



Sunset

Friday, 15 April 2016

Headlines

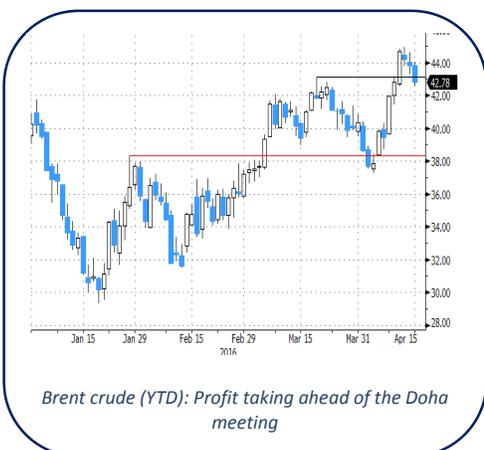
- **European shares ended their 5-day rally**, trading slightly lower, as profit taking kicked in ahead of the weekend. **US Equities opened slightly lower too.**
- The **US Empire State manufacturing index extended its rebound in April** with the headline reading increasing from 0.62 to 9.56, its highest level since January last year. The details are more mixed with especially a strong increase in prices catching the eye.
- **Brent crude oil prices dropped more than 3%, trading around \$42.40/barrel**, as Iran's oil minister said he won't attend the Doha meeting during the weekend.
- **Citigroup announced today a drop in its first quarter profit by 27%** as revenues from trading and investment banking dropped, but its profit was still ahead of expectations.
- Today, **the IMF/World Bank/G20 meeting in Washington starts**. On Sunday, OPEC and non-OPEC members will meet in Doha to discuss a potential output freeze.

Rates

Core bonds marginally higher on weak oil

Global core bonds benefited marginally from weaker equities and lower oil prices ahead of the weekend. Mixed US eco data were ignored. At the time of writing, the US yield curve bull flattens with yields 1.3 bps (2-yr) to 2.5 bps (30-yr) lower. The German yield curve shifts in a similar fashion with yields 0.3 bps (2-yr) to 2.2 bps (30-yr) lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ranged between -3 bps (Portugal) and +3 bps (Spain). Greece outperformed (-25 bps). An ECB spokesman confirmed rumours in Greek newspapers that the ECB is considering including EFSF bonds held by Greek banks in its QE-programme. The bonds were used to recapitalize Greek banks.

Intraday, the Bund opened strong. Asian risk equity markets traded marginally lower despite Chinese eco data. Chinese Q1 GDP figures were in line with expectations (6.7%) while industrial production and retail sales improved. **European stock markets opened also on a soft note, with some profit taking ahead of the weekend on the back of this week's rally. Brent crude declined throughout the session ahead of this weekend's Doha meeting about an oil production freeze.** Since the first rumours of the meeting, Brent crude increased from \$30/barrel to \$45/barrel so quite some optimism is discounted. Today's price action in oil can already be considered as buy-the-rumour, sell-the-fact. Despite lower oil prices and lower stocks, core bond gains remained limited. The



European eco calendar was again empty while **mixed US eco data (stronger Empire Manufacturing and weaker industrial production) didn't leave a stamp on trading either**. As US trading gets going, global core bonds show some signs of intraday topping off.

Currencies

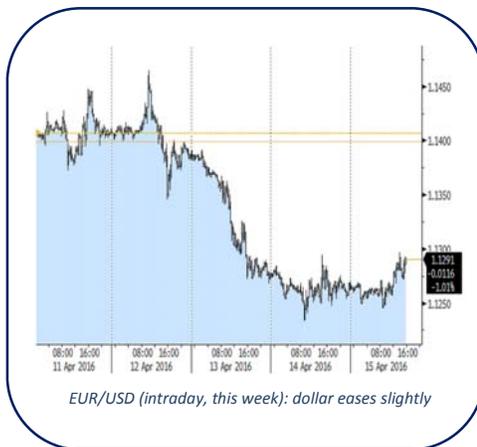
Dollar declines slightly driven by oil and equities

Today, the dollar rebound lost momentum. The US currency even fell prey to modest profit taking as equities and especially oil returned part of this week's gains. However, for now the moves were only of intraday significance. EUR/USD trades currently in the 1.1285 area. USD/JPY changes hands in the 108.90 area.

Overnight, Chinese Q1 GDP was exactly in line with expectations at 6.7% Y/Y. March industrial production was substantially stronger at 6.8% Y/Y. The market reaction to the data was muted. Most regional equity indices showed modest losses, which was probably some short-term profit taking on recent gains. EUR/USD held yesterday's tight range and traded around 1.1260 at the start of the European session. USD/JPY remained well supported, trading in the 109.60 area.

