



Sunset

Thursday, 28 April 2016

Headlines

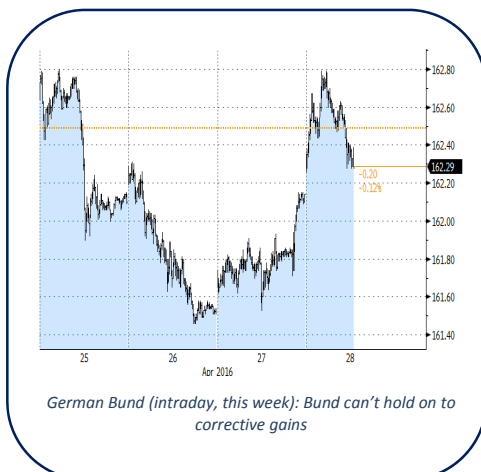
- **European shares opened lower and lost further ground during the session following a disappointing outcome of the BOJ meeting. US Equities opened slightly lower too**, but losses are contained following a number of better than expected earnings.
- **German HICP inflation unexpectedly turned into negative territory in April**, falling from 0.1% Y/Y to -0.1% Y/Y while a slowdown to zero was expected. Prices of leisure & entertainment led the drop, which was partially offset by higher prices for energy.
- Following three consecutive monthly declines, **European Commission's economic confidence picked up more than expected in April**, rising from 103.0 to 103.9 led by improving sentiment in the services sector.
- **Belgian economic growth slowed to 0.2% Q/Q in Q1** from an upwardly revised 0.5% Q/Q growth rate during the last three months of 2015. Annually, GDP rose by 1.5% Q/Q, the same pace as in Q4. Tomorrow, the EMU GDP data are expected to show a slight pickup in growth at the start of the year.
- **Ford Motor Co announced today its net income more than doubled**, while its quarterly operating margin jumped to a record. Excluding one-time items, earnings per share were 68 cents, easily beating Wall Street expectations.

Rates

Core bonds fail to safeguards early gains

Global core bonds had quite some reasons to correct higher today, but they failed to do so in a sustained manner. This suggests that sentiment remains negative towards the Bund and US Note future. At the time of writing, the German yield curve bear flattens with yields 0.5 bps (2-yr) to 3.8 bps (30-yr) lower. The US yield curve shifts up to 1.7 bps (30-yr) higher. On intra-EMU bond markets, 10-yr yield spread changes versus Germany are close to unchanged with Greece outperforming (-16 bps).

Intraday, the Bund opened stronger on the back of US Treasury gains following yesterday evening's neutral FOMC meeting. European stock markets showed weakness at the start of trading following Asian risk aversion as the BoJ unexpectedly didn't ease monetary policy. During early European dealings, the Bund tried to eke out more gains, recovering some of the past weeks' losses. However, core bonds failed to sustain. Around European noon, the trading direction changed from North to South. This confirms our hypothesis that sentiment towards core bonds soured and that both Bund and US Note future have more downside. First key supports kicks in at respectively 160.81 and



128-01+. Today's eco data were mixed with stronger EMU EC confidence, lower than expected German CPI and unsurprising claims/US GDP. They had no direct impact on trading.

The Kingdom of Belgium launched two new syndicated bonds today: 7-yr OLO 79 (Oct2023) and 50-yr OLO 80 (Jun2066). OLO 79 was eventually priced to yield MS – 12 bps, slightly tighter than initial guidance of MS – 11 bps. OLO 80 was priced at 18 bps above the French OAT 1.75% May2066, which corresponds with +- 98 bps over mid-swap. The debt agency received over €6.3B orders for the 7-yr OLO and over €8B orders for the 50-yr OLO, allowing them to print €3B of each new line. The treasury is now well funded for the year. It already raised €20.82B of the €33.5B OLO funding need (62%). With the new 50-yr OLO, the Belgian focus remains on extending the average life of the debt portfolio. At the end of March, the indicator amounted to 8.02 years. In 2016, it is required to be higher than 7.75 years during the first six months, and this minimum increases to 8.00 years thereafter. **The Italian treasury launched a new 7-yr floating rate CCTeu (€3B Jul2023) and also tapped the on the run 5-yr BTP (€2.25B 0.45% Jun2021) and 10-yr BTP (€2.5B 1.6% Jun2026).** The total amount sold was the maximum of the intended €6.75B-€7.75B target range. The auction bid cover of the regular BTP's was 1.41. **Later today, the US Treasury completes its end-of-month refinancing operation with \$28B 7-yr Note auction and a \$15B 2-yr FRN auction.** Currently, the WI of the former trades around 1.65%.

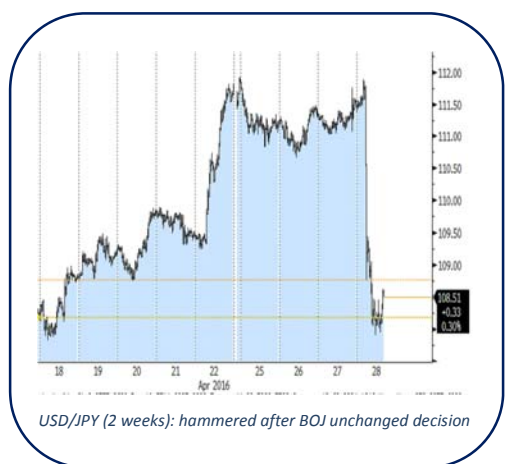
Currencies

Fall-out on USD from USD/JPY sell-off remains modest

Today, the focus for USD trading was on the fall-out from the Fed meeting and even more from the BOJ meeting. USD/JPY was hit hard by the BOJ's decision not to ease policy further and by the risk-off sentiment. USD/JPY filled bids below 108. The impact on other major USD cross rates was modest. EUR/USD gained slightly ground but the pair remained within established ranges. US Q1 GDP was too close to expectations to inspire any additional USD losses. EUR/USD trades currently in the 1.1330 area. USD/JPY is off the intraday lows and trades near 108.55.

