



Sunset

Tuesday, 28 March 2017

Headlines

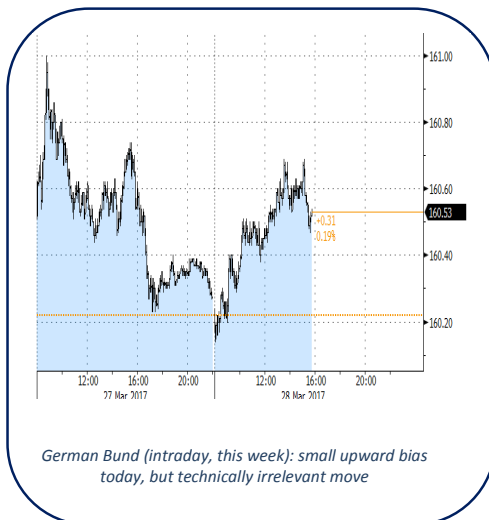
- **European stock markets opened around 0.5% higher in a catch-up move** and managed to hold on to gains. US stock markets slightly slip away in the opening.
- **US eco data were stronger than expected.** Consumer confidence increased from 116.1 to 125.6 in March, the highest level since December 2000. The Richmond Fed manufacturing index also beat expectations, rising from 17 to 22, the strongest since April 2010. The US trade deficit was smaller than expected in February and housing prices (S&P CS) increased faster than forecast in January.
- **The ECB improperly veered into political activity during the eurozone crisis and should withdraw from the “troika” of international bailout monitors,** according to anti-corruption watchdog Transparency International.
- **South Africa’s rand plummeted for a second day** as speculation intensified that President Jacob Zuma is preparing to fire his finance minister after summoning him back from an overseas investor roadshow. USD/ZAR temporarily rose above 13.
- **US President Trump will sign an executive order to undo a slew of Obama-era climate change regulations** that his administration says is hobbling oil drillers and coal miners, a move environmental groups have vowed to take to court.
- **The National Bank of Hungary kept its policy rate unchanged at 0.9%, but the central bank raised its CPI forecast for 2017 to 2.6%** in its quarterly Inflation Report from 2.4% in the previous report published in December. It did not change the 3% forecast for 2018 and in a new set of data also predicted 3% inflation in Hungary for 2019.

Rates

Jury still out on future reflation trade

Global core bonds traded with a small upward bias today in an insignificant trading session. The jury is still out on the future of the reflation trade with several markets giving different signals. Stocks and oil prices rise, while the dollar (USD/JPY) and yields are slightly lower. **At the time of writing,** changes on the German yield curve range between -1.1 bp (5-yr) and +0.8 bps (2-yr). Changes on the US yield curve vary between +0.9 bps (2-yr) and -1.2 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany narrow up to 3 bps (Italy) with Greece (-14 bps) outperforming.

Intraday, the Bund opened slightly lower in a catch-up move with WS yesterday. During Monday’s US trading session, risk sentiment turned positive again, partly reversing the correction on the reflation trade after Friday’s failed health care bill. There was no follow-through Bund selling and the Bund/US Note future even traded with an upward bias throughout today’s session. A miserable German Schatz auction, a smaller than expected February trade deficit and higher than forecast housing data (S&P CS) had no impact on trading. Today’s rise of global



core bonds occurred despite rising oil prices and stock markets. There are plenty central bank speakers tonight, but the topics of their speeches suggest that they won't touch upon monetary policy/sensitive information for markets.

The German Finanzagentur's €4B 2-yr Schatz auction (€4B 0% Mar2019) went miserably. Total bids amounted only €3.19B, way below the €5.49B average at the previous 4 Schatz auctions and below the amount on offer. As the Bundesbank set aside €1.11B for secondary market operations, the official bid cover was 1.1 instead of 0.8. The auction tailed 1.3 cent, which is also unusual for Schatz auctions. **The US Treasury** continues its end-of-month refinancing operation tonight with a \$34B 5-yr Note auction. Currently, the WI trades around 1.91%.

