



Sunset

Tuesday, 30 August 2016

Headlines

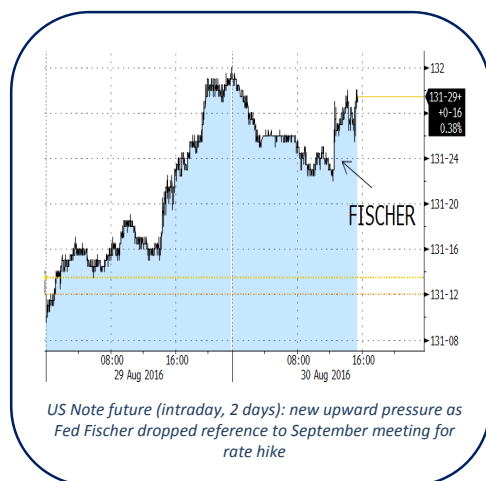
- **European shares** opened higher this morning and broadened their gains during the session. **US Equities** opened little changed.
- **UK mortgage approvals fell to an 18-month low** of 60 900 in the first full month after the Brexit vote. Consumer credit slowed too suggesting weaker demand for big-ticket items such as vehicles.
- **European Commission's economic confidence dropped from 104.5 to 103.5 in August**, below the market consensus of 104.1. Weakness was broad-based across sectors with only a small improvement in construction.
- **EU antitrust regulators ordered Apple to pay up to €13 billion in taxes** to the Irish government after ruling that a special scheme to route profits through Ireland was illegal state aid.
- According to sources, **French Economy Minister Emmanuel Macron is set to resign**, taking him a big step closer to launching a run for the presidency next year.

Rates

Fed Fischer drop reference to September rate hike

Core bonds trade near opening levels as disappointing EMU eco data and comments by Fed Fischer only marginally impacted trading. At the time of writing, the US yield curve shifts 0.8 bps (2-yr) to 1.5 bps (5-yr) higher. Changes on the German yield curve range between +0.7 bps (2-yr) and -2.9 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany are limited to 1 bp.

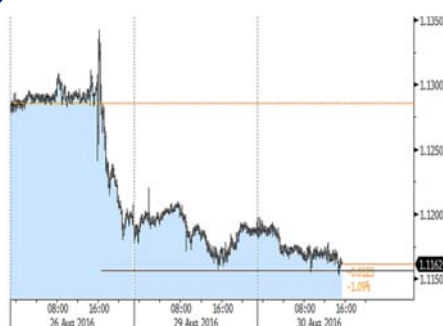
Intraday, the Bund opened slightly weaker on the back of positive risk sentiment but the move rapidly petered out. Trading occurred in a very narrow range during the first half of the European session and disappointing EC confidence indicators were ignored. Around noon, Fed vice-chair Fischer gave an interview on Bloomberg TV. Markets didn't react on his comments, but on what he didn't say. He dropped last Friday's reference to the September meeting as the perfect meeting to hike policy rates in case of a good payrolls report. US Treasuries gained some ground during Fischer's comments. In the European afternoon, German inflation data fell short of expectations as well (-0.1% M/M, 0.3% Y/Y vs 0.1% M/M, 0.5% Y/Y expected), but couldn't give core bonds new impetus. Later today, US consumer confidence will be published. Risks are on the upside of expectations, which could cap the intraday topside of bonds.



The Italian debt agency tapped the on the run 5-yr BTP (€3B 0.45% Jun2021) and 10-yr BTP (€3B 1.25% Dec2026). The combined amount sold was the maximum of the targeted €5-6B. The auction bid cover was 1.34, which is in line with the Italian average. Overall, it was a plain vanilla debt sale. Additionally, the debt agency raised €1.75B by tapping a floating rate CCTeu. The Republic of Finland is expected to launch a new 7-yr bond (€3B Sep2023) via syndication in the near future, likely tomorrow.

Currencies

Calm reigns on FX markets



EUR/USD (3 days): Post-Yellen dollar gains intact, but momentum has completely disappeared

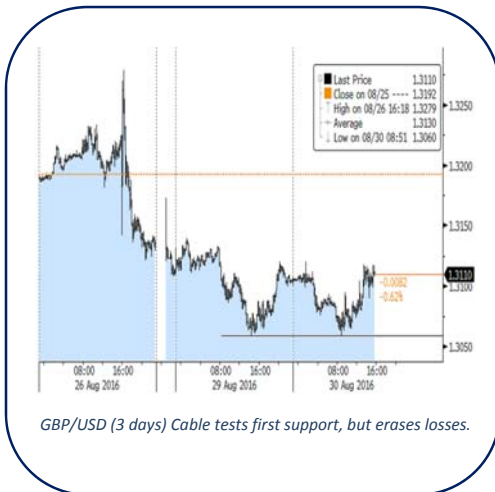
Today, extreme calmness reigned on the FX markets. The dollar gained a bit, especially during the Asian session and especially against the yen on the back of a positive sentiment on risk. During the European session, the FX moves were microscopic small, even as EUR/USD at this point slides a bit further down. Weaker EMU economic data played no role and neither did a speech of Fed's Fischer. USD/JPY trades at 102.46, a 54 ticks gain and new post-Yellen high. EUR/USD trades near 1.1160 little changed from the European open, but 30 ticks from yesterday's close.

