



Sunset

Thursday, 25 February 2016

Headlines

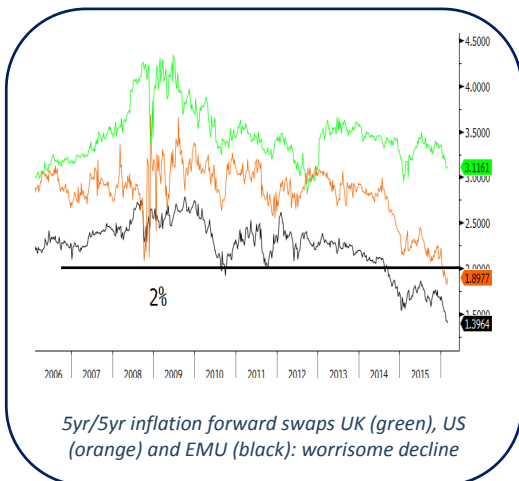
- **European shares ended a two-day losing streak**, trading currently up by 2.5%, supported by a rebound in the oil price yesterday evening, which also supported US Equities. **US stocks** opened in positive territory following a strong durables report.
- **Greece withdrew its ambassador to Austria today**, saying the Austrian government is taking unilateral action outside of EU rules and recent agreements by capping the number of asylum seekers it will accept across its Southern border, in another sign of **mounting acrimony between EU countries over the refugee policies**.
- **US initial jobless claims picked up by 10 000** to 272 000 in the week ending the 20th of February, off the 3-month low reached in the week before. The outcome was slightly above the market consensus of 270 000. The week under review however included the President's Day holiday, which might have distorted somewhat the figures.
- Rating agency Moody's said today **that the approval of Portugal's budget is a credit positive** as the revised budget sets out a more realistic fiscal course and removes the risk of early elections.
- **The final reading of EMU HICP inflation for January showed a downward revision to 0.3% Y/Y** from a first estimate of 0.4% Y/Y, but still up from 0.2% Y/Y in December. Core inflation was confirmed at 1.0% Y/Y. Tomorrow, the German inflation data for February are on the agenda.

Rates

Babbling on...

Today, global core bonds traded in a narrow sideways range ignoring equity strength, mostly strong eco data and central bank talk. At the time of writing, changes on the German yield curve range between -1.2 bps (2-yr) and +2.0 bps (30-yr). Changes on the US yield curve vary between -3.9 bps (2-yr) and -0.7 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed up to 8 bps (Portugal). Moody's said that the approval of Portugal's budget is positive for the country's credit rating.

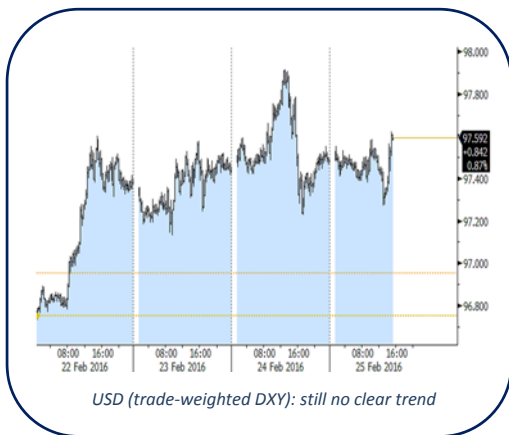
Intraday, the Bund traded in a narrow sideways range during European dealings. Stronger equities and mixed EMU economic data didn't impact trading. EMU M3 money growth jumped to 5% Y/Y, erasing the (exceptional?) decline in December. Loans to the non-financial sector continued to improve at a healthy pace while the annual growth rate of households was unchanged at 1.4% Y/Y. The January headline CPI figure was downwardly revised from 0.4% Y/Y to 0.3% Y/Y. **Forward-looking inflation measures paint a bleak picture as well.** ECB Draghi often mentions the 5-yr/5-yr inflation forward swap (see graph). The metric dropped below 1.4%, to the lowest level on record and warrants additional ECB easing in a fortnight. However, we must add that the



relevance of forward looking market-based inflation measures recently became a topic of debate amongst monetary policy officials. **During US trading session, core bonds babbled on despite more equity strength. Weekly jobless claims nearly matched expectations while durable goods orders printed strong. St.-Louis Fed Bullard**, voter, appeared on CNBC. In combination with yesterday's remarks, he seems to be taking his umpteenth turn from dove to hawk or vice versa. While he's still somewhat worried about falling inflation expectations, the good news is that recent CPI release fits with the Committee's narrative (faster price growth ahead). Bullard still reserves some judgment on the next rate decision given as there are more data to come. In his view, when jobs and GDP data differ, you should go with the jobs data.

