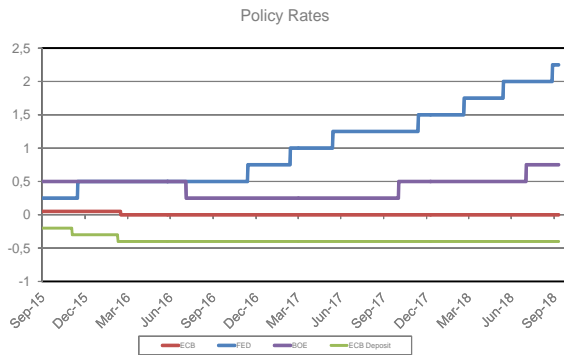




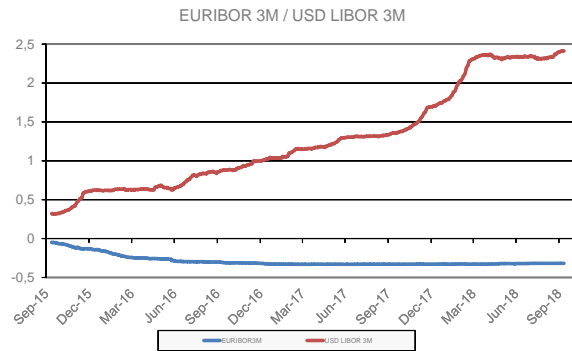
Tuesday, 16 October 2018

# Markets

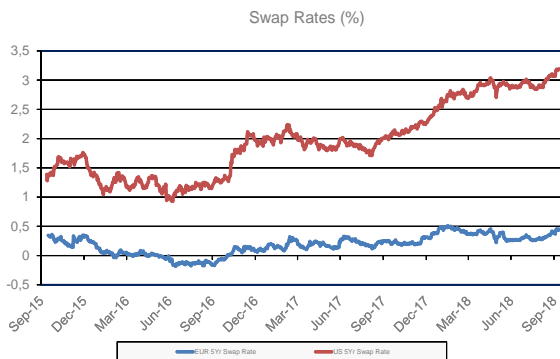
## Rates



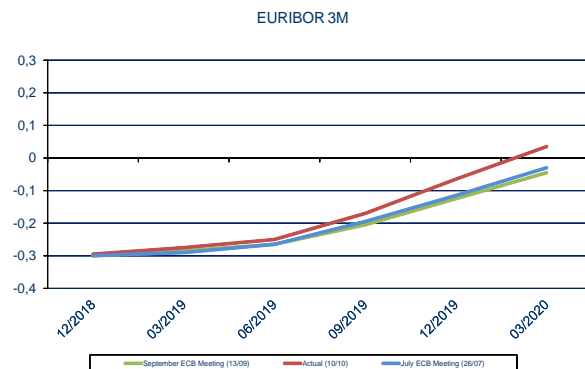
At its September meeting, the Fed raised rates with 25 bps, dropped the reference to accommodative policy, lifted the neutral rate median forecast to 3% and signalled more hikes to come. The ECB and BoE held status quo.



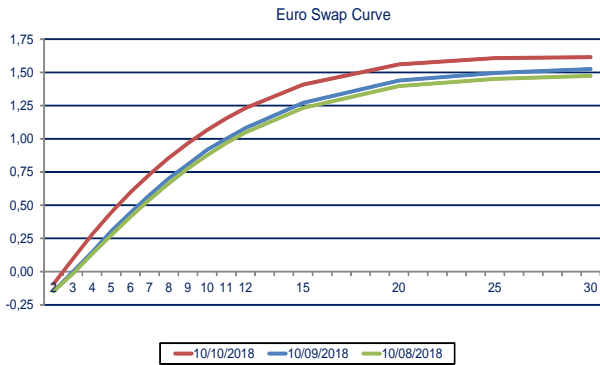
The US 3M libor rate ticked up lately after months of stabilization as markets are gradually aligning hiking expectations with the Fed.



