



Sunset

Wednesday, 27 April 2016

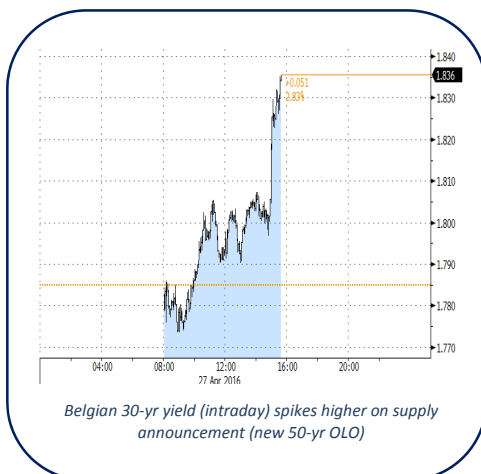
Headlines

- **European shares reversed early losses to trade slightly higher**, supported by a rebound in the oil price. **US Equities opened slightly lower**, awaiting the FOMC decision later today.
- **Both Brent (\$46.68/barrel) and WTI (\$44.90/barrel) crude oil prices jumped to their highest levels for the year** following lower than expected US inventory data late yesterday. This afternoon the official US inventory data will still be released.
- **Leaving the European Union would cost the average working Briton the equivalent of a month's salary by 2020, the OECD said**, as Britain would have less access to the bloc's single market, investment would slow and companies could move to other countries.
- **European Council president Tusk rejected a Greek request to hold an emergency meeting to resolve the country's bailout future**, urging EMU Finance Ministers to resolve their difference in days.
- **Euro zone M3 money supply growth** accelerated slightly in March, rising from 4.9% Y/Y to 5.0% Y/Y. Lending continued to rise, but at a disappointingly slow pace.
- **Later today, the Fed will announce its interest rate decision.** Early tomorrow the Reserve Bank of New Zealand and Bank of Japan will decide on rates.

Rates

Belgium announces new 7-yr and 50-yr OLO's

Global core bonds traded listless today in the run up to tonight's FOMC meeting. US Treasuries outperformed German Bunds. The eco calendar was empty apart from EMU M3 money supply data, which were in line with expectations. Equity markets have a constructive trading session despite Asian risk-off sentiment and weak Apple/Twitter results. Brent crude temporarily moved above \$47/barrel, a new cycle high. **At the time of writing**, the German yield curve trades 0.5 bps lower with the very long end of the curve underperforming (+2.5 bps). The Kingdom of Belgium's announcement of two syndicated deals in the near future (OLO 79 Oct2023 & OLO 80 Jun2066) weighted on that part of the curve. Changes on the US yield curve vary between -1.6 bps (2-yr) and -3.2 bps (10-yr). **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany narrow up to 5 bps (Portugal) with Belgium underperforming (see above).



No policy change is expected when the FOMC closes its meeting later today. However the statement may be changed a bit as the financial situation

improved and the global economy shows fragile signs of improvement. The FOMC may try to push markets (no hikes discounted in 2016) a bit closer to its own "expectation" of two more rate hikes this year. **That could be done by re-inserting the "balanced risk" assessment in the statement. Such scenario would be negative for US Treasuries.**

The German finanzagentur tapped the on the run 30-yr Bund (€1B 2.5% Aug2046). Total bids amounted €1.28B, which is line with the average at the previous 5 Bund auctions (€1.27B). The Bundesbank set aside €0.2B for secondary market operations, resulting in an official bid cover of 1.6. The auction tail (2 cents) was relatively low and the auction yield exceeded 1% (1.03%) for the first time since January.

Currencies

USD going nowhere ahead of the Fed

Today, there was no big story to tell on USD trading. EUR/USD and USD/JPY were captured in directionless trading as investors await the Fed policy statement later today. The dollar trades little changed against the euro (EUR/USD 1.1315) and against the yen (USD/JPY at 111.20).

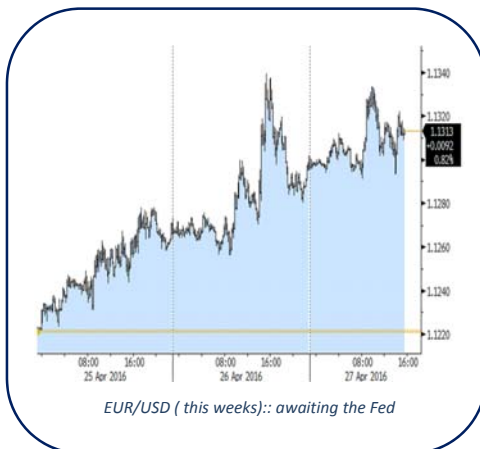
Overnight, US equity futures, especially the Nasdaq, were hammered by disappointing results from Apple and Twitter. However, the negative fall-out on Asian markets was modest. USD/JPY (around 111) is holding up fairly well ahead of the BOJ policy decision, which probably limits the losses on Japanese/Asian markets. The Australian Q1 CPI was reported much lower than expected. The report raised speculation on an additional RBA rate cut and sent the Aussie dollar lower (0.7665 area). EUR/USD (around 1.13) remained immune for market moves.

