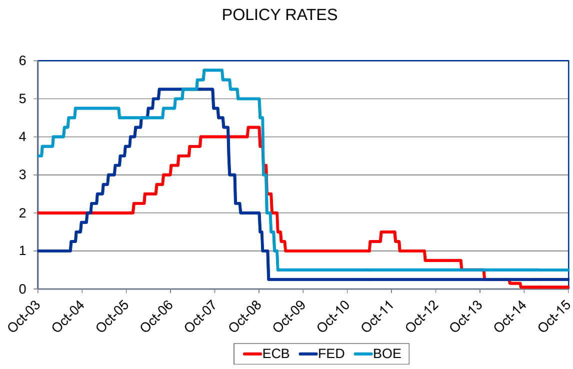
KBC Market Research Desk - Havenlaan 12, 1080 Brussels

Monthly Chartbook

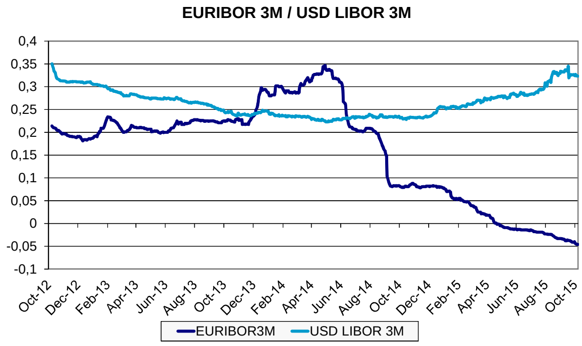
Thursday, 08 October 2015

Markets

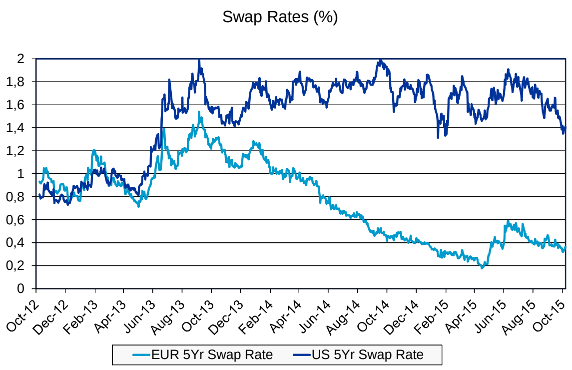
Rates



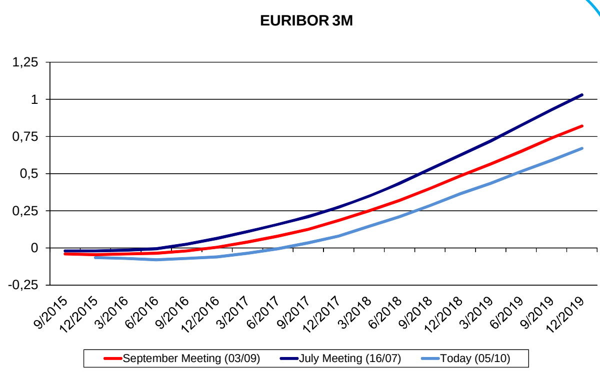
The ECB kept policy unchanged, but Draghi stressed the central bank's willingness, readiness and capacity to act if necessary. In the US, we expect the Fed to postpone its rate lift-off until 2016.



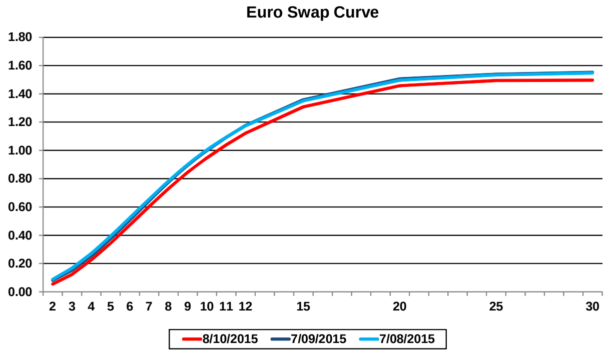
The possibility of further extending/increasing of the European QE programme pushed EURIBOR further below zero. USD LIBOR eased very slightly as the Fed stood put in September and markets doubt a lift-off will still take place in 2015.

