



## Sunset

Tuesday, 23 August 2016

### Headlines

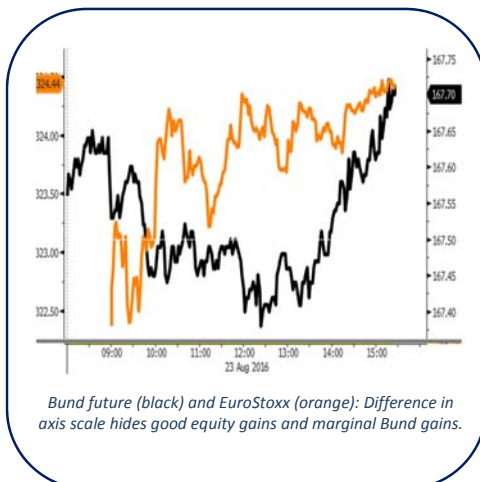
- **European shares rebound** today, supported by decent PMI data. Major indices gain up to 1%. **US Equities** opened in positive territory too.
- **US eco data showed a mixed picture.** The Richmond Fed index dropped from 10 to -11 in August, reversing the July uptick. New home sales rose by 12%, reaching new multi-year highs.
- **UK manufacturers' export order books reached a two-year high** as the depreciation of sterling is feeding through to stronger overseas demand, the CBI said today, adding that total order books were largely unchanged but remained comfortably above the long-run average.
- **Hungary's central bank kept its benchmark interest rate unchanged at its record low of 0.9%**, in line with expectations. The central bank said it will decide on the operational details of the limits on 3-month deposits in September. The forint strengthened slightly further.
- **Turkey's central bank cut its overnight lending rate by 25 basis points to 8.5%**, in line with expectations. The overnight borrowing rate and benchmark repurchase rate stayed unchanged at 7.25% and 7.5% respectively. The lira strengthened slightly today.

### Rates

#### Core bonds barely move in quiet summer trading

Today was probably one of the most boring trading sessions in the core bond markets. The Bund opened slightly higher, but soon reverted to opening levels and stayed in a 15 ticks tight range around the opening levels. US Treasuries showed no more virility. At the time of closing of our report, German yields are flat to -0.5 bp lower with the 5-yr yield underperforming (+0.4 bp). Similar score board for US yields. Changes are mostly less than -0.5 bp, with the long end outperforming (-1.5 bp for the 30-yr). In intra-EMU bond markets, modest profit taking continued with 10-year yield differentials up 1 to 2 bps.

Intra-day, the Bund opened marginally higher but never caught a serious bid. The EMU PMI's were too close to expectations to affect markets. Oil dropped further in the Asian session, but found its composure in the European session and rebounded off the Asian intra-day lows. Equities fared better. European indices gain about 1%, but didn't affect core bonds. The Bund stayed closed to the openings level. An attempt to climb higher in the afternoon was laborious and till now didn't run far. Later today, the EMU consumer confidence and US New Home sales and Richmond Fed survey will be released, but we don't expect

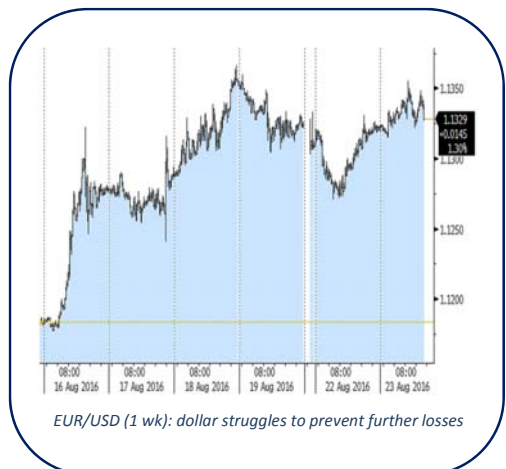


lasting and significant moves. The US 2-yr T-Note auction is the last “event” of the day.

## Currencies

### USD holding near the recent lows

Today, USD traders experienced another uneventful session. The dollar stayed slightly under pressure in Asia. However, the decline of the US currency slowed in Europe. USD/JPY stabilises close to the 100 mark. EUR/USD is holding in a tight range mostly in the lower half of the 1.13 big figure (currently near 1.1335/40).



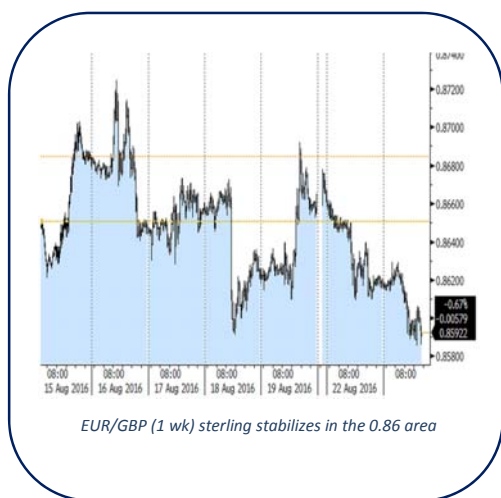
The moves on Asian markets were modest this morning. Oil remained under downward pressure but had little negative impact on Asian equities. Most indices showed even modest gains. Japanese indices underperformed, pressured by a soft dollar as investors awaited Yellen’s speech in Jackson Hole on Friday. USD/JPY returned to the low 100 area. Overall dollar softness kept EUR/USD well above the 1.13 mark with the pair trading in the 1.1340 area at the start of trading in Europe. The **kiwi dollar** remained well bid as RBNZ governor Wheeler indicated that the bank is in no hurry to cut rates. NZD/USD almost exactly tested the 2016 top (0.7340 area) early in European dealings.