Currencies

Dollar shows mixed picture



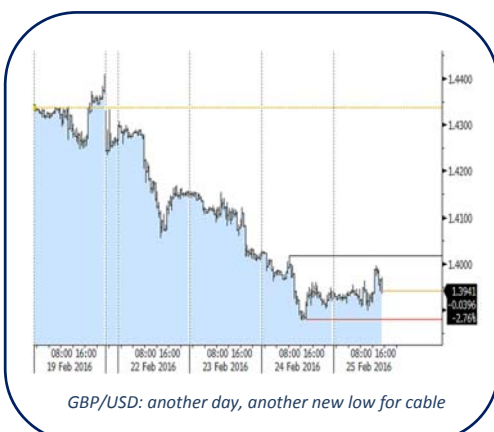
Today, USD/JPY (currently at 112.85) rebounded off the recent low supported by positive equity market sentiment. Decent US equities were also a slightly positive for the dollar. The picture for EUR/USD was still less clear. The pair was captured in a tight sideways trading pattern roughly between 1.0990 and 1.1045. The pair is off yesterday's correction low, but doesn't show a clear directional signal yet. Decent US eco data pushed the pair to the downside of the intraday trading range (currently 1.1000).

Asian markets showed a mixed picture this morning. Most indices recorded modest gains with Japan outperforming. At the same time, Chinese equities underperformed, ending with substantial losses. However, markets apparently considered this as China-specific. **USD/JPY initially tried to extend yesterday's rebound, but soon settled in the low 112 area ahead of the European start.** EUR/USD stabilised in the 1.1035 area without obvious driver.

European equities joined the risk-on camp, despite the Chinese losses. The EMU data were mixed. Money supply and credit growth were better than expected. On the other hand, the EMU headline CPI was unexpectedly downwardly revised. There was no clear reaction of the euro immediately after the publication of the data. **Around noon, EUR/USD even rebounded as equities remained in positive territory. At the same time, USD/JPY rebounded as well. So, EUR/USD and USD/JPY both 'back-tracked' on the moves of the 'trend' of the previous days.** In the US, the durable goods orders surprised on the upside of expectations. Jobless claims printed very close to consensus. **The dollar's reaction to the US data was initially very modest, but the move gained traction ahead of the US equity market opening.** USD/JPY touched an intraday top just below 113. EUR/USD reversed the intraday gains and trades currently near the intraday lows in the 1.10 area. In a daily perspective, the dollar basically stabilised against the euro but regained ground against the yen. USD/JPY trades currently in the 112.85 area. EUR/USD trades close to 1.1000.

Sterling decline slows

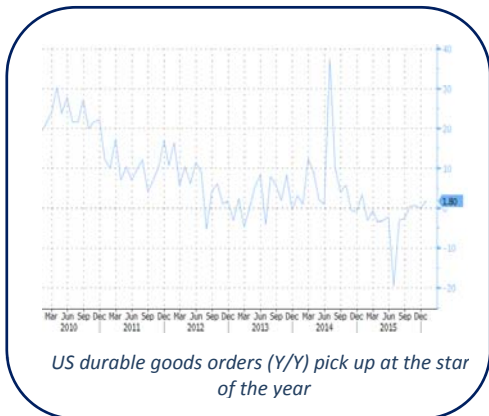
Sterling's Brexit-sell-off slowed today. The global context was a bit more sterling friendly. Oil stabilized and equities rebounded. We also didn't see any high profile news on the Brexit story. **Midmorning, the UK Q4 GDP growth was confirmed at 0.5% Q/Q and 1.9% Y/Y. The details were a bit disappointing.** Private consumption remained the dominant driver for growth, but was slightly lower than expected. Investment even declined. Government consumption



surprised on the upside. The ‘negative’ composition of growth this time didn’t hurt sterling. On the contrary, sterling even regained slightly ground against the euro and the dollar later in the session. Cable rebounded to just below 1.40, but returned some of the early gains as the dollar rallied later in the session (currently 1.3935). EUR/GBP settled just below the 0.79 big figure. **It is much too early to conclude that sterling’s Brexit sell-off of halted. Even so, the decline slows, at least temporary. Some short-term GBP shorts might be inclined to take some ships off the table.**

