



## Sunset

Monday, 02 May 2016

### Headlines

- Despite risk-off sentiment in Asia, **European shares opened higher this morning and were further supported by a better EMU manufacturing PMI. US Equities opened slightly higher too.**
- **The US manufacturing ISM dropped from 51.8 to 50.8 in April**, below the market consensus of 51.4 and reversing part of the previous month's uptick. Prices paid however picked up sharply.
- The **European Central Bank's exceptional monetary stimulus will take time to boost euro zone inflation although it is already helping growth**, Executive Board member Benoit **Coeuré** said on Monday.
- **Gold extends its rebound today, rising for a fifth consecutive session, supported by a weaker US dollar.** The gold price rose temporarily above \$1300/ounce, only a whisker away from last year's high.
- Around this time, **ECB President Draghi starts a speech on the future of financial markets.** Later today, ECB's Lautenschlaeger and Fed's Williams are scheduled to speak. Early tomorrow, Australia's central bank will decide on rates.

### Rates

#### High volatility in very thin trading

**Global core bonds started the week on a stronger footing and climbed robustly in the morning session, only to hit an air-pocket in the afternoon, erasing all previous gains.** The EMU PMI was slightly revised higher, but of little market significance. Bonds moves cannot really be attributed to moves in equity or oil markets. Thinness of the market, positioning ahead of the US ISM, to be release just after the closure of our report, or some technical reason may have been at work. **The sudden drop lower shows a similar fragility of core bonds like we saw last week. It suggests more weakness ahead or, our favourite scenario, base formation in which case the key Bund support at 160.81 should hold.**

At the time of writing, the US yield curve is virtually unchanged. The German yield curve is also virtually unchanged till the 10-year sector. Further out yields are about 2 bps lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany remained unchanged or 1 bp narrower.

**Intraday**, core bonds opened slightly higher (162.05) on weaker Asian equities, but showed extra strength in the European morning session which drove the Bund for an intra-day high in early afternoon at 162.40. There wasn't a strong driver behind the up-move, but lower oil prices may have played some role,



even as equities traded constructive following some initial weakness. The Asian risk-off dissipated. The EMU PMI was slightly revised higher (to 51.7) from 51.5 in the preliminary trading, with unexpected strength in Italian PMI. However, the stronger outcome was no hindrance for the Bund to move higher. In early afternoon, the Bund and T-Note future hit an air-pocket and erased in one hour all the intra-day gains. We didn't see any impulses coming or equity or oil markets. Maybe some end-of-month buying was reversed. In any case, with the UK market closed and little eco nor event news available, the moves up and down occurred in very thin trading.

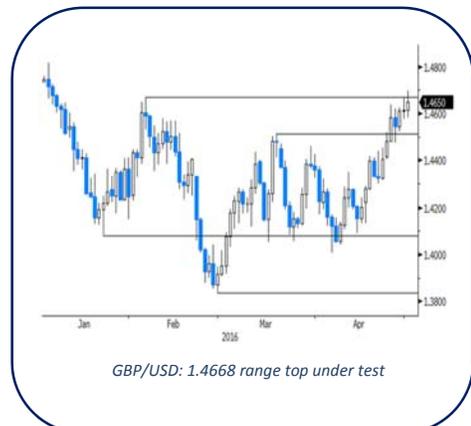
## Currencies

### EUR/USD testing the key 1.1495/1.15 area

Today, USD weakness still prevailed even as there was little hard news to guide the USD price action ahead of the US ISM of the manufacturing sector. EUR/USD touched the 1.1495/1.15 resistance, but for now no sustained break occurred. USD/JPY hovered sideways in the 106 big figure after touching a new correction low at 106.14 in Asia this morning.



Several Asian markets including China were closed this morning. Japanese equity markets declined 3% after being closed on Friday, as the strong yen bites. **Friday evening, the US Treasury published an FX monitoring report.** The Treasury considered the recent yen moves still as 'orderly' and said that Japan must comply with its commitments on exchange rate policies. During the weekend, Japanese officials already replied that the US report won't prevent them from acting in the currency market if needed. However, markets felt it will be difficult. USD/JPY touched a new correction low at 106.14 and then settled in a tight range in the mid 106 area for most of the session. The dollar also remained in the defensive against the euro in Asia with EUR/USD trading in the 1.1470 area at the start of the European trading session. The test of the 1.1465/95 resistance had started.