As was the case yesterday, European equities opened with rather well despite the losses in Asia and the decline of US futures. However, with no eco data on the agenda, **there was no driver for clear directional price action on European markets.** European equities hovered around the flat-line. EUR/USD held a tight range close to mostly slightly above 1.13. USD/JPY stabilized north of 111.

There was more wait-and-see trading during the US session as investors counted down to the Fed policy statement. The advance US trade deficit was smaller than expected at \$ 56.9 bln (-\$ 62.9 was expected). This should be a positive for US Q1 growth which will be published tomorrow. However, the smaller deficit was both due to a decline in imports and exports. The dollar didn't profit EUR/USD trades currently in the 1.1315 area. USD/JPY is changing hands around 111.20. The Fed statement is expected at CET 20.00.

Sterling rally slows even as UK Q1 GDP was as expected

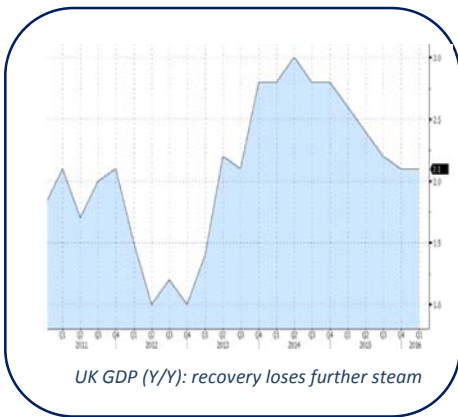
Today sterling traded with a slightly negative bias ahead of the publication of **the first estimate of the UK Q1 GDP.** Markets apparently feared a negative surprise. EUR/GBP filled offers in the 0.7780/85 area. Cable dropped to the 1.14550/55 area. However, at 0.4% Q/Q and 2.1% Y/Y, UK Q1 growth was in line with expectations. So, a negative surprise was avoided and sterling reversed most of the early session losses. That said, the sterling momentum turned slightly less positive than was the case of late. Both cable and EUR/GBP settled



in a sideways trading pattern respectively near 1.46 and 0.7750. The CBI distributive trades report was much weaker than expected, but as usual the report was largely ignored on currency markets. Cable trades currently at 1.4565. So, the key 1.4668 resistance is left intact for now. EUR/GBP is changing hands in the 0.7765 area.

News

UK growth entirely based in the services sector



According to the advance estimate, the **UK economy grew by 0.4% Q/Q** during the first three months of the year, down from 0.6% Q/Q in Q4. The outcome was in line with market expectations. The annual rate of growth was unchanged at 2.1%, while a further slowdown to 2.0% Y/Y was expected. Looking at the details of the output breakdown, growth was only based in the services sector, where it slowed from 0.8% Q/Q to 0.6% Q/Q. Weakness was led by the construction sector (-0.9% Q/Q from 0.3% Q/Q), while output also dropped in production industries (-0.4% Q/Q from -0.4% Q/Q) and in agriculture (-0.1% Q/Q from 0.3% Q/Q). **The data confirm again that the UK recovery has lost further steam at the start of the year, a trend that will probably continue in the second quarter with the upcoming EU referendum weighing on investments and hiring. Nevertheless, strong consumer spending will probably continue to support the UK economy.**

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,30%			0,29%			1,04%		
Greece	#VALUE!	#VALUE!	#VALUE!	9,00%	871	40,2	#VALUE!	#VALUE!	#VALUE!
Portugal	1,97%	226	0,6	3,17%	287	-5,0	4,09%	306	-6,4
Italy	0,42%	71	-1,0	1,50%	121	-2,5	2,64%	160	-3,8
Spain	0,60%	90	-2,5	1,60%	131	-2,6	2,82%	178	-5,0
Ireland	0,01%	31	-1,6	0,97%	68	0,2	1,98%	94	0,1
Belgium	-0,22%	7	0,4	0,70%	41	2,1	1,83%	79	2,4
France	-0,11%	19	0,4	0,64%	35	1,0	1,65%	62	1,2
Austria	-0,28%	1	-0,1	0,48%	19	0,6	1,49%	46	0,6
Netherlands	-0,32%	-3	0,2	0,51%	22	0,6	1,19%	15	0,0
Finland	-0,17%	13	0,0	0,57%	28	0,0	1,21%	17	-0,2
US	1,36%	166	-2,0	1,89%	160	-2,9	2,72%	169	-4,6
UK	0,99%	129	-2,5	1,62%	133	-3,5	2,43%	139	-5,9

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