



Sunset

Friday, 10 June 2016

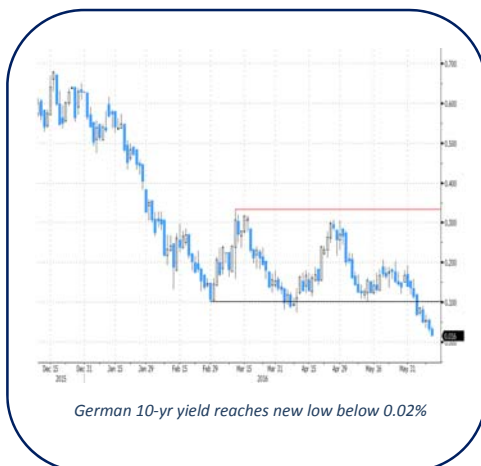
Headlines

- **European shares show broad-based losses, trading currently 2% lower**, ignoring better than expected production data. **US equities opened lower too**, although losses are more contained.
- **The ECB should consider making a clear commitment not to raise its key interest rates over the coming two years even if the annual rate of inflation were to exceed its target**, the **OECD** said, adding that it could make monetary policy more effective.
- After already better than expected German data, **also French and Italian industrial production surprised on the upside of expectations in April**. French production rose by 1.2% M/M and Italian by 0.5% M/M, pointing to a strong start of the second quarter.
- **An extended period of low ECB interest rates could increase the risk of a sudden surge in risk premia** and policymakers should consider the implications of financial imbalances, Bundesbank President **Weidmann** warned.
- **Brent crude oil prices dropped for a second straight session**, trading currently around \$51/barrel as the stronger US dollar weighs, despite strong refinery demand and global supply disruptions.
- **Canada's economy created 14 000 jobs in May**, partly due to a surge in public administration and construction jobs. The unemployment rate dropped unexpectedly, from 7.1% to 6.9%. Both figures were well above the market consensus, supporting the CAD.
- .

Rates

New record low

Today, core bonds eked out some minor (Bunds) to moderate gains (US) as European equities were sharply hit amid an thin eco calendar. Oil and commodities fell for a second consecutive session, supporting core bonds as well. National EMU production data surprised on the upside of expectations, but were ignored. Later today, US Michigan consumer confidence will still be released. The OECD called on the ECB to make a clear commitment not to raise interest rates over the coming two years even if inflation hits the 2% target. Recent comments by ECB governors Nowotny, Smets, Weidmann and Jazbec show that the central bank doesn't seem to be in a hurry to do so though. **Technically**, the German 10-yr yield set another all-time low, at 1.3 bps, and a break into negative territory seems unavoidable. The US 10-yr yield tests key support at 1.64%; which is the downside of the sideways trading range since February.



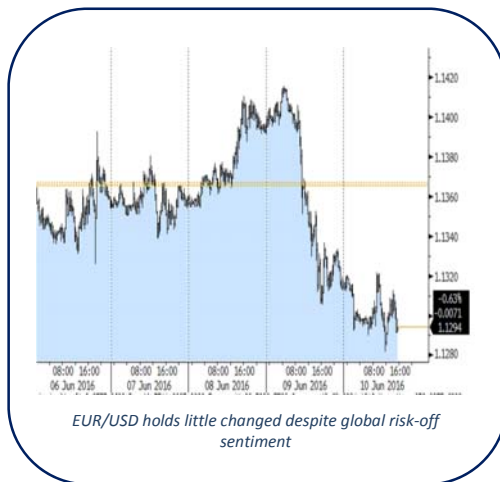
At the time of writing, the US curve drop 1.7 bps (2-yr) to 5 bps (10-yr) lower. The German yield curve bull flattened with yields 0.3 bps (2-yr) to 3.5 bps (30-yr) lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany widen 5 bps for Spain/Italy, 7 bps for Portugal and 16 bps for Greece. General risk aversion weighs on peripheral bonds.