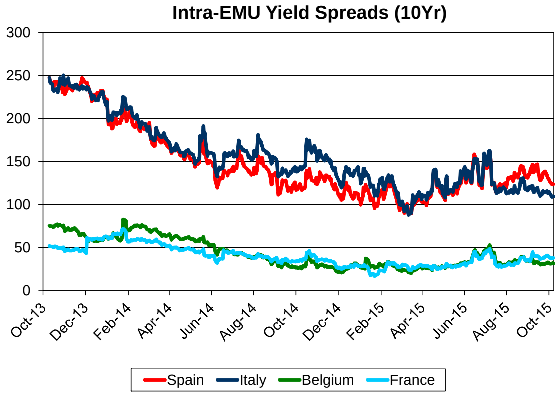


EUR and US swap rates continued to decline, now as a result on concerns about global growth, on hopes of further easing (ECB) and postponement of the start of the tightening cycle (US). Low inflation and inflation expectations play too.



Draghi suggested that QE programme could be extended and/or increased. As a consequence rate hike expectations, as represented in the graph by the strip curve, are pushed further out in time, flattening the curve.

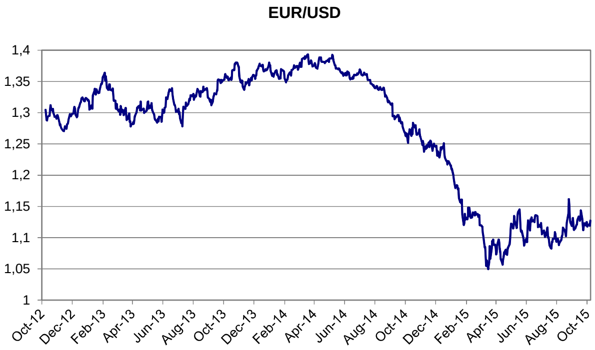


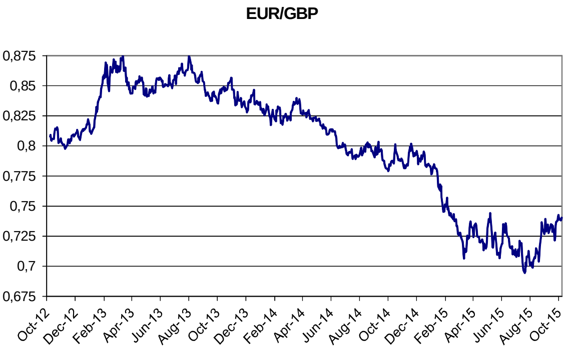


European swaps curve shifted even slightly lower because of additional QE prospects and possible negative effects on growth and inflation from a Chinese hard landing.

Spain outperformed Italy following the Catalonia regional elections. The pro-independence parties got a parliamentary majority, but failed to secure a majority of popular votes.