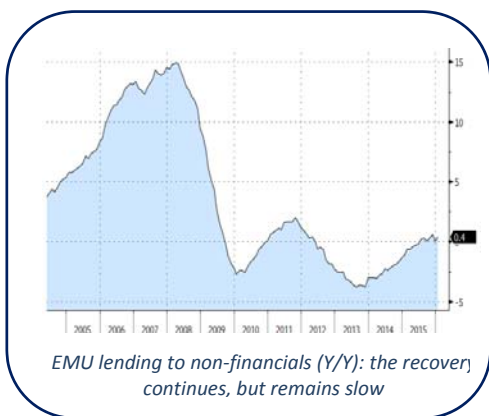
News

US durables start 2016 on a strong footing



US durable goods orders started the year on a strong footing, rising by 4.9% M/M in January, following a 4.6% M/M decline in December. Annually, durables increased by 1.8% Y/Y after being flat in December. The rebound was led by a 54.2% M/M jump in non-defence aircraft orders, while also defence orders jumped by 11.9% M/M. Excluding the volatile transportation component, durables rose by 1.8% M/M, well above the market consensus and posting its strongest increase in 1.5 year. Also the previous month’s figure was slightly upwardly revised, from -1.0% M/M to -0.7% M/M. The details show that strength was broad-based. Machinery (6.9% M/M) led the rebound, but also orders for primary & fabricated metals, electrical equipment and computer & electronics rose in January. Shipments picked up too at the start of the year, but **shipments of non-defence capital goods ex-aircraft**, which is often seen as a good proxy for investments in the GDP data, dropped by 0.4% M/M in January. The weaker outcome in January was however offset by a significant upward revision in the previous month’s figure. **The strong and broad-based increase in durable orders is encouraging, boding well for future activity. We doubt however whether the rebound will be extended in the coming months as survey indicators remain very poor.**

Lending data pick up following December blip



After having slowed in the previous two months, growth in **euro zone M3 money supply** picked up again in January. M3 growth accelerated to 5.0% Y/Y last month from 4.7% Y/Y in December, while the consensus was looking for a stabilization. Despite a monthly €65 billion increase in M1, the annual growth rate slowed from 10.8% Y/Y to 10.5% Y/Y. Overnight deposits rose by €55 billion in January, while demand for cash increased by €10 billion. Turning to the **lending data**, loans to the private sector picked up by €34 billion in January, following a €39 billion decline in December, which was probably only a one-off. Growth in loans to the private sector accelerated to 0.9% Y/Y from 0.8% Y/Y. Especially lending to non-financials recovered from the blip in December, rising by €21 billion following a decline by the same pace. Loans to non-financials increased by 0.4% from a year ago. Lending to households increased by €6 billion (and 1.9% Y/Y) following a flat reading in December. Lending was mainly based for house purchases (€5B), while consumer credit rose by €1B. **After very poor lending data in December, the rebound in January is encouraging and suggests that it was probably only a blip. Although the recovery remains slow, especially as lending rates are low, the trend remains encouraging and suggests that the recovery remains on track.**

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,35%			0,15%			0,83%		
Greece	#VALUE!	#VALUE!	#VALUE!	10,66%	1051	-0,4	#VALUE!	#VALUE!	#VALUE!
Portugal	2,40%	275	1,1	3,41%	326	-5,1	4,24%	341	-4,7
Italy	0,50%	85	0,5	1,53%	138	0,3	2,63%	180	-2,7
Spain	0,56%	91	2,0	1,62%	148	0,5	2,74%	191	-3,4
Ireland	0,09%	44	-3,1	0,94%	79	-4,4	1,84%	101	-4,5
Belgium	-0,27%	9	0,5	0,65%	50	0,6	1,48%	65	0,4
France	-0,19%	17	0,5	0,52%	37	0,7	1,49%	66	0,1
Austria	-0,29%	6	0,1	0,44%	29	-0,2	1,23%	40	-0,1
Netherlands	-0,34%	1	-0,5	0,30%	15	0,1	0,98%	15	-0,1
Finland	-0,23%	12	0,0	0,45%	30	-0,2	1,08%	25	0,0
US	1,16%	152	-3,3	1,71%	156	-3,3	2,58%	175	-4,0
UK	0,71%	106	2,6	1,38%	124	2,9	2,35%	152	3,6

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