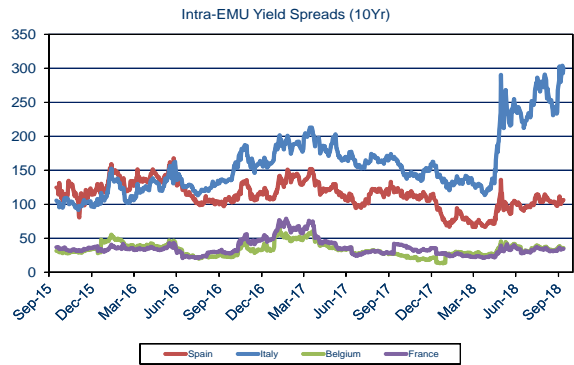
The US 5-yr swap nested above the 3%-level on another batch of strong US data, upbeat economic Fed assessments and market repositioning in favour of more rate hikes. The European 5-yr swap rate trended higher, trading near the upper boundary of its sideways range.



In June, the ECB pulled the plug on the money market. However, Draghi's optimistic (inflation) message revived the 3M strip curve in September. Markets now expect positive rates sooner, i.e. early 2020.

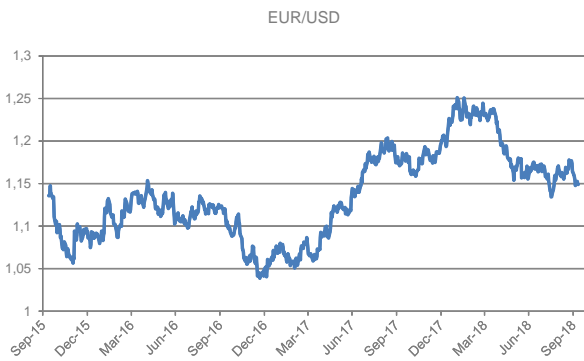


The EMU swap curve bear steepened following the atypical hawkish Draghi comments in September despite increasing trade tensions. The uptrend in US yields also supported the repositioning on EMU markets.

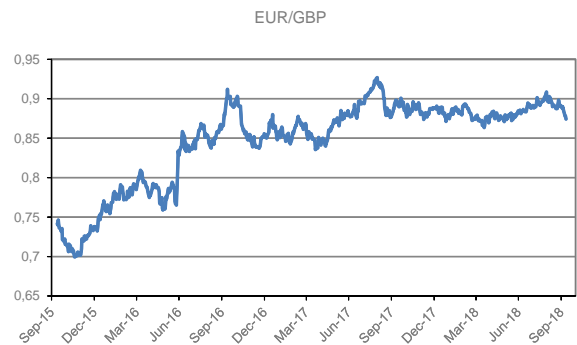


Italian spreads increased topping the June high as the government's spending plans met with fierce European resistance. Spreads remain elevated as the budget plan is now under formal EC scrutiny. There is no evidence of contagion so far.

## Currencies

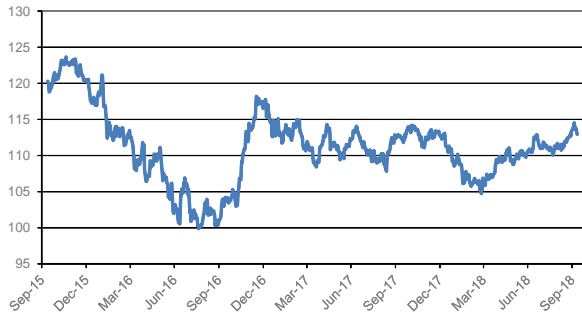


EUR/USD came under modest pressure as Italian budget worries weighed on the euro while strong US data supported the dollar. The fall halted recently after a correction in US assets caused a small dollar "exodus".



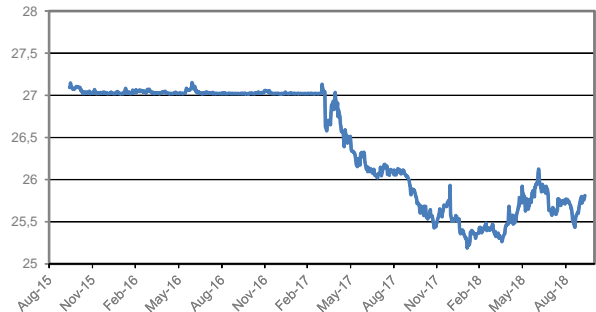
A constructive brexit tone triggered a sterling recovery since the end of September. However, a formal deal has yet to be agreed upon, keeping the pair within the well-established 0.87/90 range.