The dollar stayed under pressure as European investors prepared for the open of equity markets. EUR/USD came within reach of the 1.1366 resistance; USD/JPY filled bids just below the 100 barrier. European equities opened with decent gains. French (better than expected) and German (slightly below consensus) PMI’s painted a mixed picture. However, the overall **EMU composite PMI (53.3) confirmed that there was no big negative fall-out from Brexit on the EMU economy yet.** A constructive EMU growth story is in theory euro supportive. However, EUR/USD didn’t react. The pair drifted sideways the 1.1320/1.1355 area. The decline of USD/JPY also halted but the pair struggled to stay north of 100. Investors clearly stay reluctant to engage in USD long exposure ahead of Yellen’s Jackson hole speech.

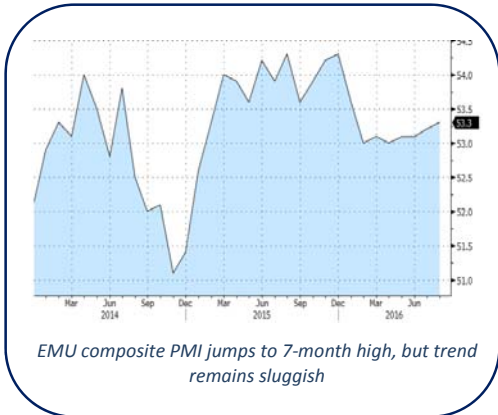
The global picture for the dollar didn’t change early in US dealings. In thin summer trading conditions EUR/USD (1.1330 area) and USD/JPY (100.00 area) basically don’t go anywhere.

### Sterling rebound slows. Not clear trend yet

Sterling extended yesterday’s ‘technical’ rebound this morning in Asia. Investors further reduced sterling shorts. EUR/GBP drifted below the 0.8600 mark. Cable extensively tested the 1.32 level. **However, the sterling rebound ran into resistance early in Europe, even as sentiment on risk improved.** The CBI industrial orders were better than expected (-5 vs -10 expected). Selling prices were also higher. However, the report didn’t help sterling, despite yesterday’s technical rebound. EUR/GBP trades currently close to/slightly below 0.8600. Cable hovers in the 1.3185 area.



## News

**EMU PMI jumps to 7-month high, but details mixed**

According to the preliminary estimate, the **euro zone composite PMI** picked up slightly in Augustus. The index rose from 53.2 to 53.3, its strongest level in seven months and above the market consensus of 53.1. The improvement was based in the services sector, where the PMI rebounded from 52.9 to 53.1, also above expectations. In the manufacturing sector however, sentiment weakened for a second straight month with the PMI falling from 52.0 to 51.8. Looking at the available **national data**, sentiment weakened in Germany with the services PMI falling to its lowest level since May last year (53.3 from 54.4). The German manufacturing PMI weakened too, although only slightly (53.6 from 53.8). Weakening sentiment in Germany was offset by a rebound in France. The French services PMI rose from 50.5 to 52.0 in August, a 10-month high. Manufacturing sentiment weakened marginally further (48.5 from 48.6) in the country. Elsewhere in the euro area, there was overall robust growth, but the rate of expansion slowed.

**Besides a stronger headline reading, the details of the euro area PMI's are mixed too.** Output growth accelerated in both the manufacturing and services sector, but new orders slowed across both sectors. Expectations in the services sector weakened too, reaching their lowest level since December 2014. Employment continued to rise but the rate of increase slowed in August and also inflationary pressures remained muted. The euro area economy is holding up surprisingly well after the Brexit decision, but the details show signs of uncertainty. Overall, the PMI's indicate that the euro area economy continues to grow modestly in line with its pattern seen last year and earlier this year. While the Brexit impact is limited for now, there are neither signs of improvement.

16:00 CET

**Daily EMU spread changes (bps)**

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,52%			-0,10%			0,40%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,06%	815	2,0	#VALUE!	#VALUE!	#VALUE!
Portugal	1,85%	237	-3,9	3,01%	311	-0,9	3,84%	344	2,9
Italy	0,22%	74	-0,5	1,13%	122	3,0	2,14%	174	2,0
Spain	0,07%	59	-2,3	0,94%	104	1,1	2,01%	161	1,4
Ireland	#VALUE!	#VALUE!	#VALUE!	0,41%	51	2,2	1,12%	72	1,0
Belgium	-0,46%	6	0,1	0,12%	22	0,7	0,97%	57	0,8
France	-0,41%	11	-0,2	0,13%	23	0,5	0,89%	49	0,4
Austria	-0,44%	8	-0,1	0,10%	20	1,2	0,72%	32	0,1
Netherlands	-0,44%	8	0,3	0,02%	12	0,5	0,49%	9	0,2
Finland	-0,46%	6	-0,3	0,05%	15	0,7	0,52%	12	0,4
US	1,13%	165	-1,4	1,53%	163	-0,2	2,22%	182	-1,4
UK	0,20%	72	-1,1	0,54%	64	-0,9	1,27%	87	-3,9

## Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
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
<b>Dublin Research</b>		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

 ALL OUR REPORTS ARE AVAILABLE ON [WWW.KBCCORPORATES.COM/RESEARCH](http://WWW.KBCCORPORATES.COM/RESEARCH)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

