KBC Market Research Desk - Havenlaan 12, 1080 Brussel

Sunset

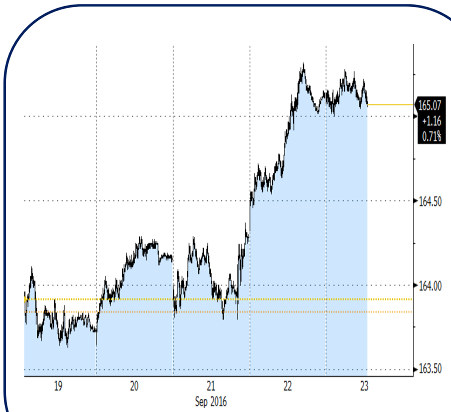
Friday, 23 September 2016

Headlines

- **The post-FOMC rally on equity markets ran into resistance** today with European shares losing about 0.5%. **US Equities opened lower too** in an uneventful session.
- **The IMF called on euro zone governments to take bolder action to ease Greece's debt burden**, saying that measures currently on the table do not go nearly far enough to address the country's chronic problems.
- Fed's **Rosengren** warned today the **US central bank's failure to get back to a strategy of gradual rate increases may threaten the ongoing US economic recovery**. Rosengren added that a significant overshoot of full employment could shorten the recovery.
- The **Canadian dollar weakens sharply today,** ending a four day winning streak, after a set of disappointing eco data. Core retail sales dropped for a second straight month in July and also inflation data came out well below expectations. **Core inflation dropped to 1.8% Y/Y, its lowest level in two years.**
- **Brent crude oil prices are trading higher for a fourth straight session**, hovering currently around $47.70/barrel. According to Reuters, Saudi Arabia could reduce its crude production should regional Iran cap its own output this year.

Rates

Consolidation on core bond markets



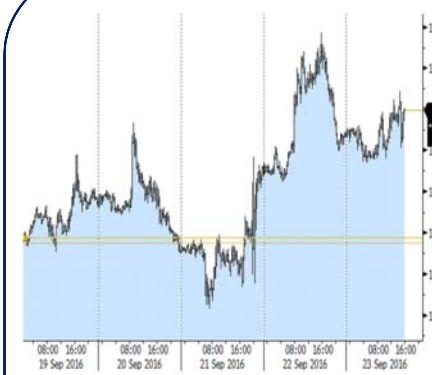
German Bund (intraday, this week): consolidating gains

Global core bonds had an uneventful trading session. European PMI data showed a mixed picture with a stronger than expected manufacturing survey and a disappointing services gauge, but the Bund ignored them. Equities traded marginally lower while Brent crude gained some ground (Saudi Arabia backs a coordinated production cut of up to 1 million barrels a day if Iran agrees to freeze output at the August level)**, sending more mixed signals to inconclusive bond markets.** At the time of writing, changes on the German yield curve ranged between +0.5 bps (2-yr) and +1.4 bps (10-yr). Changes on the US yield curve are even smaller, varying between +0.3 bps (10-yr) and +6.78 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany are also nearly unchanged. The IMF warned that bolder action is needed to giver Greece more debt relief.

Boston Fed Rosengren, who voted in favour of hiking rates earlier this week, said that the US central bank's failure to get back to a strategy of gradual rate increases may threaten the ongoing US economic recovery: *"I am arguing for modest, gradual tightening now, out of concern that not doing so today will put the recovery's duration and sustainability at greater risk".*

Currencies

Dollar hovers sideways as post-Fed decline peters out


EUR/USD (1wk): calm returns post-Fed

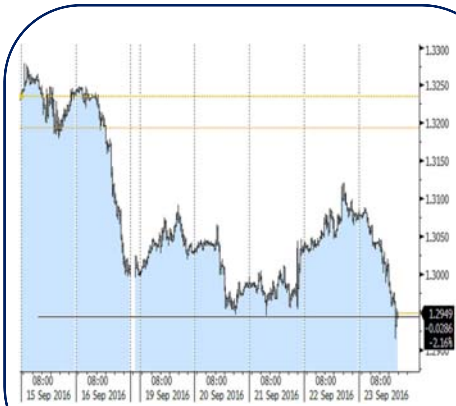
Today, the major dollar cross entered calmer waters as the post-Fed repositioning has run its course. EUR/USD and USD/JPY held tight ranges close to 1.12 and 101 respectively. A slightly softer than expected EMU PMI didn't affect currency trading in a lasting.

Overnight, Asian equities traded narrowly mixed, talking a breather after recent gains. Japanese/Asian markets tried to find out how the new post-BOJ policy framework works. For now, the BOJ-pledge to steepen the yield curve didn't work yet as 10-y yields declined below the 0% target. The dollar traded slightly stronger overnight, further reversing yesterday's initial post-Fed softness. In this move USD/JPY tried to regain the 101 barrier, but the move wasn't really convincing even as Japanese government officials signalled that Japan is ready to act if excessive FX sensitivity continues. The dollar traded also slightly stronger against the euro with EUR/USD changing hands just below 1.12.