Overnight, Japanese equities initially outperformed on hope for additional BOJ easing. However, the **BOJ left its interest rate and the amount of asset purchases unexpectedly unchanged even as it saw high downside risks for the inflation outlook.** USD/JPY dropped already below 109 before the start of European trading, while Japanese equities fell off a cliff. The decline of USD/JPY pushed EUR/USD slightly higher (to the 1.1335 area).

The fall-out from the Fed statement and, even more, the BOJ policy decision were also the key drivers for global (currency) trading outside Asia. The global context was intrinsically negative for the dollar: risk aversion even as oil held close to the highs. Heavy selling in USD/JPY and the decline in core/US bond yields also pointed to a weaker dollar. The 2-yr yield spread between the US and Germany declined from the 135 bps area to the 130 bps area. The dollar lost slightly ground against the euro with EUR/USD rebounding to the 1.1368 area. However, the damage for the dollar could have been worse! EC confidence data were not too bad, but largely ignored. Soft German inflation data maybe helped



to prevent bigger EUR/USD gains. EUR/USD traded in the 1.1360 area around noon. USD/JPY hovered in the low 108 area.

In the US, the advance reading of US Q1 GDP was slightly below consensus at 0.5% Q/Qa. However, decent consumer spending and a higher than expected core PCE probably prevented an outright negative market reaction. Jobless claims were also very low at 257 000. The dollar gained a few ticks after the US data. EUR/USD trades in the 1.1330 area. USD/JPY rebounded slightly to 108.55.

Sterling hardly suffers from global risk-off sentiment

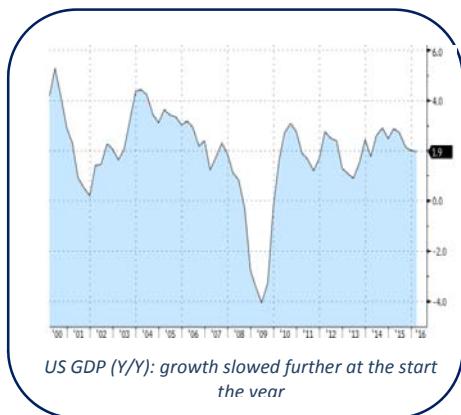
There were no data with potential to move sterling trading in the UK. So, sterling trading was at the mercy of global market developments. Risk aversion was negative for sterling, but higher oil prices supported sterling. So, the context for sterling trading was a bit diffuse this morning. Sterling didn't really know which way to go. However in a broader perspective, the UK currency held up rather well. Losses in the wake of yesterday's correction, if any, were very modest. EUR/GBP gained a few ticks, revisited the 0.78 barrier, but failed to sustain above. Cable even held close to the 1.46 barrier as the dollar traded weak across the board. In the financial press, there was again plenty of debate between the pro's and the contras of Brexit, but we didn't see any lasting impact on sterling. EUR/GBP trades currently at 0.7785. Cable hovers in the 1.4550 area.



News

US economic growth slows further at the start of the year

According to the advance estimate, the US economy grew by an annualized 0.5% Q/Q during the first three months of the year, marginally below the market consensus which was looking for 0.7% Q/Q annualized growth. Quarterly GDP growth was the lowest in two years. Annually, growth slowed to 1.9% Y/Y from 2.0% Y.Y. Looking at the details, personal consumption remained the main growth driver, although the pace of growth slowed further to 1.9% Q/Qa from 2.4 Q/Qa in Q4. Besides personal consumption, also residential investments (14.8% Q/Qa from 10.0% Q/Qa) and government consumption (1.2% Q/Qa from 0.1% Q/Qa) rose at the start of the year. Non-residential investments dropped for a second straight quarter (-5.9% Q/Qa from -2.1% Q/Qa), while also inventories and net exports were a drag on growth. Exports dropped by 2.6% (Q/Qa), while imports rose marginally (0.2% Q/Qa), shrugging 0.34% off the annualized growth rate, a similar drag as inventories (-0.33% Q/Qa). **US economic growth came almost to standstill at the start of the year as growth in personal consumption slowed further and exports and (non-residential) investments dropped for a second consecutive quarter. In the last few years however, the first quarter usually tends to underperform the rest of the year, which might be due to quirks in seasonal adjustment factors. We hope therefore to see a rebound in the second quarter, boosted by a further improvement in the labour market and a pick-up in oil prices.**



16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,31%			0,26%			1,02%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,79%	854	-16,8	#VALUE!	#VALUE!	#VALUE!
Portugal	1,90%	222	-1,6	3,15%	289	-1,0	4,09%	307	1,3
Italy	0,40%	71	-0,8	1,47%	122	-1,4	2,61%	159	-1,2
Spain	0,60%	91	0,1	1,59%	134	-0,3	2,81%	180	0,3
Ireland	0,00%	31	-0,2	0,94%	69	0,8	1,95%	93	0,3
Belgium	-0,24%	7	-0,1	0,65%	40	-1,2	1,80%	78	-0,4
France	-0,12%	20	0,5	0,61%	35	-0,1	1,63%	62	0,5
Austria	-0,30%	2	0,1	0,46%	20	0,7	1,48%	47	0,8
Netherlands	-0,34%	-2	0,2	0,48%	23	0,7	1,16%	15	-0,1
Finland	-0,18%	13	-0,1	0,54%	29	0,1	1,19%	17	-0,1
US	1,33%	165	3,1	1,86%	161	4,3	2,72%	170	4,6
UK	0,99%	130	-0,3	1,61%	135	1,1	2,42%	140	1,3

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