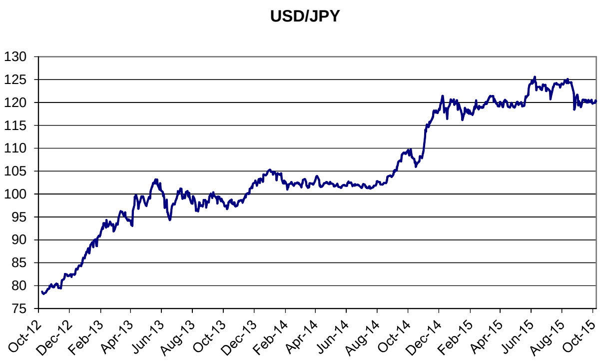
Currencies



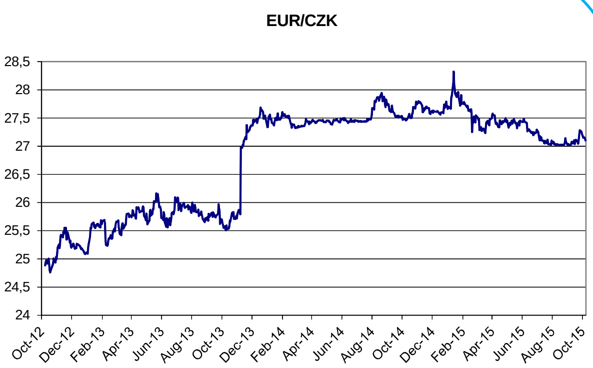


EUR/USD is locked in a sideways range. The dollar and the euro are more or less in balance as a delay in the Fed rate hike is counterbalanced by rising chances on more ECB QE. .

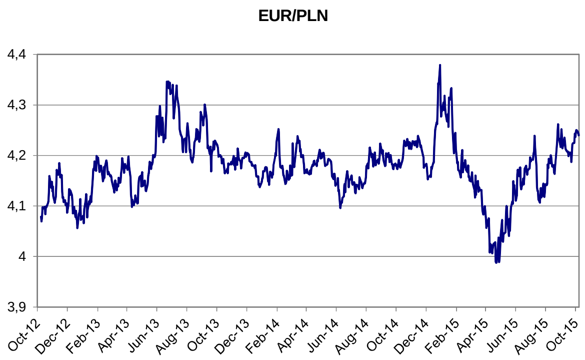
Sterling remained slightly in the defensive of late. UK eco data are a bit less buoyant. Global uncertainty is pushing BoE rate hike expectations further out in time..



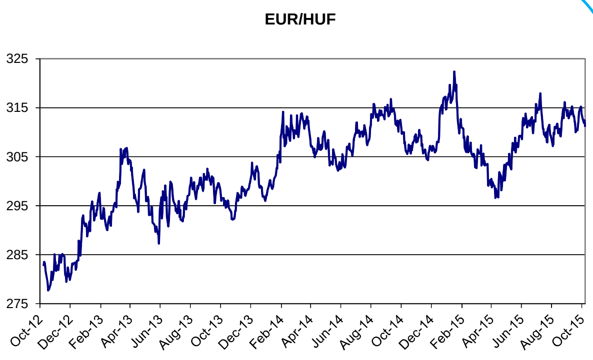
USD/JPY is holding a very tight sideways range close to the 120 level. Global uncertainty didn't help the yen much further. Markets are still pondering the chances of more BOJ easing.



The Czech koruna settled close to the central bank's (CNB) floor of EUR/CZK 27. In September, the koruna eased slight as markets didn't fight the CNB commitment anymore to keep current policy in place at least till H2 2016. .

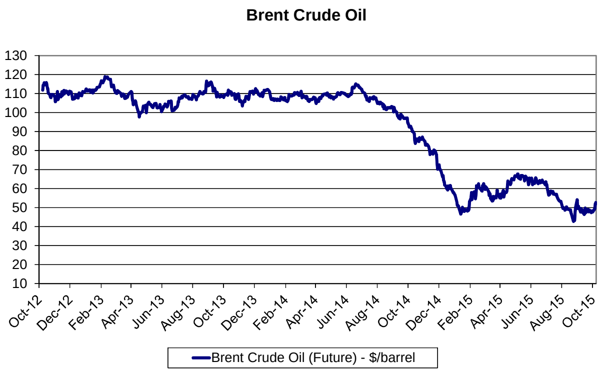


Global uncertainty and higher market volatility weighed on the zloty. Ongoing low inflation suggests the zloty won't get interest support anytime soon.