Early in Europe, **markets focussed on the EMU PMI's.** The good French PMI supported a euro bid at the start of the European session. However, this bid eased very soon as the PMI's from Germany and from the EMU as whole were slightly weaker than expected. EUR/USD returned soon to the 1.12 area. Further out in the European session, there wasn't much high profile news to guide EUR/USD trading. **Several ECB speakers attended a conference on macro-prudential policies.** In this context, some comments pointed to **the limits of the current ultra-easy monetary policy of the ECB (and of other central banks).** We don't make too much out of it, but indications that there is not that much room for CB's like the ECB to easy policy further might be a slightly positive for the euro. Whatever the reason, EUR/USD trended cautiously higher north of 1.12 later in the European morning session. USD/JPY didn't go anywhere and traded in a tight range close to, mostly slightly below 101.

With no important eco data on the agenda in the US, there was still little incentive for an obvious directional move in EUR/USD and in USD/JPY. EUR/USD is trading near 1.1215. USD/JPY is changing hands around 101

Sterling again under 'political' pressure


GBP/USD : sterling feels political headwinds

Today, there were no eco data in the UK. Even so, sterling remained in the defensive. Political uncertainty on the pace and the nature of the Brexit process sparked again investor uncertainty. **This time comments from UK's Boris Johson, that article 50 could be triggered early 2017 and that the exit process could take less than two year, added to sterling uncertainty.** That's sooner than markets assumed until now. It's difficult to see whether this was the only reason for the decline of sterling. Whatever, sterling remained under (political) pressure today. EUR/GBP rebounded to the 0.8675 area and trades currently around 0.8660. Cable dropped temporary below this week's low (1.2950) area. The test is ongoing but a clear break didn't occur yet.

News

EMU composite PMI falls to lowest level since early 2015

EMU composite PMI drops to lowest level since January 2015

According to the preliminary estimate, **the euro zone composite PMI** dropped from 52.9 to 52.6 in September, the lowest level since January 2015. This time, the slowdown in sentiment was based in the services sector with the PMI easing from 52.8 to 52.1, while a stabilisation was expected. Within the services sector, growth in new orders stalled at a 19-month low while the outlook for one year ahead dropped to its lowest level in 21 months. Growth in the manufacturing sector however picked up, with the PMI rebounding from 51.7 to 52.6, its highest level since June. Within the manufacturing sector, both total new orders and new export orders picked up in September with export orders rising at its steepest pace in 2.5 years. Overall, the pace of job creation slowed, but more encouraging, inflation showed tentative signs of picking up with selling prices rising for the first time in 13 months.

The **national data** showed a very mixed picture too. Business sentiment improved substantially in France, with the composite PMI rising from 51.9 to 53.3. The improvement in France was led by the services PMI, which rose from 52.3 to 54.1, while the manufacturing PMI increased from 48.3 to 49.5. In Germany, the composite PMI slowed to 52.7 from 53.3, its lowest level since June 2015. An improvement in the manufacturing sector (54.3 from 53.6) was offset by a substantial worsening in the services PMI to only 50.6, its lowest level in more than three years.

Today's PMI data suggest that growth slowed further in the third quarter, although Markit still believes a growth rate of close to 0.3% would be reasonable. Nevertheless, the trend remains unconvincing and suggests a slight further loss of momentum.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,54%			-0,08%			0,48%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,39%	847	-4,6	#VALUE!	#VALUE!	#VALUE!
Portugal	2,07%	261	-3,1	3,39%	346	-0,4	4,25%	376	1,0
Italy	0,26%	80	0,7	1,22%	129	0,8	2,26%	177	0,4
Spain	0,10%	64	2,2	0,96%	104	2,5	2,06%	158	1,2
Ireland	#VALUE!	#VALUE!	#VALUE!	0,40%	47	-0,4	1,20%	72	0,2
Belgium	-0,46%	9	0,0	0,15%	23	0,4	1,08%	59	-0,3
France	-0,41%	13	0,1	0,22%	30	0,1	1,00%	52	0,0
Austria	-0,45%	10	-0,4	0,13%	20	0,4	0,80%	32	0,3
Netherlands	-0,45%	10	-0,5	0,04%	11	0,5	0,55%	7	-0,8
Finland	-0,49%	6	-0,1	0,04%	12	0,3	0,57%	8	-0,4
US	1,17%	172	0,1	1,63%	170	-1,0	2,35%	187	-0,1
UK	0,22%	76	1,8	0,73%	81	0,7	1,43%	95	0,0

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