USD/JPY



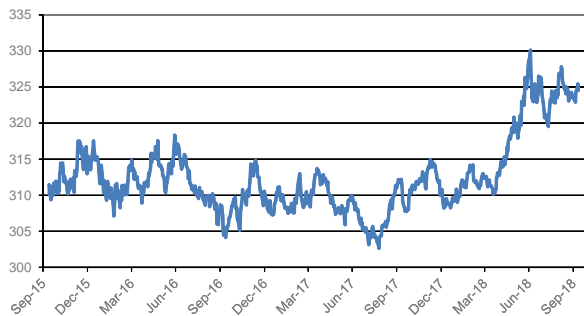
*USD/JPY's uptrend following higher US rates reversed after a US assets' selloff. Even so, the yen also profited only moderately from recent uptick in risk aversion.*

EUR/CZK



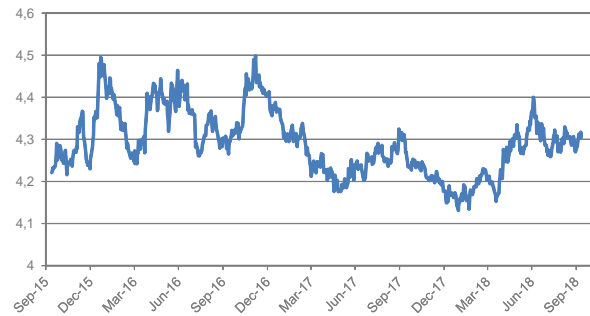
*Despite a third straight increase of the Czech base rate (1.50%) in September, EUR/CZK regained traction starting mid-September. More hikes are to a great extent already priced in, exhausting any interest rate support for the Czech koruna in the short term.*

EUR/HUF



*EUR/HUF left the 305-315 trading range and found higher ground following Orban's election victory and during the emerging market turmoil. Despite a slightly less dovish NBH (guidance) stance, rate hikes are still far off.*

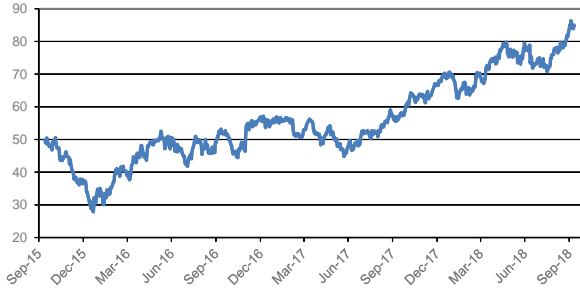
EUR/PLN



*The zloty took a hit as the dollar firmed, putting many EM currencies under pressure. Furthermore, the NBP has no intention at all to normalize policy any time soon. The pair is capped within a relatively tight 4.25/35 range.*

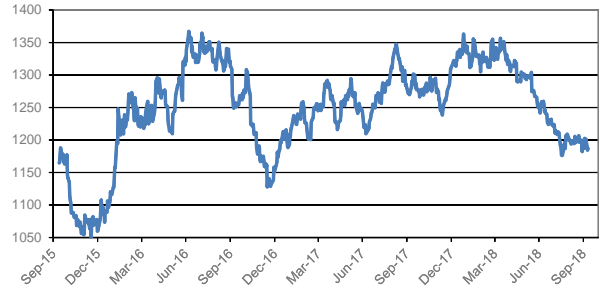
Others

Brent Crude Oil (Future) - (\$/barrel)



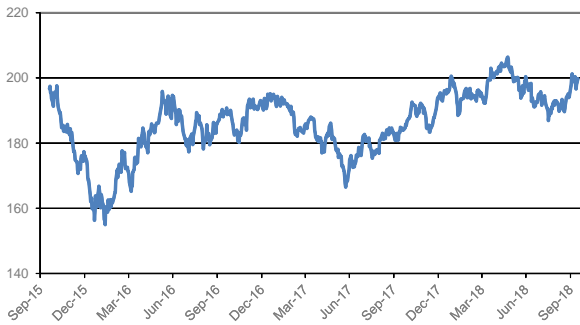
Despite OPEC's decision to ramp up supply, oil prices have risen due to tightening global supply. Declining Iranian exports decline following US sanctions, hurricanes threatening offshore rigs and capacity constraints are to blame.

