



# Sunset

Friday, 29 April 2016

## Headlines

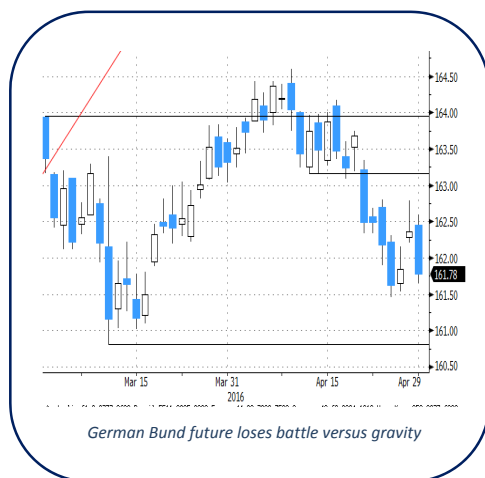
- Following the late-session sell-off in the US yesterday, **European shares dropped sharply lower too, losing up to 2%**, despite stronger eco data. **US Equities opened lower too**, although losses are minimal.
- **The market may well be underestimating how soon the Fed might raise rates, Fed's Kaplan said**, adding that if Q2 data are good, he will advocate a rate rise perhaps in June or July.
- **Rating agency DBRS will review today Portugal's BBB rating**. DBRS is the only rating agency rating Portugal at investment grade and hence makes their paper eligible for the European Central Bank's public sector purchasing programme.
- **The euro area unemployment rate dropped from an upwardly revised 10.4% to 10.2% March**, beating the market consensus which was looking for an unemployment rate of 10.3%. The unemployment rate is now again at its lowest level since August 2011.
- **Crude oil prices extend their uptrend today**, rising for a fourth consecutive session, boosted by the weaker US dollar. **Gold prices (\$1285/ounce) extend their uptrend too**, trading currently around its highest level since February 2015.

## Rates

### Core bonds remain under pressure

**Global core bonds lost more ground today despite risk aversion, mixed eco data, this week's heavy supply and the end-of-month conditions.** At the time of writing, the US yield curve bear steepens with yields 1.4 bps (2-yr) to 3.1 bps (30-yr) higher. Changes on the German yield curve range between +1.2 bps (2-yr) and +2.7 bps (10-yr). The belly of the curve underperforms the wings. On intra-EMU bond markets, 10-yr yield spread changes versus Germany are nearly unchanged with Greece outperforming (-50 bps). Eurogroup President Dijsselbloem announced a new Eurogroup meeting (May 9) to finalize the first quarterly review and trigger the next aid payment.

**Intraday**, core bonds remained once again immune to negative risk sentiment and eco data. European equity markets lose up to 2% while EMU eco data were mixed with lower inflation, but stronger GDP growth. Both the Bund and the US Note future continue to trade with a downward bias confirming that sentiment soured. Key technical levels remain out of reach. Brent crude reached a new YTD high around \$48.5/barrel and central bank talk was also slightly negative. ECB **chief economist Praet** said that negative rates cannot be reduced to indefinitely lower levels, but didn't exclude deploying negative interest rates again in the



future in case of a distinct worsening of the inflation outlook. He ruled out using “helicopter money”: “The option has not been on the table, even not informally”. **Dallas Fed Kaplan**, who doesn’t vote on policy this year, said that he will advocate Fed action if Q2 data rebound. In line with other governors, he added that markets may be underestimating how soon the Fed will raise rates.

## Currencies

### USD in the defensive as risk sentiment deteriorates

Today, the dollar stayed in the defensive driven by global market sentiment. European data (strong GDP, lower than expected inflation) were interesting, but ignored. EUR/USD is trending higher in the 1.14 big figure and nears the key 1.1465/95 resistance. USD/JPY declined to the 107 area early this morning but stabilised later as market feared BOJ action in case of excessive yen gains.

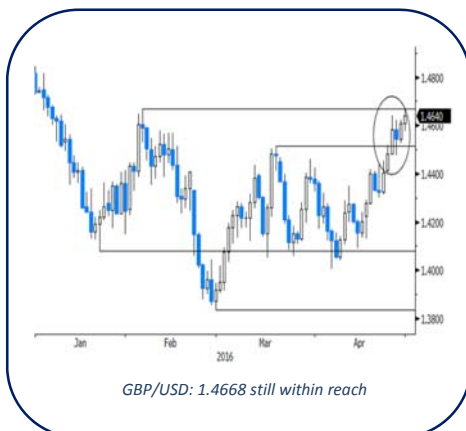
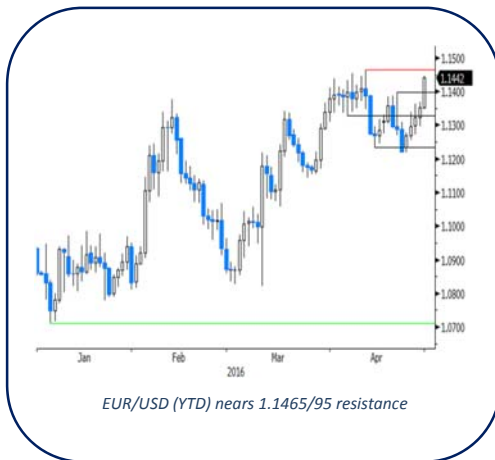
**Overnight**, Asian equities mostly traded with modest losses. Commodities and especially oil remained well bid. Japanese markets were closed, but global risk-aversion continued to support the yen. USD/JPY dropped to the 107 area. Yesterday, the impact of the decline in USD/JPY on USD/EUR was rather limited, but this morning the dollar was also under pressure against the euro. EUR/USD tested the 1.1398 resistance at the onset of European trading.