Intraday, Asian equities were positively oriented. The dollar was slightly up against euro and yen and traded at 1.1173 (EUR/USD) and 102.16 (USD/JPY) by the time European markets opened. The mood was risk on and European equities climbed higher in the first hours after the opening. It helped USD/JPY further up towards a current session high of 102.56 and a new post-Yellen high. EUR/USD traded though in one of the tightest ranges (about 20 ticks) of the year. German inflation dropped unexpectedly (see news) and the EC's confidence data were weaker than expected too. Twice there was a technically inspired attempt to break through the post-Yellen lows, but the attempt failed and the pair regained its place in the tight range. EUR/USD trades now around 1.1160. The interview of vice chairman Fischer didn't bring much new info. He repeated the Fed is data-dependent. "The Fed must set the rate path based on incoming data". There was no longer any reference to the September meeting, contrary to his remarks at Jackson Hole. However, markets didn't react. Fischer elaborated on negative rates, which seems to be working in other countries, but which aren't on the Fed's table. Currently, US yields are less than 1 bp higher, German ones slightly lower. Too little change in the rate differential to trade on. After the closure of our report, US consumer confidence has still to be released. We see upward risks and will watch closely whether they can give the dollar momentum to break first minor support.

Sterling remains in a tight range versus EUR & USD

Today, sterling showed some volatility versus the dollar, but it trades currently at again 1.31, unchanged from yesterday's close. Initially, sterling was in the defensive as cable moved to 1.3060 at the start of equity trading, a test of the post-Yellen lows, but the absence of follow through selling convinced cable shorts to close their positions. UK lending data were weak. July Consumer and mortgage lending fell short of expectations and were substantially lower than in June. The housing sector is probably most hit by Brexit at the moment. The reaction was to all measures limited though and the rebound of cable simply continued till opening levels were reached.

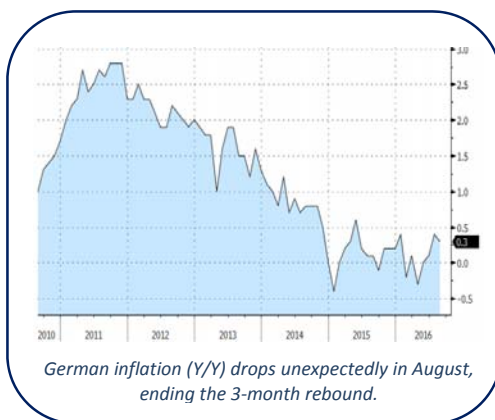
EUR/GBP initially jumped higher, but also here the move was technically inspired and when the recent highs held, sterling shorts liquidated their positions and the pair tumbled lower to currently 0.8508, down from opening levels around 0.8525



News

German inflation dips unexpectedly in August

In August, German HICP inflation slowed unexpectedly, ending its 3-month uptrend. According to the preliminary estimate, German inflation slowed from 0.4% Y/Y to 0.3% Y/Y, while an increase to 0.5% Y/Y was expected. On a monthly basis, consumer prices dropped by 0.1% M/M, while a 0.1% M/M rise was expected. Details of the regional data showed that downward price pressures were mainly based in food & beverages, transportation, household energy and household appliances. Downward price pressures were partly offset by higher prices for leisure & entertainment and hotels & restaurants during the summer holidays. Also prices of clothing & footwear rose after the summer sales as well as prices of education at the end of the school holidays. Also in Belgium, inflation slowed in August, from 2.3% Y/Y to 2.2% Y/Y due to a 0.1% M/M drop in prices. After today's lower German inflation data, also euro zone inflation might surprise on the downside tomorrow, due to a renewed drop in oil prices and lower food prices. Although the renewed drop in German inflation is mostly due to lower energy prices, it won't pass unnoticed within the ECB as it reminds the central bank again that a return to the 2% target is unlikely to happen soon.



15:55 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,52%			-0,10%			0,42%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,08%	818	5,5	#VALUE!	#VALUE!	#VALUE!
Portugal	1,85%	237	-0,2	3,02%	312	0,1	3,85%	343	3,0
Italy	0,23%	75	1,9	1,10%	120	-0,3	2,14%	172	2,3
Spain	0,09%	61	2,0	0,94%	104	1,8	2,02%	160	4,9
Ireland	#VALUE!	#VALUE!	#VALUE!	0,39%	49	-0,5	1,17%	75	-0,3
Belgium	-0,45%	7	0,2	0,14%	24	-0,3	1,02%	60	0,6
France	-0,40%	12	0,1	0,14%	24	-0,7	0,94%	52	0,4
Austria	-0,45%	7	-0,1	0,12%	22	1,1	0,77%	35	0,0
Netherlands	-0,44%	8	0,8	0,02%	11	0,5	0,51%	9	0,0
Finland	-0,46%	6	0,8	0,05%	15	0,1	0,55%	13	-0,2
US	1,18%	170	1,3	1,56%	166	1,9	2,21%	179	3,0
UK	0,20%	72	-3,6	0,62%	72	7,3	1,22%	80	-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
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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