



Sunset

Wednesday, 04 May 2016

Headlines

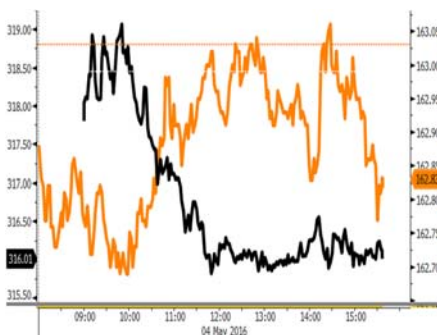
Due to National Holidays, there will be no KBC Sunset on Thursday the 5th and Friday the 6th of May 2016. Next KBC Sunset will be published on Monday the 9th of May 2016.

- **European shares** opened slightly higher this morning, but sentiment worsened soon, pushing equities down again. Currently most European indices lose up to 1%. **US Equities opened lower (-0.5%)** following a disappointing ADP report.
- The **US non-manufacturing ISM rose for a second straight month in April, from 54.5 to 55.7**, beating the market consensus of 54.8. The details were robust too.
- Despite years of institutional reforms, **the EU is still exposed to significant vulnerabilities**, most notably a British exit from the Union or a Greek ejection from the single currency area, **Moody's warned**, adding that the threat of accidents derailing the block are higher than they have ever been.
- For the first time since October last year, **euro zone retail sales dropped in March**, confirming that the early Easter failed to boost sales. Retail sales dropped by 0.5% M/M, while only a marginal decline (by 0.1% M/M) was expected.
- **Crude oil prices rebounded this afternoon** with the Brent currently trading around \$45.70/barrel and the WTI around \$44.5/barrel. **OPEC members said there are currently no proposals on the table to revive limits on output at its June meeting** as freeze proposals are no longer necessary because of subsequent changes in the market.
- **Tomorrow, the Chinese and UK services PMI's will be released and on Friday the US payrolls are on the agenda.**

Rates

Core bonds hold on to yesterday's good gains

Global core bonds held on to yesterday's strong gains, which should be considered as constructive, but couldn't make further progress. The global environment was modestly bond-friendly with weaker equities, good auctions and a weaker than expected ADP employment report. However, rising oil prices during the afternoon were an offsetting factor that pushed core bonds modestly in the red. At the time of writing, US yields are between 0.2 and 0.6 bp lower. The German yield curve steepened with yield changes between -0.2 and 2 bps from yesterday's close. On intra-EMU bond markets, the 10-yr yield spread widening of the periphery continued with Spain and Italy 3 bps wider and Portugal 5 bps. Other spreads barely moved.



German Bund future (orange) & EuroStoxx (black) intra-day
Bund overcomes early weakness due to sliding equities, but oil recovering late in session pushed Bund again lower.

Intra-day, the **Bund opened nearly unchanged**, but traded slightly lower in the first two hours of European trading. Some minor correction after yesterday's stellar run and ahead of key releases and a holiday was no real surprise, especially not as equities held up well. **However, the latter started to slide away mid-morning giving core bonds fresh impetus**. The Bund gains were modest and couldn't really threaten yesterday's intra-day highs (163.12). The **April final services PMI** was nearly unchanged from the preliminary one, but March **EMU retail sales** disappointed. Markets ignored the releases. Finally the **German Bobl auction** went well and so did the **OAT** one. Equities found a bottom around noon and moved sideways going into the US session, but the Bund was unable to stick to the highs and slid again a bit lower. Following a **weaker US ADP employment report**, US Treasuries and Bunds jumped higher, but the while the Bund again approached yesterday's highs, it couldn't take it out. The **US trade deficit** was smaller than expected in March, which points to some upward revision of Q1 GDP. The composition was disappointing as exports fell 0.9% M/M and imports fell 3.6% M/M, suggesting low global and US demand. The release didn't affect markets though. **A steep rise of oil during the afternoon pushed core bonds towards unchanged (US) and slightly lower (Bund) levels**. In a few minutes, the Non-manufacturing ISM may still affect markets, but ahead of a holiday tomorrow in a number of European countries and the release of the US payrolls, we don't expect huge price action anymore.

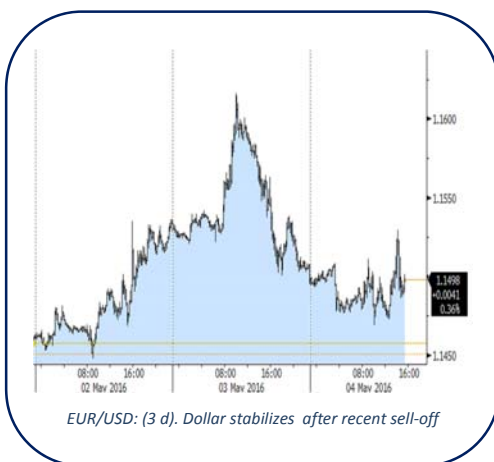
Currencies

USD stabilizes despite poor ADP report

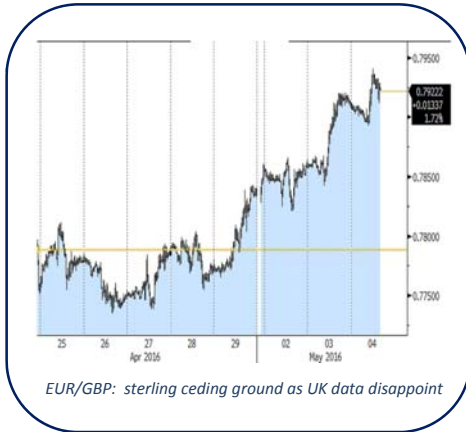
Today, **USD trading stabilized after very volatile trading early this week and at the end of last week. EUR/USD hovered in a tight range around the 1.15 big for most of the session. USD/JPY remained slightly under pressure as global sentiment on risk remained negative. The pair trades currently in the mid 106 area. A poor ADP labour market report had only a limited impact on USD trading.**

Overnight, risk sentiment in Asia remained negative, with regional indices recording slight to modest losses. Japanese markets were still closed for the Golden week holidays. However, USD/JPY rebounded in line with the overall performance of the dollar. The pair returned temporary north of 107. Oil traded off the recent highs with Brent back at \$45 p/b. However, the link between oil and the dollar was not tight of late. EUR/USD lost a few more ticks overnight and traded just below 1.15 at the start of the European session.