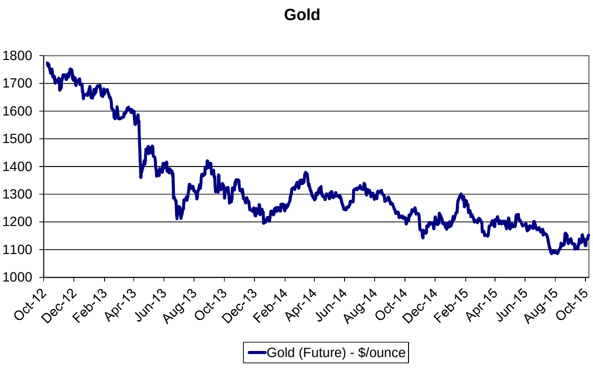


EUR/HUF found a new equilibrium in the 310/315 area. The forint probably won't get any interest rate support. The NBH stays in 'easing modus'

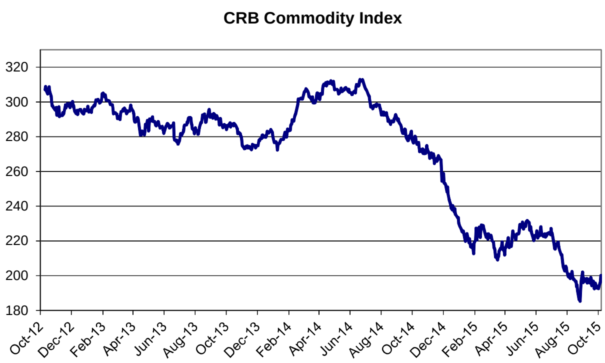
Others



Brent crude oil price fluctuated within the 47$/barrel – 50$/barrel range for well over a month. However the 50$ ceiling was tested and broken without hesitation this week, indicating that a bottom might have been reached.



The gold price tried to move higher during the August equity crash, but gains evaporated as fast as they were established. However, after a couple of bad September reports, gold moved again upward, currently trading around $ 1150.

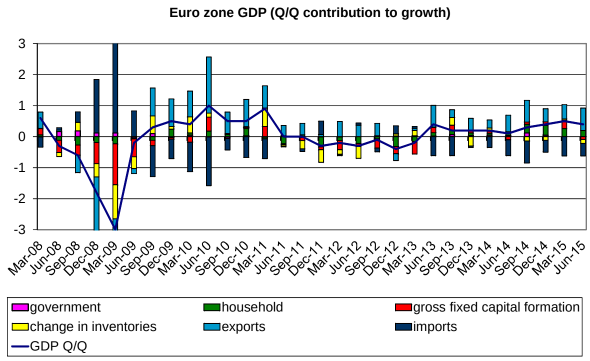


The broader CRB commodity index tried to move higher early September. However, it gradually slid back after several weak eco reports. At the beginning of October, the CRB re-found its composure and moved up again.

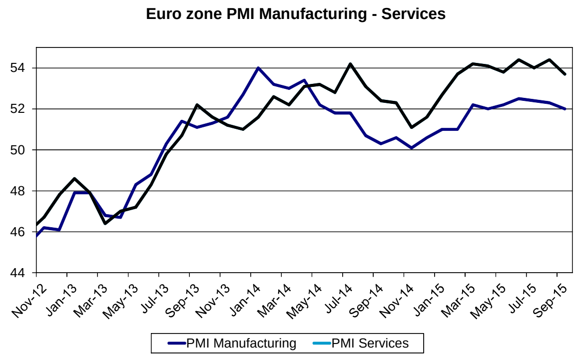
European shares corrected sharply (20%) lower in mid-August and in volatile trading try to find their composure. Chinese/EM growth concerns and fear for Fed rate increases triggered the correction. However, partial recovery occurred early October.