Currencies

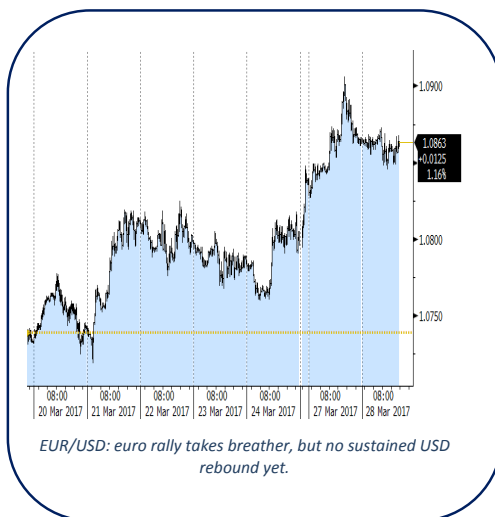
USD struggles as reflation trade fails to resume

USD traders still haven't found a clear guide in the wake of the debacle of the US healthcare vote on Friday. Yesterday evening, the dollar decline slowed as **US equities found their composure.** However, it is too early for investors to engage further in the reflation trade. **Uncertainty and a further (modest) slide in core yields weighs on USD/JPY.** After a strong performance yesterday, the euro didn't go anywhere today. **EUR/USD is locked in the mid 1.08 area.**

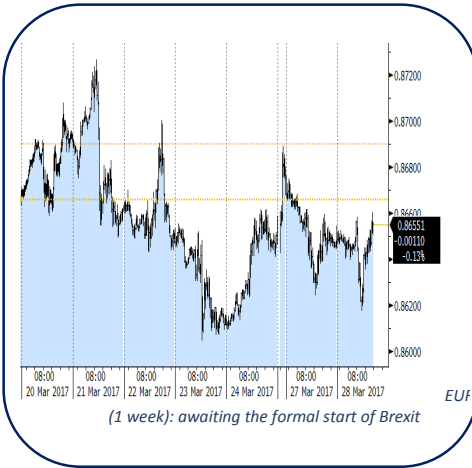
Overnight, Asian equities joined yesterday's intraday rebound in the US, but the gains were **modest.** **This was also the case for the comeback of the dollar.** USD/JPY rebounded temporary to the 110.80 area, but returned soon to the mid 110 area. EUR/USD hovered in the 1.0865 area. So, yesterday's top just north of 1.09 was still within reach.

European investors didn't really know which card to play. European equities caught up with yesterday's late session rebound in the US but there was no trigger to start a new sustained up-leg in the global reflation trade. **Indecisiveness again prevailed.** USD/JPY stabilized in a narrow range in the mid 110 area. EUR/USD also didn't go anywhere and settled near 1.0850. The German 2-yr auction went quite difficult. There was no direct impact on the euro, but lingering market speculation on an early reduction of ECB policy stimulation suggests that USD sentiment will have to improve in quite a profound way to support a sustained comeback of the dollar against the euro anytime soon.

Risk sentiment deteriorates slightly as US traders joined the action. The move was probably still due to investors adapting positions in the wake of the Trumpcare debacle. The US February trade deficit was slightly smaller than expected at \$64.8B, but didn't help the dollar. Contrary to what was the case yesterday, **USD/JPY again faced the strongest headwinds.** The pair is trading in the 110.30 area. The recent low (110.10 area) is again on the radar. The loss of the dollar against the euro remains limited. EUR/USD is going nowhere in the mid 1.08 area.



Sterling traders await formal start of Brexit procedure



There were again no eco data in UK today. So, sterling trading was driven by technical considerations. Investors were looking forward to tomorrow's formal start of the Brexit procedure as UK PM May will send a letter to EU's Tusk to activate article 50 of the Lisbon Treaty. Sterling traded with a positive bias early in the session, but returned (modest) gains against the dollar and the euro later. The activation of Article 50 is of course no surprise, but the letter might also contain some indication on the UK's negotiation targets. So, it might be a first technical move in a long Brexit saga. For now, sterling remains unmoved. EUR/GBP trades in the 0.8650 area. Cable is at 1.2550.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,32%			0,39%			1,13%		
Greece (2-10-20)	8,00%	831	-32,1	7,11%	673	-13,2	7,41%	628	-8,5
Portugal	2,32%	263	-1,4	4,07%	369	1,2	4,73%	360	-1,6
Italy	0,82%	113	-3,4	2,16%	177	-2,2	3,30%	217	-0,2
Spain	0,51%	83	1,4	1,68%	130	1,0	2,95%	182	2,4
Ireland (4-10-30)	-0,17%	15	-2,3	1,01%	62	-1,8	2,07%	94	-1,7
Belgium	-0,05%	26	-0,3	0,86%	47	-0,5	1,82%	69	-0,4
France	0,11%	43	-1,3	0,95%	57	-0,6	1,93%	80	-0,2
Austria	-0,25%	6	-0,9	0,59%	20	0,4	1,48%	35	-1,0
Netherlands	-0,22%	10	0,0	0,63%	24	0,6	1,21%	8	-0,2
Finland	-0,12%	20	-0,4	0,49%	11	0,3	1,29%	16	-0,5
US	1,91%	222	0,3	2,37%	198	0,3	2,97%	184	0,0
UK	0,62%	93	1,7	1,18%	79	2,9	1,76%	63	2,7

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