Gold (Future) - \$/ounce



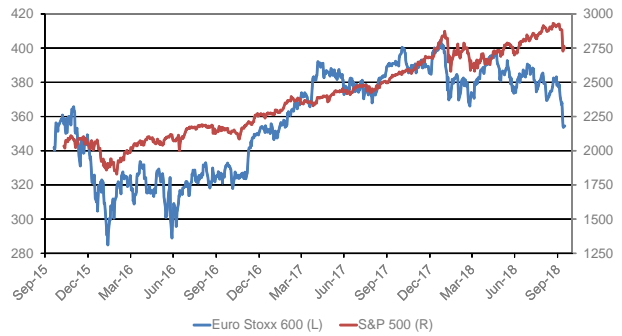
The drop of the gold price bottomed with the USD rally halting for now. Volatility on global equity markets also helps protecting the downside rather well.

CRB Commodity Index



Overall commodity prices picked up, in particular following higher oil and copper prices. Commodities are especially vulnerable to the trade war developments.

Equity Indices

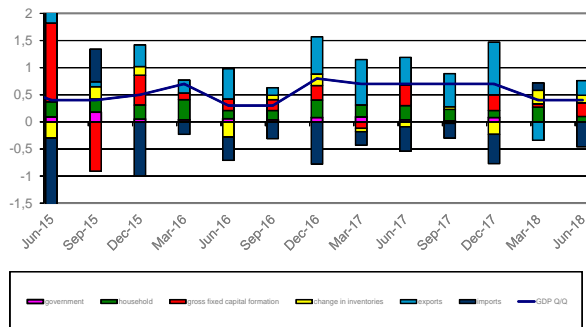


Both European and American equities witnessed a sharp correction lately following higher rates and worries concerning global growth momentum.

# Economic Overview

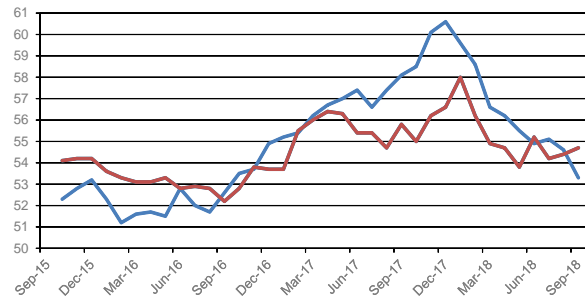
## Eurozone

Euro zone GDP (Q/Q contribution to growth)



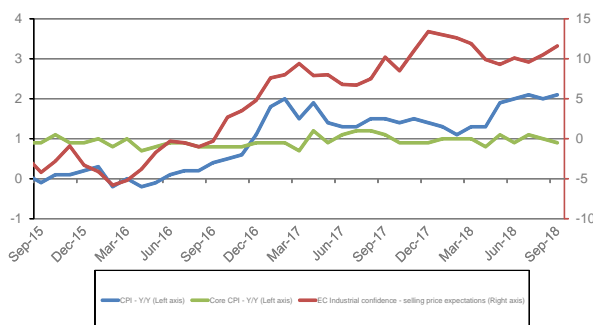
EMU growth reached 0.4% QoQ and 2.1% YoY in Q2 2018, down from 2.5% YoY in Q1. Growth momentum peaked in 2017. However, it should remain above trend in coming years.

Euro zone PMI Manufacturing (blue) & Services (red)



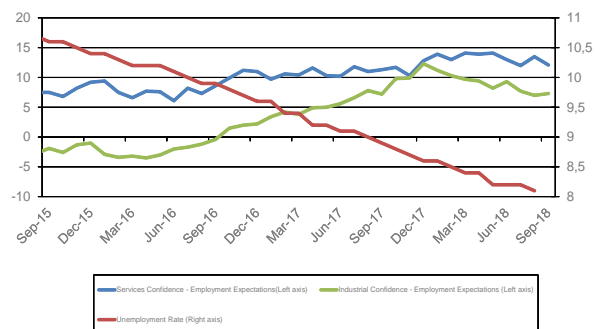
EMU PMI's show a diffuse picture. The Manufacturing PMI declined further in September to 53.2, driven by weak exports and ongoing trade war fears. Services are less affected by global trade and the PMI registered a further increase to 54.7 from an upwardly revised 54.4.