Economic Overview

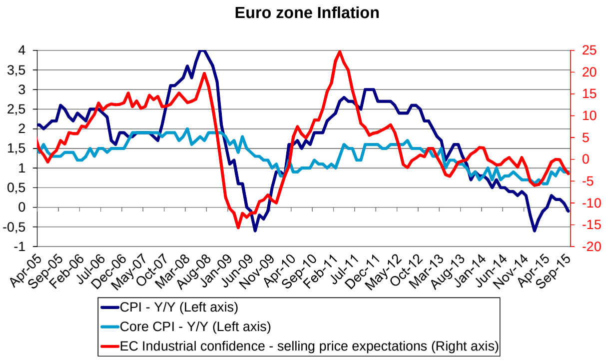
Eurozone



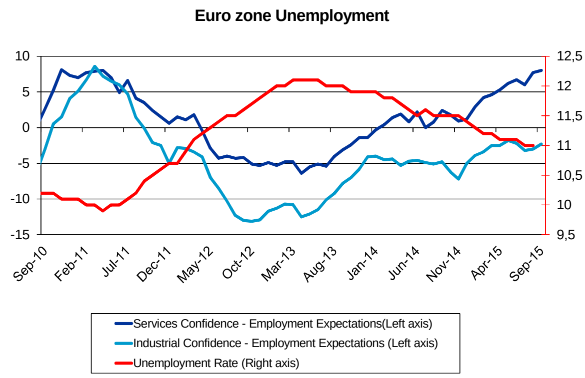
Euro zone eco growth increased by 0.4% Q/Q in Q2, matching the Q1 outcome. The composition was mixed with a 0.4% Q/Q increase of consumption and a positive net export. Investment disappointed though, as it was unexpectedly negative (-0.5% Q/Q), but Q1 investment was sharply revised higher.



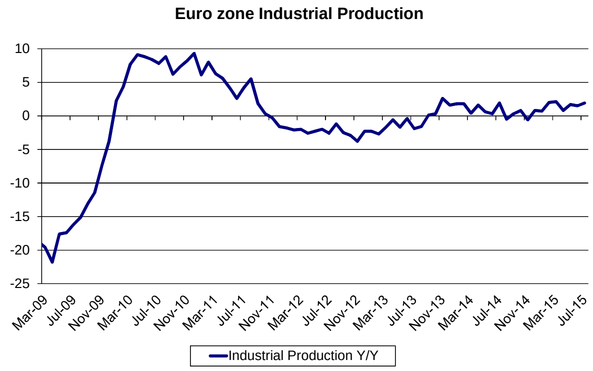
Both the euro zone manufacturing and services PMI remained above the 50 level at 52.0 and 53.7 respectively, but nevertheless lost slightly momentum. Given the global slowdown though, business sentiment held up well in September. The recovery remains modest and the economy hasn't yet reached escape velocity.



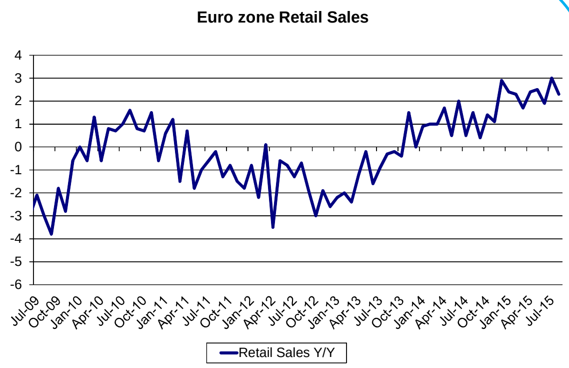
Euro zone HICP inflation dropped back into deflation in September with a CPI of -0.1% Y/Y (headline) and +0.9% Y/Y (core). It seems that the worst has passed in terms of core inflation. Headline inflation will fluctuate around zero in the next months, after which basis effects should push it back up.



