



Sunset

Monday, 29 August 2016

Headlines

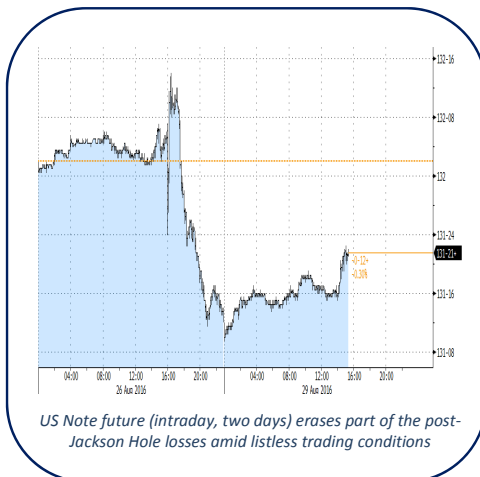
- **European shares opened lower this morning, but gradually reversed part of its losses to trade currently 0.5% lower. US Equities opened in positive territory.**
- **The German BGA trade association slashed its forecasts for export growth this year** saying global demand for German goods has slowed significantly due to a delayed impact of Brexit.
- **The Greek economy grew by 0.2% Q/Q in the April to June period**, down from 0.3% Q/Q in the first quarter and also slightly below the market consensus, due to weaker consumer spending and net exports.
- **The European Commission said it had a unanimous mandate from the 28 members to finalize negotiations on a free trade deal with the United States**, a day after Germany's economy minister said the talks had "de facto failed".

Rates

Slow start to the trading week

Core bonds regained some ground today following Friday's losses prompted by hawkish comments of Fed chairwoman Yellen and vice-chair Fischer at Jackson Hole. At the time of writing, the US yield curve bear flattens with yields 0.9 bps (2-yr) to 4 bps (30-yr) lower. Changes on the German yields range between +0.4 bps (2-yr) and +1 bp (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany are limited to -2 bps. Spanish bonds don't outperform on the PP-Ciudadanos deal. PM Rajoy will put this coalition proposal up for a confidence vote in parliament later this week, but the Socialist party is expected to shoot the bid down instead of abstaining.

Intraday, the EMU eco calendar was completely empty and trading listless during European dealings. Traded volumes were abnormally low given the absence of UK traders (Summer Banking Holiday). As the US trading session started, core bonds received a push in the back despite slightly better than expected, second tier, US eco data (see news). Investors remain side-lined going into the US ADP employment report, manufacturing ISM and payrolls. The outcome of these data could be decisive for the Fed's September rate decision. Decent data suggest a 25 bps rate increase and could trigger more repositioning cross markets (higher US rates).



Currencies

Slight additional dollar gains

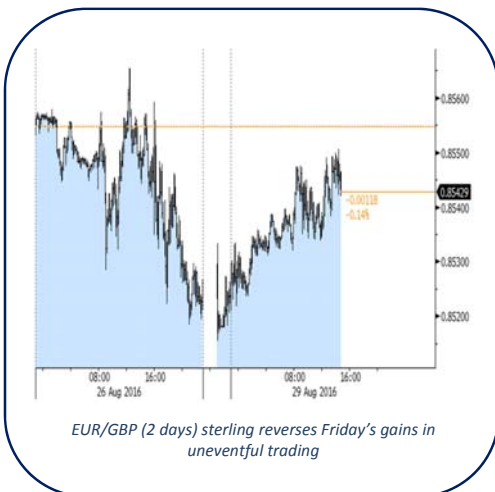
Today, EUR/USD slid again, but now very modestly, lower after an initial attempt to climb higher failed. The dollar bid remains very much the theme. However, the absence of UK traders and the thin calendar don't allow us to draw conclusions from the price action. EUR/USD trades currently around 1.1170. USD/JPY showed more vigour, at least during the Asian session on the back on expectations for more monetary easing in Japan. Some modest correction lower occurred during the European session. The pair trades currently around 102.30

Overnight, Asian investors continued to buy the dollar, even as the big moves occurred on Friday. USD/JPY nevertheless climbed from 101.80 to 102.23, giving also a boost to the Japanese equities. Attention might have gone to Kuroda's comments at Jackson Hole. He was dovish saying there is ample space for additional easing in the form of asset purchases, monetary base guidance and negative rates.

After the European open, EUR/USD resumed its slide lower. The pace was of course far from what was the case on Friday eve. In two moves the pair fell to 1.1170 from levels just above 1.12 at the European open. Traded volumes were low, both due to the UK market holiday and the Monday effect. The euro selling was probably still a Yellen aftershock and maybe also helped by pessimistic comments of the chairman of the German trade organisation who expects German exports, currently the driver of growth, to stagnate maybe as early as in 2017. The price action in thin market makes us reticent to qualify. However, it might be a (minor) positive as a retest of the broken uptrend failed. A break of the support at 1.1046 is needed to unlock the downside in the pair. The US income and spending figures (see news section) were too close to expectations to have a noticeable impact. Activity didn't really pick up. We expect the lethargic trading to continue for the remainder of the session.