There was little hard news to guide EUR/USD trading this morning. European equities opened fairly well given the weak dollar and the equity correction at the end of last week. However, the rather positive equity sentiment this time didn't help the dollar. EUR/USD touched a session low in the 1.1450 area at the time of the open of the European equity markets, just to start a new intraday uptrend. Underlying USD weakness prevailed. The EMU manufacturing PMI was revised marginally higher to 51.7 from 51.5. The revision is insignificant, but in the current environment it helped to block the downside in EUR/USD. **The sharp rise of gold was another epiphenomenon of the broader dollar weakness.**

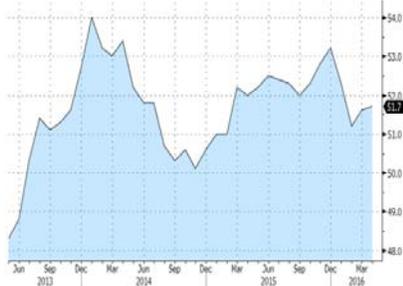
**In technical trading,** the 1.1495/1.15 barrier finally proved irresistible. The area was touched early in US dealings. However, there was no follow-through price action. Investors apparently wanted a clear trigger before removing this hurdle in a sustained way. (e.g. the manufacturing ISM). EUR/USD trades currently in the 1.1480 area. USD/JPY also regains a few ticks and trades currently near 116.65. Up to the manufacturing ISM to decide on the next ST USD move.

## Sterling holding strong in holiday-thinned trading

In thin technical trade (UK markets were closed for the MayDay holiday) sterling remained well bid. This was especially the case against a weak dollar. Cable even outperformed EUR/USD. The pair set new highs north of the 1.4668 range top, reaching the highest level since Jan 05. So, investors are apparently still scaling back Brexit driven GBP shorts. The pair trades currently slightly off the intraday highs in 1.4650 area. The sterling outperformance pushed EUR/GBP to the 0.7820/25 area, even as EUR/USD touched a multi-month top. Interesting to see whether this sterling strength gain be maintained when London returns to the market tomorrow.

## News

### EMU manufacturing PMI revised slightly higher



EMU manufacturing PMI rises for a second straight month

The final reading of the **euro area manufacturing PMI** for April showed a marginal upward revision to 51.7 from a first estimate of 51.5. Compared with the previous month, the euro area manufacturing PMI rose slightly too. The details show a mixed picture as growth in new orders and production slowed, but the trend in new export business improved slightly. Job growth accelerated to its highest level in three months and price data suggested that downward inflationary pressures are easing. Although input costs continued to decline, the rate of contraction was the slowest in four months. Looking at the national data, the manufacturing PMI's rose in Italy (53.9 from 53.5) and Spain (53.5 from 53.4). The German manufacturing PMI for April was revised lower to 51.8 (from 51.9), but was still sharply up from the 50.7 registered in March. The French PMI fell even deeper into contraction (48.0 from 48.3) and rates of expansion also eased in the Netherlands (52.6 from 53.6) and Austria. **Concluding, the euro area manufacturing PMI rose last month for a second consecutive month, but the recovery remains subdued for now. We hope to see a further improvement in the coming months supported by a pick-up in demand from abroad as the US and Chinese economy are showing early signs of recovery too.**

16:00 CET

**Daily EMU spread changes (bps)**

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,29%			0,27%			0,98%		
Greece	#VALUE!	#VALUE!	#VALUE!	8,58%	831	0,6	#VALUE!	#VALUE!	#VALUE!
Portugal	1,84%	213	-7,9	3,16%	290	0,6	4,10%	312	2,5
Italy	0,37%	66	-2,1	1,48%	121	-0,7	2,61%	162	0,9
Spain	0,57%	85	-1,8	1,58%	132	-0,7	2,81%	182	0,7
Ireland	0,02%	30	-0,6	0,95%	69	-1,1	1,90%	92	-0,7
Belgium	-0,23%	5	-0,7	0,65%	39	-1,5	1,74%	76	-1,0
France	-0,10%	19	-0,3	0,62%	35	-1,1	1,59%	60	-0,8
Austria	-0,27%	1	0,3	0,48%	21	-0,1	1,47%	48	0,1
Netherlands	-0,31%	-3	-0,3	0,50%	23	-0,4	1,13%	15	0,1
Finland	-0,15%	14	0,2	0,56%	30	-1,1	1,16%	18	0,0
US	1,30%	158	0,0	1,83%	157	0,6	2,68%	170	3,0
UK	0,98%	126	-0,3	1,60%	133	0,6	2,40%	141	2,5

## Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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