European equities tried to row against the negative sentiment from Asia and the US yesterday evening, probably supported by the rebound of the dollar. However, the move had no strong momentum and equities soon returned in the red. The EMU eco data (services PMI/retail sales) were in line to slightly weaker than expected. We didn't see any direct impact on euro trading. **Interestingly, the risk-off context pushed USD/JPY back below 107, but had hardly any impact on USD/EUR. If anything, the dollar even gained slightly ground against the euro and traded in the 1.1475/80 area around noon.**



Risk sentiment remained fragile at the start of the US session. EUR/USD gained a few ticks. According to the ADP report, the US private sector created 156 000 additional jobs in April, far below the 195 000 net job growth expected. The dollar declined slightly after the report. EUR/USD 'spiked' temporary to the 1.1525/30 area but the losses were soon reversed. USD/JPY filled bids in the 106.25 area but USD/JPY again slightly underperformed USD/EUR as the dollar rebounded. USD/JPY trades currently in the 106.50 area. EUR/USD is changing hands just below 1.15, awaiting the outcome of the US non-manufacturing ISM.



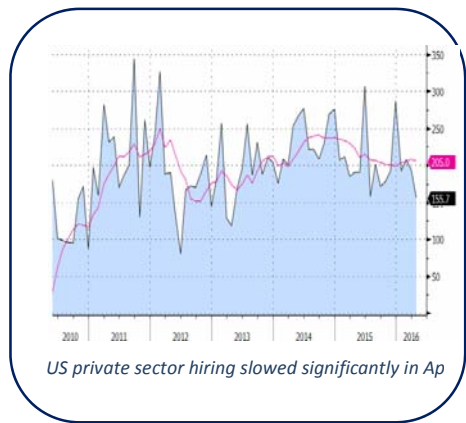
EUR/GBP: sterling ceding ground as UK data disappoint

Sterling losing further ground as PMI's disappoint

Sterling gained a few ticks against the euro and the dollar at start of the European trading session. However, the move had no strong legs. On the contrary. Sterling came under pressure as global risk sentiment deteriorated again after the open of the European markets. **The UK construction PMI missed the consensus and unexpectedly declined to 52.00 (54.00 expected)**. This is not the most important UK data release. However, coming on the back of an awful manufacturing PMI yesterday, it suggests a further slowdown in economic activity and reinforced the sterling negative sentiment. EUR/GBP extended gains north of 0.79. The pair trades currently at 0.7925. Cable declined also further and trades in the 1.4500 area.

News

Private sector hiring slows to weakest pace in 3 years



US private sector hiring slowed significantly in Ap

According to the **ADP report**, US private sector hiring slowed significantly at the start of the second quarter to its slowest pace in three years. In April, private sector employment increased by 156 000, down from a revised 194 000 in March and well below the market consensus of 195 000. Looking at the details, hiring held up well among small firms, increasing by 93 000, a broadly similar pace as in March, but slowed significantly among medium-sized (39 000 from 66 000) and large firms (24 000 from 35 000). Looking at the sector breakdown, employment dropped in the goods-producing sector (by 11 000) due to job losses in manufacturing (-13 000 from -3 000), while hiring slowed only slightly in the construction sector (14 000 from 18 000). Layoffs probably continued in the mining sector, but no details are available. Within the services sector, employment increased by 166 000 (from 189 000 in March) due to a slowdown in hiring across almost all sectors. **According to the ADP report, the US labour market recovery switched into a lower gear at the start of the second quarter due to a broad-based slowdown in hiring. It is however too early to draw any conclusions and therefore we look out whether this figure will be confirmed by Friday's payrolls.**

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,33%			0,22%			0,94%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,53%	831	-11,6	#VALUE!	#VALUE!	#VALUE!
Portugal	1,87%	220	2,5	3,14%	292	2,9	4,09%	315	1,8
Italy	0,37%	70	1,2	1,49%	127	1,7	2,63%	169	1,3
Spain	0,55%	88	0,3	1,59%	137	1,3	2,81%	187	-0,3
Ireland	-0,01%	31	1,3	0,93%	71	1,8	1,87%	93	0,4
Belgium	-0,27%	6	0,2	0,62%	40	0,1	1,68%	74	-1,1
France	-0,13%	19	0,1	0,58%	36	-0,1	1,54%	60	-0,8
Austria	-0,30%	2	0,1	0,44%	22	-0,5	1,42%	48	-0,3
Netherlands	-0,35%	-3	-0,4	0,45%	23	-0,8	1,08%	14	-0,2
Finland	-0,19%	14	0,0	0,52%	30	-0,6	1,11%	17	-0,2
US	1,27%	160	1,3	1,82%	159	-0,2	2,67%	173	-1,8
UK	0,93%	126	0,3	1,55%	132	-0,4	2,34%	141	-1,2

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