Euro zone Inflation



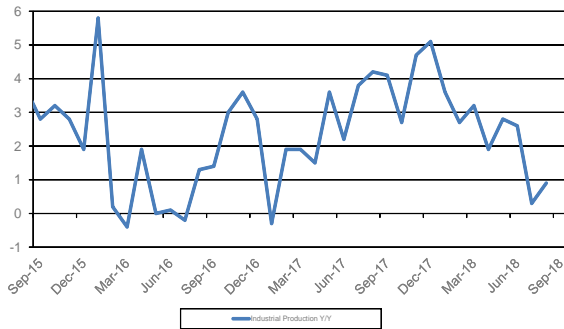
Core prices (0.9% YoY down from 1.0%) did not reflect Draghi's optimistic inflation message in September. Headline inflation picked up a notch to 2.1% YoY, mainly the result of higher oil prices.

Euro zone Unemployment



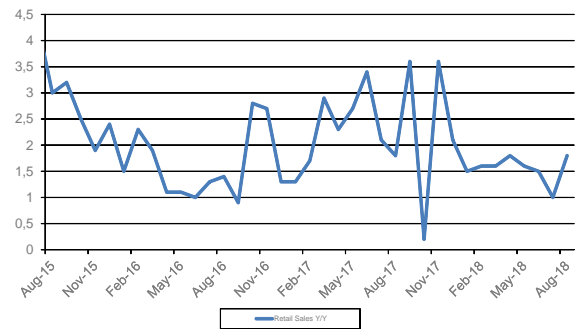
The euro zone unemployment rate declined further to 8.1% in August, the lowest level since November 2008. Surveys suggests ongoing hiring intentions.

Euro zone Industrial Production

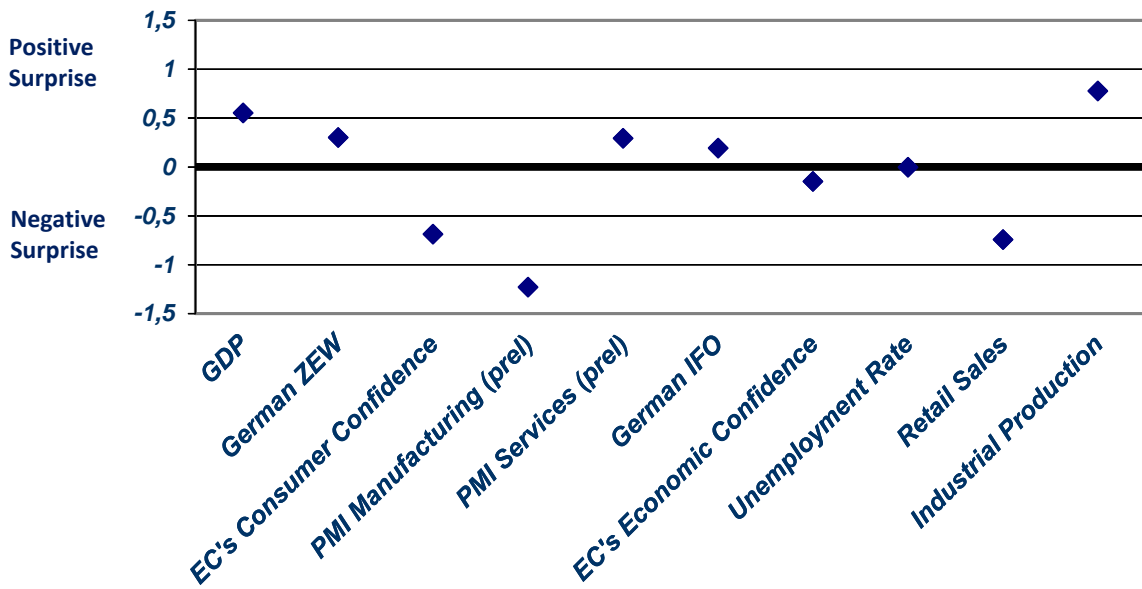


Despite a contraction in Germany and Italy, industrial production increased 0.9% YoY in August, while July numbers enjoyed an upward revise to 0.3%. Ireland's performance was remarkable, showing a whopping 15.1% increase.