There were no eco data in EMU. Oil and equities fell prey to moderate profit taking. Initially, the impact on the dollar was very limited. However, sentiment gradually deteriorated further. Especially oil tumbled sharply lower ahead of this weekend's Doha meeting. Finally the dollar also felt some fall-out. EUR/USD drifted to the 1.1270/75 area around noon. USD/JPY dropped off this morning's uptick and returned to the low 109 area.

In the US, the Empire manufacturing survey came out strong than the market consensus. However, the impact on the dollar was close to non-existent as the global context didn't change (oil and US equity future held close to the intraday low after the publication of the release). The US production data disappointed. Both industrial production (-0.6% M/M) and manufacturing production (-0.3% M/M) missed the consensus by a wide margin. The dollar lost a few ticks after the production data. EUR/USD trades currently in the 1.1285 area. USD/JPY changes hands near 108.90. So, the dollar fell prey to limited profit taking in a daily perspective with oil and equities driving the move. However, the broader technical picture remains unchanged.



Sterling in consolidation modus

Today, only the less important construction output data were published in the UK. Construction output declined again in February. However, the report was largely ignored for sterling trading.

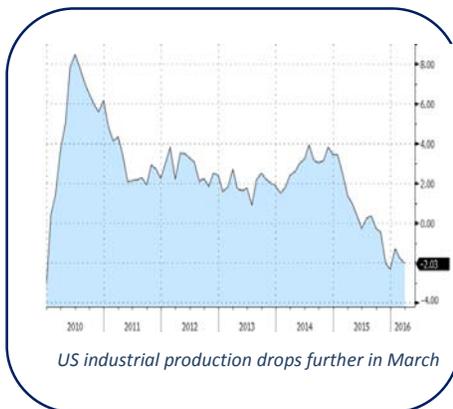
Sterling was driven by technical considerations and global market factors. Given the overall context (correction in equities and a rather sharp decline of oil) sterling performed quite well. Cable rebounded as the dollar declined across the board. Even EUR/GBP initially traded with a slightly negative bias. However, sterling and the euro gradually traded more in balance as risk sentiment turned further negative throughout the session. EUR/GBP trades currently around 0.7960, hardly changed from this morning. Cable holds in the 1.4175 area, marginally higher on a daily basis (but mostly due to the USD weakness). After all, it was an uneventful session for sterling trading.



News

US production extends downward trend led by mining

US industrial production dropped for a second straight month in March and at a significantly stronger pace than forecast. Industrial production dropped by 0.6% M/M, while only a marginal 0.1% M/M decline was expected. Also the previous month's figure was revised lower from -0.5% M/M to -0.6% M/M. Annually, production is down by 2%, from -1.8% Y/Y in February. Looking at the details, weakness was led by mining (-2.9% M/M) and utilities (-1.2% M/M), but also manufacturing production dropped for a second straight month (-0.3% M/M from -0.1% M/M). Within the manufacturing sector, output of motor vehicles and parts dropped sharply (-1.6% M/M) as well as output of machinery (-0.4% M/M), while production of computers & electronics rose by 0.9% M/M. Capacity utilization extended its downward trend too, falling to its lowest level since the end of 2010, but this is mainly due to weakness in the mining sector. **While weakness in production is mainly based in mining, the manufacturing sector continues to underperform too, but most recent business confidence indicators suggest that some improvement might be around the corner.**



Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,37%			0,14%			0,82%		
Greece	#VALUE!	#VALUE!	#VALUE!	9,06%	892	-25,1	#VALUE!	#VALUE!	#VALUE!
Portugal	2,04%	241	-6,4	3,18%	304	-4,3	4,16%	334	-1,1
Italy	0,35%	72	0,7	1,35%	121	2,3	2,47%	165	2,6
Spain	0,39%	76	2,0	1,51%	137	3,4	2,63%	181	5,0
Ireland	-0,01%	36	-1,5	0,83%	69	-0,8	1,78%	96	-0,9
Belgium	-0,29%	9	-1,1	0,53%	39	-0,4	1,57%	75	-0,7
France	-0,23%	14	-0,7	0,49%	35	-0,1	1,42%	60	-0,7
Austria	-0,32%	6	0,5	0,35%	21	0,1	1,28%	46	0,0
Netherlands	-0,38%	-1	-0,2	0,36%	22	-0,2	0,97%	15	-0,1
Finland	-0,22%	15	0,3	0,45%	31	0,4	1,00%	18	0,1
US	1,23%	161	0,1	1,77%	162	-0,0	2,56%	174	-0,7
UK	0,83%	120	0,6	1,43%	129	0,7	2,29%	147	1,6

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