EUR/USD jumped higher early in European dealings and tried to overcome the 1.14 barrier on negative global risk sentiment. Good French GDP data maybe helped. Initially, the gains could not be sustained. Oil set new short-term highs, but there was also no obvious impact on EUR/USD trading. **USD/JPY set a new correction low at 106.91 and settled close the 107 big figure. Investor fears for BOJ action, if the rise of the yen continues too rapidly, probably made yen longs a bit cautious.** EMU Q1 GDP was stronger than expected at 0.6% Q/Q and 1.6% Y/Y but EMU CPI was lower than expected at -0.2% Y/Y (0.8% Y/Y for the core). The euro hardly reacted to the data. EUR/USD stabilized near 1.14.

US spending and income data were close to expectations and had no impact on USD trading. Risk sentiment deteriorated further in the US session. This kept the dollar in the defensive, especially against the euro. **EUR/USD drifts higher in the 1.14 big figure and trades currently at 1.1435. The 1.1465/95 resistance is within reach.** USD/JPY still hovers in the low 107 area.

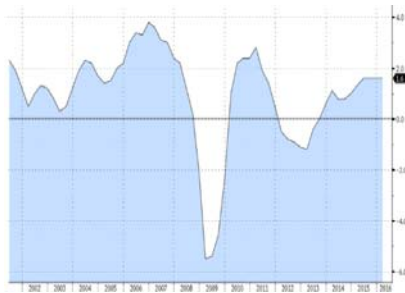
### Sterling tracks global moves in the dollar and the euro

Sterling was slightly under pressure this morning in Europe. Risk aversion was probably the reason why sterling softened. End of month sterling selling (EUR/GBP buying) might also have been at work. EUR/GBP tried to regain the 0.78 big figure. Cable dropped temporary below the 1.46 mark. However, the move had no strong momentum and petered out during the morning session. **The UK money supply and lending data were mixed.** Lending to households remained strong, but lending to corporates was less buoyant, probably as Brexit-uncertainty weighed. EUR/GBP maintained an upward bias in US dealings, in line with EUR/USD. The pair trades currently at 0.7810. At the same time, cable profited from overall USD weakness and trades in the 1.4640 area. The key 1.4668 resistance stays within reach.



## News

### EMU growth accelerates at the start of the year



EMU GDP (Y/Y): although quarterly growth accelerated, the annual rate stayed unchanged at 1.6% Y/Y.

According to the advance estimate, the **euro zone economy** grew by 0.6% Q/Q during the first three months of the year, double the pace seen at the end of 2015. The outcome was well above the market consensus of 0.4% Q/Q and the strongest pace of growth in one year. Compared with the same period last year, the EMU economy grew by 1.6%. For now, no details are available. While Belgian GDP data disappointed yesterday, showing a slowdown in GDP growth from 0.5% Q/Q to 0.2% Q/Q, French growth surprised on the upside of expectations (0.5% Q/Q from 0.3% Q/Q), as well as Spanish growth (stable at 0.8% Q/Q). For Spain and Belgium, no details were published, but French data showed that growth was led by personal consumption, while also investments accelerated. Net-exports, on the contrary, were a drag on growth as demand from abroad remained sluggish. We expect the details of the EMU data to show a broadly similar picture. **EMU growth accelerated at the start of the year, probably boosted by a lower oil price, but we doubt whether this will continue as demand from abroad remains sluggish and oil prices are rebounding. We believe that the euro area economy will return to a sluggish growth pattern.**

### Euro zone inflation back in negative territory



EMU core inflation (Y/Y): March uptick again reversed

According to the first estimate, **euro zone HICP inflation** dropped again into negative territory, falling from 0.0% Y/Y to -0.2% Y/Y. The consensus was looking for a drop to -0.1% Y/Y. **Core inflation**, which excludes volatile food & energy prices, reversed its March uptick, falling from 1.0% Y/Y to 0.8% Y/Y. The available details show that the sell-off in energy prices eased slightly from -8.7% Y/Y to -8.6% Y/Y, while inflation of food, alcohol & tobacco stayed unchanged (at 0.8% Y/Y) as well as inflation of non-energy industrial goods (0.5% Y/Y). In the services sector, upward price pressures eased significantly (1.0% Y/Y from 1.4% Y/Y) after the Easter-related uptick. **The data confirm that last month's uptick in inflation was related to the timing of Easter rather than a real acceleration in prices. Inflation has now turned negative again and might remain so for a few months, but the recent uptick in oil prices might push inflation again higher later on this year.**

## Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,28%			0,29%			1,03%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,48%	819	-47,7	#VALUE!	#VALUE!	#VALUE!
Portugal	1,95%	223	-1,2	3,21%	292	0,4	4,15%	312	0,7
Italy	0,40%	69	-2,7	1,50%	122	-0,8	2,63%	161	-0,8
Spain	0,60%	88	-3,1	1,62%	133	-1,7	2,84%	181	-0,5
Ireland	0,03%	31	-0,2	0,99%	70	1,3	1,96%	94	0,2
Belgium	-0,22%	6	-1,3	0,69%	40	1,0	1,81%	78	0,4
France	-0,09%	20		0,65%	36	1,5	1,65%	62	0,5
Austria	-0,27%	1	-0,4	0,50%	21	1,4	1,51%	48	1,1
Netherlands	-0,31%	-3	-0,5	0,52%	23	0,9	1,17%	15	-0,3
Finland	-0,15%	14	0,8	0,59%	30	1,6	1,20%	17	0,0
US	1,31%	159	-0,6	1,85%	157	-0,0	2,71%	168	0,9
UK	0,99%	127	-2,5	1,62%	133	-2,0	2,41%	138	-3,1

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