Currencies

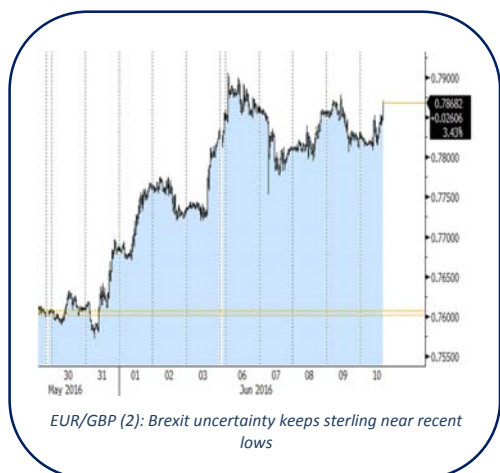
Dollar disconnects from global risk-off trade

Today was an outright risk-off day on global markets. Yesterday, modest equity losses went hand-in-hand with a rebound of the dollar against the euro. The impact on USD/JPY was modest. Today the interconnection between markets was different. The major USD cross rates were largely disconnected from the global risk-off and from ever lower core bond yields. EUR/USD holds near the 1.13 pivot. USD/JPY trades only marginally lower in the 106.80 area.

Overnight Asian equities trade again in negative territory even as the dollar was in better shape. Japanese equities underperformed as USD/JPY struggled to stay above the 107 big figure. Mainland China markets are still closed. The rebound of the dollar also weighed on the commodity complex. AUD/USD drifted back lower in the 0.74 big figure. Yesterday, the decline of EUR/USD was at least partially driven by the sell-off in EUR/JPY. This morning, it was more outright USD strength that pushed EUR/USD below the 1.13 barrier.



As was the case earlier this week, there were hardly any eco data with market moving potential in Europe. Yesterday, a modest risk-off trade pushed EUR/USD and EUR/JPY & USD/JPY lower. Today, the sell-off on the European equity markets accelerated. However, there was little directional impact on the major USD cross rates. EUR/USD hovered in a tight range around 1.13. USD/JPY returned below the 107 big figure. However, the decline remained very limited given the 2%+ losses for several European equity indices. USD/JPY traded in the 106.75 area around noon. Over the previous days, US equities proved to be quite resilient compared to the equity decline in Europe and in parts of Asia. However, this time US indices didn't escape the global risk-off move. Still, the impact on the dollar remained limited. US equities currently trade with losses of about 1%. However, USD/JPY (116.80) and EUR/USD 1.1300 are only marginally changed from noon.



Sterling modestly lower as hedge costs continue to rise

Yesterday, sterling succeeded a technical rebound against the euro, at least partially inspired by the EUR/USD correction. Today, sterling weakness prevailed again. The decline in equities and in oil reinforced the impact from the Brexit-uncertainty going into the weekend. Still the losses of sterling were modest. EUR/GBP rebounded to the mid 0.78 area. Cable drifted south from the 1.4450 area this morning to trade just below 1.44 currently. Sterling option volatility (1M) is again close to multi year highs. The UK construction output for April was stronger than expected at 2.5% M/M and the BoE/TNS inflation expectations survey rose from 1.8% to 2.0%. However, these factors were of hardly any importance for sterling trading.

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0.43%			0.01%			0.58%		
Greece	#VALUE!	#VALUE!	#VALUE!	7.46%	745	11.1	#VALUE!	#VALUE!	#VALUE!
Portugal	1.90%	234	4.8	3.12%	311	7.6	4.06%	347	8.0
Italy	0.42%	86	3.0	1.41%	140	4.5	2.42%	184	4.5
Spain	0.48%	91	3.8	1.45%	144	4.9	2.58%	200	5.2
Ireland	-0.07%	37	1.1	0.73%	72	1.8	1.54%	96	-0.3
Belgium	-0.35%	8	1.1	0.42%	41	1.2	1.30%	72	0.7
France	-0.20%	23	0.9	0.38%	37	1.2	1.19%	60	1.0
Austria	-0.39%	4	1.2	0.21%	20	0.7	1.03%	45	0.3
Netherlands	-0.26%	18	0.6	0.23%	22	0.8	0.70%	12	-0.3
Finland	-0.28%	15	0.3	0.32%	31	1.1	0.73%	15	-0.1
US	1.17%	160	-4.5	1.63%	162	-3.4	2.43%	185	-0.7
UK	0.75%	118	0.1	1.22%	121	-0.5	2.04%	146	1.7

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

 ALL OUR REPORTS ARE AVAILABLE ON 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 date of the report and are subject to change without notice.