Euro zone Retail Sales



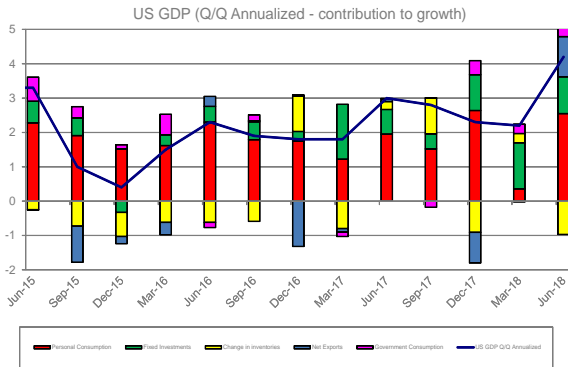
Mail orders and internet drove August retail sales higher to 1.8% Y/Y, up from an downwardly revised (and 2018 low of) 1.0% in July.



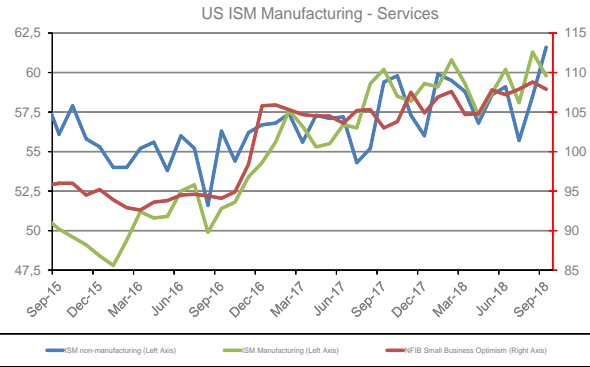
Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data.

Euro zone's data surprises were roughly balanced, in line with only moderate economic performance.

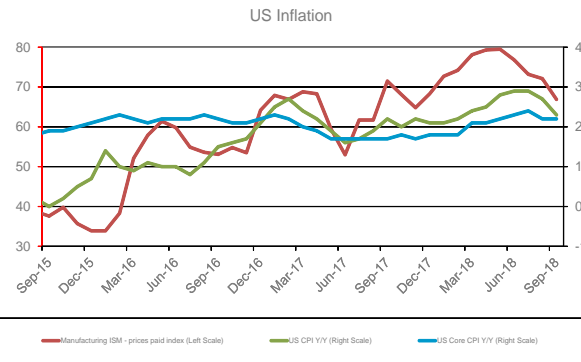
US



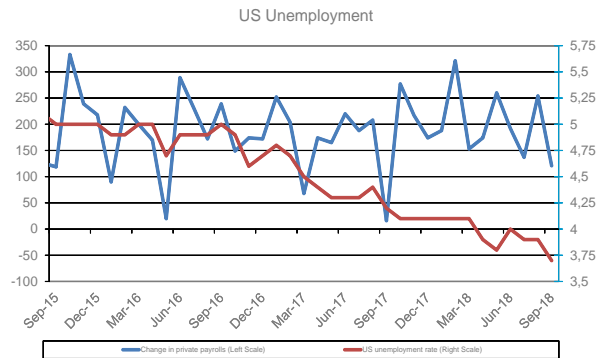
The US economy grew by a whopping 4.2% Q/Qa in Q2 2018. Personal consumption rebounded from a sloppy Q1. The negative contribution from inventories is expected to reverse in Q3.



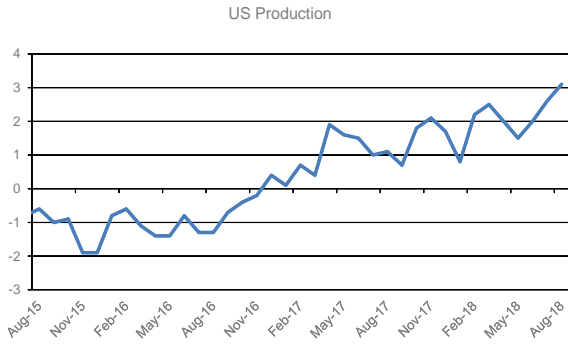
US Business sentiment indicators remained at very lofty levels in September, suggesting ongoing economic strength. While the manufacturing ISM eased a little (59.8), services surged (61.6). NFIB small business optimism retreated slightly from its all-time high (107.9).



