick Mulvaney said approving a bill by December is realistic. The GOP hasn't abandoned its goal of making the measure revenue neutral and can do so by boosting economic growth, Mitch McConnell said.
- **Turkish stocks, bonds and the lira fell after a weekend report in a local newspaper said six Turkish banks may face penalties** resulting from a US investigation into their dealings with Iran, even after regulators denied the news and the publisher pulled the story.
- **Growth in Germany, Europe's biggest economy, likely held up at a high level in the third quarter, driven by superb industrial orders** even as construction activity levelled off and private consumption dipped, the Bundesbank said in a monthly report.

Rates

Core bonds move sideways with upside bias.

In the opening session of the week, core bonds couldn't recoup much of Friday's steep losses. They moved sideways in a narrow range above (German bonds) to around (US Treasuries) Friday's closing levels. **At the time of writing,** US yields decline marginally between 1 (2-yr) and 0.5 bp (30yr). The German yield curve shifted lower 1.1 (2-yr) to 1.8 (5-yr) bps. **Peripheral 10-yr yield spreads** versus Germany were fractionally narrower (1 to 2 bps). This occurred after tensions between Spain and Catalunya increased in the weekend, a Czech election in which the "traditional" parties were decimated by the populist/ultra-right wing parties and referendum in Northern Italy in which the parties in favour of more autonomy gained. **So, political issues are largely ignored.** The only noteworthy eco report, the EMU consumer sentiment, will be released when the redaction of our report closes. The wait-and-see attitude of bond markets is no surprise. Not only the eco calendar was unattractive, but investors stayed side-lined as Thursday's ECB meeting looms.

The Belgian debt agency kicked off this week's scheduled EMU bond supply. It sold €1.012B of its Oct. 2023 and €0.915B of its June 2047 on-the-run OLO's. It also sold €0.875B of its March 2026 off-the-run OLO. The Agency sold a total of



German Bund (intraday, today): Sideways trading after Friday's steep losses.

€2.8B, the upper limited of the targeted range. Especially the longest bond was in strong demand, but also the other bonds were well bid. **The bid/covers were higher than at the previous auction. Belgium is now fully funded for the year.** The remaining auction in November could be used to start 2018 pre-funding.

Currencies

Dollar gains marginally ground in dull trading session

Trading in global FX markets showed no clear dynamics at the start of the new week. The dollar gained a few tics against the euro. Investors turned reluctant to add euro long exposure ahead of the ECB meeting and given the uncertainty on Spain. The initial weakening of the yen after the election victory of PM Abe had no strong legs. USD/JPY returned below 114 despite the cautious overall dollar bid.

Overnight, the trade weighted dollar gains cautiously ground. USD/JPY initially took the lead. The yen declined as the coalition of Japanese PM Abe secured a two-thirds majority in the lower house of Parliament. USD/JPY jumped temporary north of 114, but the rebound did run into resistance very soon. EUR/USD hovered in the 1.1750/75 area. The single currency remained resilient giving ongoing political uncertainty in Spain.

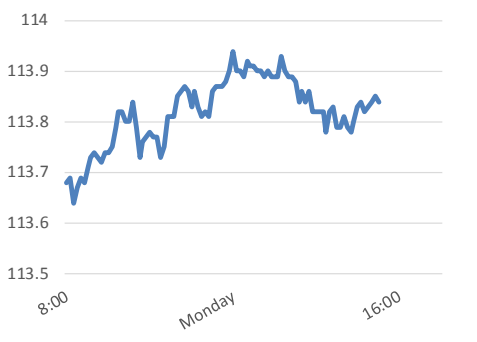
There were several stories with market moving potential playing in the background (Catalonia, replacement of Yellen, US tax plans/hopes). **However, there was no concrete news on these items to move the (FX) market.**

Sentiment on risk remained fairly constructive and interest rate differentials moved slightly in favour of the dollar. The dollar maintained the benefit of the doubt. EUR/USD drifted south to the mid 1.17 area. USD/JPY held a tight sideways range in the 113.60/90 area.

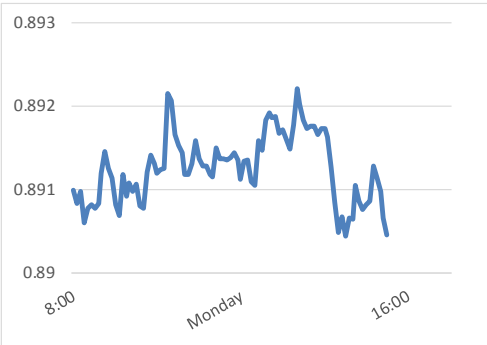
No real change in the intraday scenario as US traders joined. EUR/USD maintained a slightly negative bias. **Euro investors are not inclined to raise euro long exposure going into the ECB meeting and as uncertainty on Spain continues to weigh** (euro long exposure declined slightly according to Friday's CFTC data). EUR/USD trades in the 1.1735/40 area, nearing last week's correction low at 1.1730. A break could open the way to the 1.1670/62 area. USD/JPY (currently 113.80 area) is holding a sideways intraday trading pattern. So, for now there are no follow-through losses of the yen in the wake of the election victory of PM Abe this weekend.

Sterling rebound stalls. CBI data were soft

EUR/GBP was locked in an extremely tight sideways range. The CBI business optimism and the October orders were weaker than expected. However, contrary to what was the case last week, the report triggered no additional sterling selling. At the same time, there was also no 'new news' on Brexit. EUR/GBP hovered in a tight range marginally north of 0.89. Cable lost a few tics mirroring the 'by default' overall USD strength. The pair trades in the 1.3175 area. **We maintain the view that markets are growing evermore convinced that there is very little reason to position for additional BoE rate hikes beyond the one step that is expected at the early November meeting.**



USD/JPY (1d intra-day): Yen shows hardly any losses after the Abe election victory



EUR/GBP (1d, intraday) settles just north of 0.89 barrier

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.29%			0.44%			1.30%		
Greece (2-10-20)	3.18%	347	4.5	5.58%	514	4.3	6.44%	514	3.7
Portugal	0.92%	121	1.3	2.29%	185	-0.3	3.61%	232	1.7
Italy	0.71%	100	-0.7	2.01%	157	-2.1	3.16%	187	-2.0
Spain	0.31%	61	0.0	1.63%	119	-2.0	2.88%	159	-0.7
Ireland (4-10-30)	-0.17%	12	0.0	0.65%	22	-0.6	1.80%	51	0.1
Belgium	-0.21%	8	0.0	0.69%	26	-0.6	1.79%	49	-0.4
France	-0.04%	26	0.2	0.85%	41	0.0	1.82%	53	0.4
Austria	-0.18%	11	-0.1	0.61%	17	-0.4	1.59%	29	0.1
Netherlands	-0.33%	-4	0.1	0.54%	11	-0.4	1.30%	0	0.1
Finland	-0.18%	11	-0.4	0.60%	16	0.1	1.40%	10	0.1
US	2.01%	230	0.7	2.37%	194	0.5	2.89%	159	1.1
UK	0.77%	107	1.9	1.32%	88	0.4	1.89%	59	0.4

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