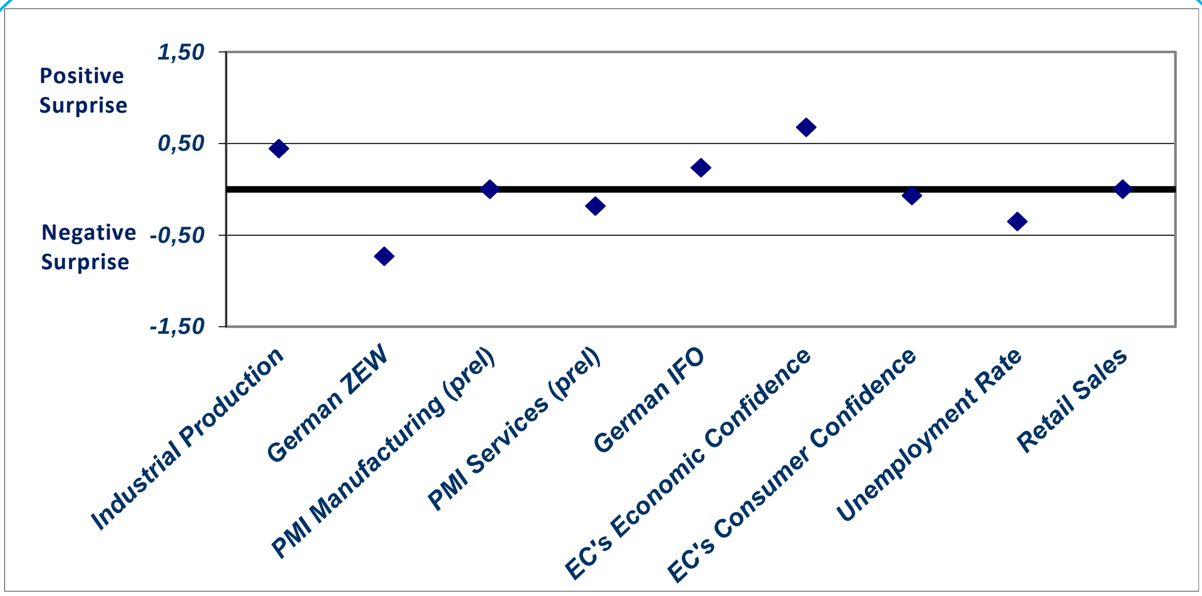
The euro zone unemployment rate increased marginally to 11% in August. Although the labour market continues to recover, the pace of improvement remains slow.



Euro zone industrial production was better than expected in July, ending a three month losing streak. However, the weakness in the industrial sector remains a global phenomenon.



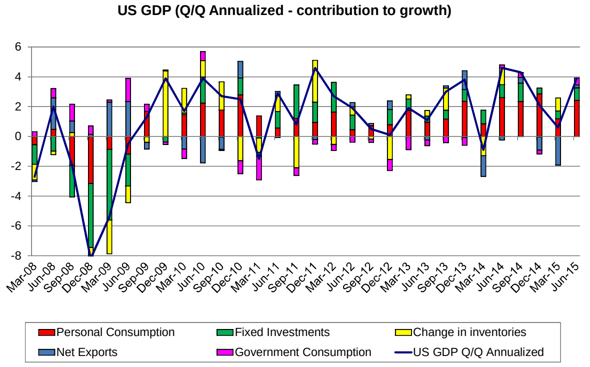
Retail sales rose by 0.0% M/M and 2.3% Y/Y in August, following an upwardly revised 0.6% M/M and 3% Y/Y in July. The uptrend of 2012/2013 seems to have stabilized at a decent, if not spectacular growth pace. Lower energy prices give real disposable income a boost.