Sterling loses slightly ground against euro and dollar

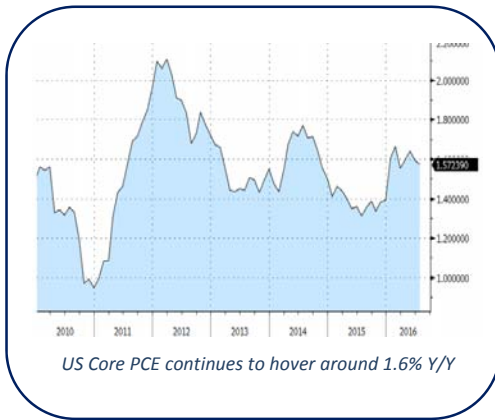
In the absence of UK investors, sterling lost some modest ground against the dollar and euro. EUR/GBP very gradually erased most of Friday's losses to trade at 0.8545 currently, while cable dropped to 1.3070. The pictures of cable and EUR/USD remain fundamentally unchanged though. **Worth mentioning, future statistics showed that by last Tuesday, the bets against sterling (shorts) still increased to a record high.**



News

US personal income picks up, spending eases somewhat

In July, US personal income and spending data came out exactly in line with expectations. **Personal income** rose by 0.4% M/M, from an upwardly revised 0.3% M/M in June. The pick-up in personal income was based in wages and salaries (0.5% M/M) led by the manufacturing sector (0.8% M/M), while also wages in the services sector rose by a relatively strong 0.5% M/M in July. **Personal spending** slowed last month, in line with expectations, to 0.3% M/M from an upwardly revised 0.5% M/M in June. Encouragingly, spending was led by expenses on durable goods (1.6% M/M), while spending on non-durable goods dropped by 0.5% M/M and spending on services rose by 0.4% M/M. The savings rate increased from 5.5% to 5.7% in July following a dip in June. Looking at the price data, the **PCE deflator** stabilized compared with the month before, while the annual rate of growth slowed from 0.9% Y/Y. Lower prices for food and energy were offset by a limited rise in the core reading. The core PCE rose by 0.1% M/M with annual unchanged at 1.6% Y/Y, instead of the expected slowdown to 1.5% Y/Y. **US personal income picked up slightly in July, while spending eased following strong data in the previous month. Encouragingly, core inflation stabilized at 1.6% Y/Y, instead of the expected slowdown, remaining below but not too far away from the Fed's 2% inflation target.**



15:55 CET

Daily EMU spread changes (bps)

| | 5-yr | | | 10-yr | | | 30-yr | | |
|-------------|---------|---------|---------|--------|--------|--------|---------|---------|---------|
| | Yield | Spread | Change | Yield | Spread | Change | Yield | Spread | Change |
| Germany | -0,50% | | | -0,07% | | | 0,46% | | |
| Greece | #VALUE! | #VALUE! | #VALUE! | 8,04% | 811 | 0,0 | #VALUE! | #VALUE! | #VALUE! |
| Portugal | 1,85% | 236 | 1,1 | 3,03% | 310 | -1,7 | 3,85% | 339 | -1,9 |
| Italy | 0,22% | 73 | -0,3 | 1,12% | 120 | -1,0 | 2,15% | 168 | -2,6 |
| Spain | 0,08% | 58 | -0,3 | 0,93% | 101 | -0,9 | 2,00% | 154 | -1,7 |
| Ireland | #VALUE! | #VALUE! | #VALUE! | 0,42% | 49 | -0,2 | 1,21% | 75 | 0,6 |
| Belgium | -0,44% | 7 | 0,5 | 0,16% | 24 | 0,6 | 1,06% | 59 | 0,4 |
| France | -0,39% | 12 | 0,2 | 0,17% | 24 | 0,3 | 0,98% | 52 | 0,7 |
| Austria | -0,43% | 8 | -0,1 | 0,14% | 21 | 0,4 | 0,82% | 35 | 0,6 |
| Netherlands | -0,43% | 7 | 0,0 | 0,03% | 11 | 0,5 | 0,55% | 9 | -0,1 |
| Finland | -0,46% | 5 | -0,3 | 0,07% | 15 | -0,4 | 0,60% | 13 | 0,0 |
| US | 1,21% | 171 | -2,6 | 1,60% | 167 | -3,0 | 2,25% | 179 | -4,8 |
| UK | 0,24% | 75 | 0,3 | 0,56% | 64 | 0,1 | 1,27% | 81 | -1,0 |

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