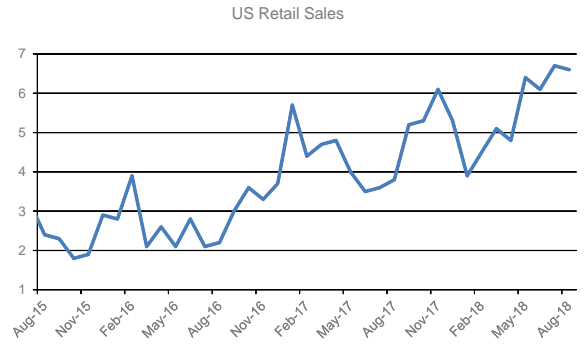
US headline CPI slowed to 2.3% YoY in September, down from 2.7% in August. Core measures (2.2% YoY) stabilized at 2.2%, easing fears for an overshoot and supporting the Fed's gradual rate hike approach.



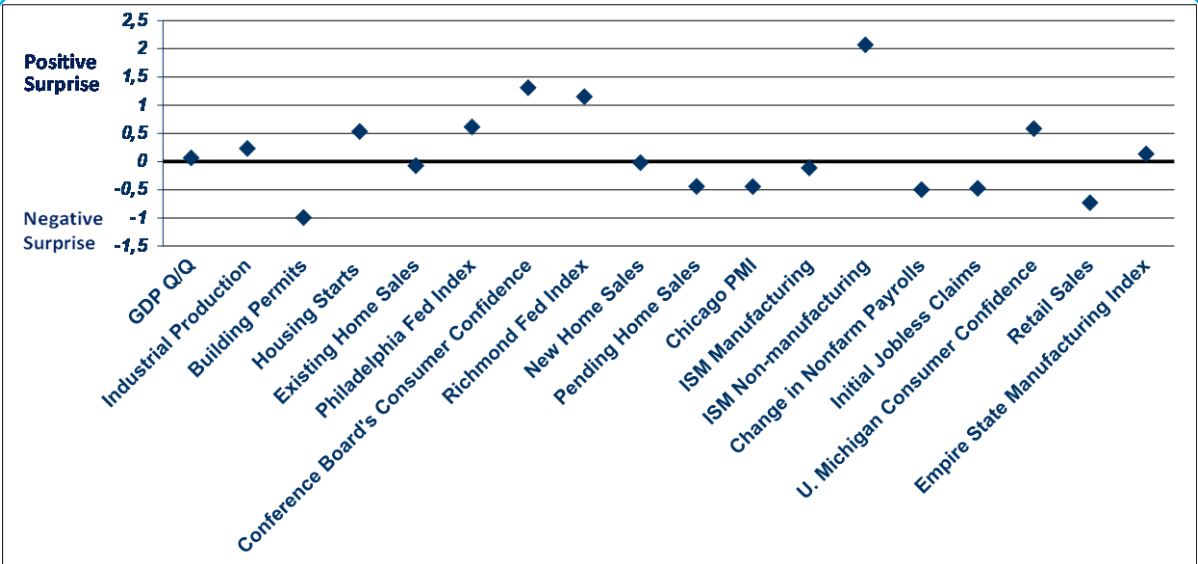
The US labour market remains at full speed, with the unemployment rate at 3.7% reaching a four decade low. The August uptick in wages proved temporary, as wage growth remained at a moderate 2.8% YoY in September..



US factory production increased a 0.4% MoM in August, following an upwardly revised 0.4% in July. The drop in May has now fully been compensated.



Headline retail sales ended Q3 on a sad note. Sales rose a meagre 0.1% MoM. Core measures (excluding cars, fuel, construction and catering industry) used for GDP calculations, however picked up 0.5% MoM.



Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of US economic data.

US economic data: latest batch of sentiment indicators were mostly in line to better than expectations. Housing and labour data disappointed yet remain strong and prone to upward revisions (especially true for labour data).



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