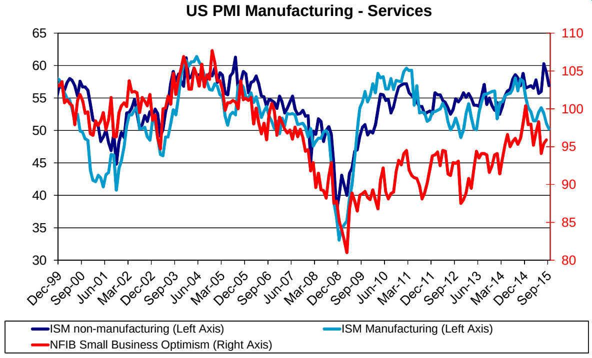
Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data. The most recent eco releases came out mixed to expectations.

In August, most EMU economic data came out close to expectations with limited surprises on the downside.

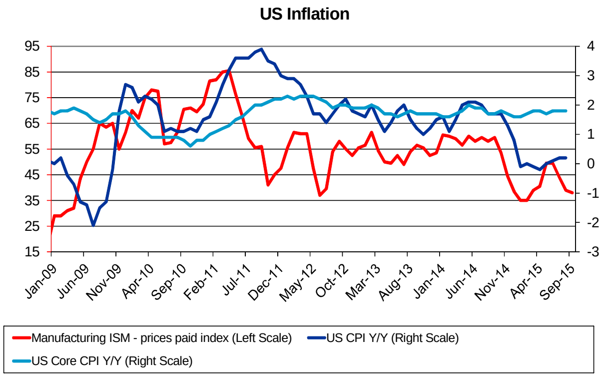
US



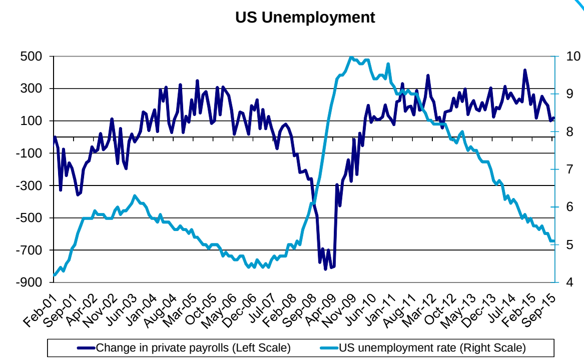
The US economy rebounded sharply in Q2 (3.9% Q/Q) following an upwardly revised Q1 (0.6% M/M) growth figure. Consumption remains the main contributor, but there were also small contributions of private investments and government spending. Q3 started on a strong footing.



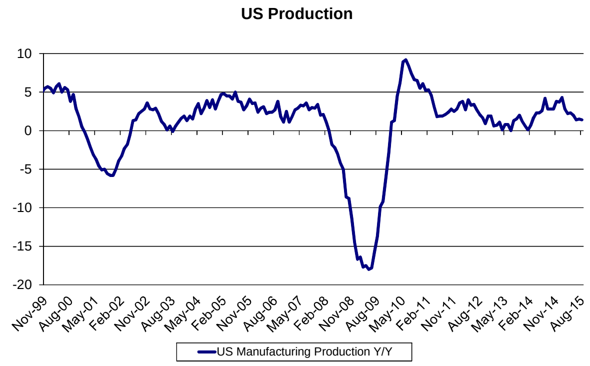
The US manufacturing and Non-manufacturing ISM business confidence deteriorated further in September, but the service index at 56.9 (from 59) remains fairly high. The manufacturing sector is much weaker at 50.2 (from 51.1). Small business sentiment stabilized.



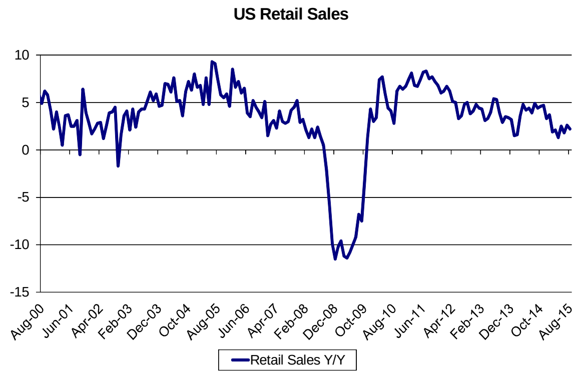
US CPI inflation stabilized at 0.2% Y/Y in August, following negative readings in the first 5 months of the year. The low inflation is mainly due to energy prices. Core inflation however stabilized near 1.8% Y/Y, suggesting that demand/supply is near equilibrium.



In September, net payrolls growth (142K) fell well below the 200K threshold, even worse was the downward revised August number from 173k to 136k. At the same time, the unemployment rate remained at 5.1%, inside the Fed's metric of full employment. Overall, a very weak September Payrolls report.



US industrial production declined by 0.4% M/M in August, which is quite weak, following an upwardly revised 0.9% M/M growth in July. The industrial sector is globally weak.



US retail sales grew slightly in August (0.2% M/M) following an upwardly revised figure in July (0.7% M/M). It seems that consumption is doing fine. Strong employment growth and lower energy prices push disposable income higher at a time consumer confidence is strong.

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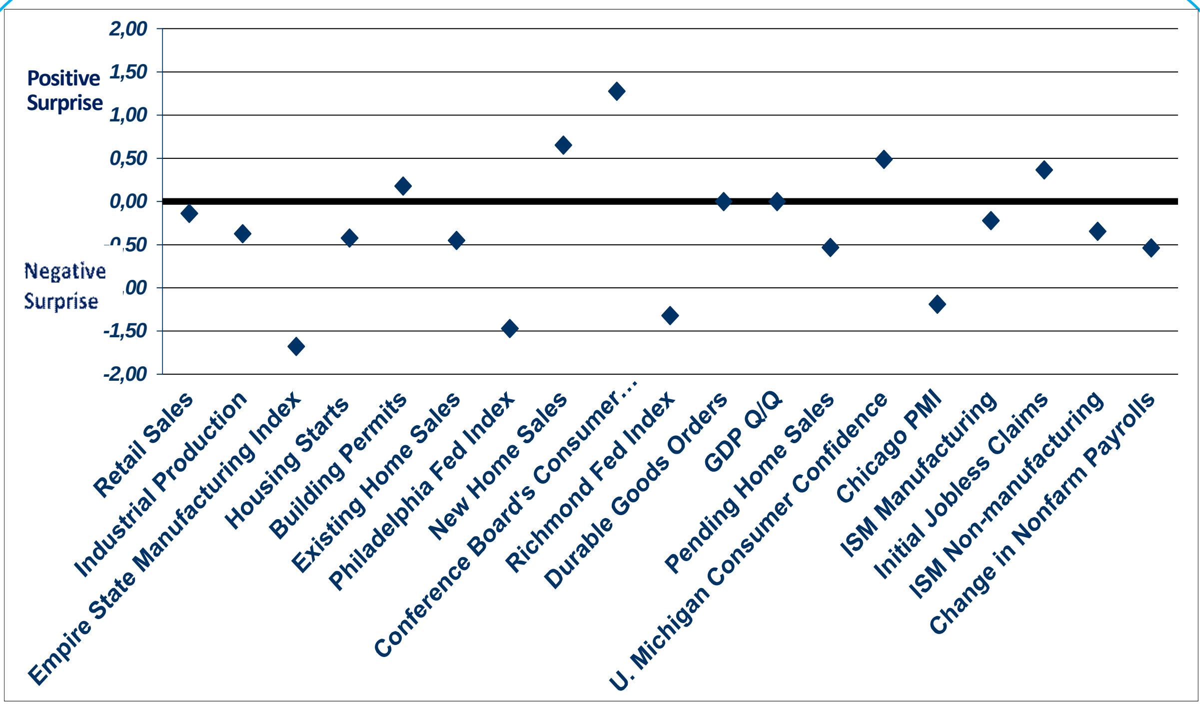

Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of US economic data. Recent eco data mostly disappointed, raising fears of a pronounced economic down-move

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