



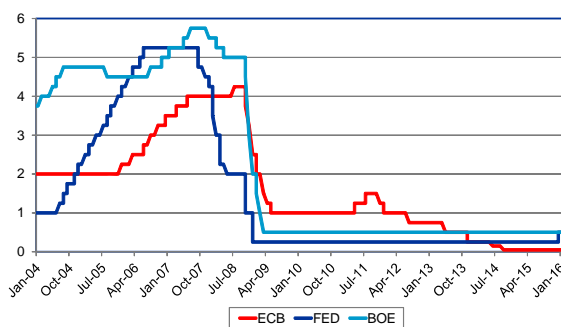
Monthly Chartbook

Tuesday, 12 January 2016

Markets

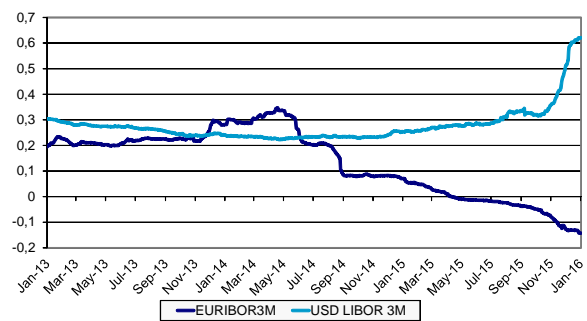
Rates

Policy Rates



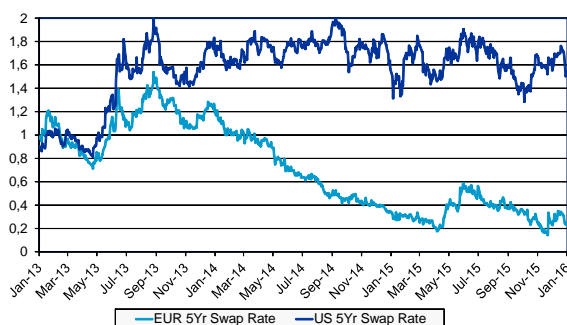
The Fed hiked rates for the first time in more than 9 years, starting a new monetary tightening cycle. Fed Dots suggests 4 more rate hikes this year, but markets doubt that scenario and pencil in only two 25 bps rate increases.

EURIBOR 3M / USD LIBOR 3M



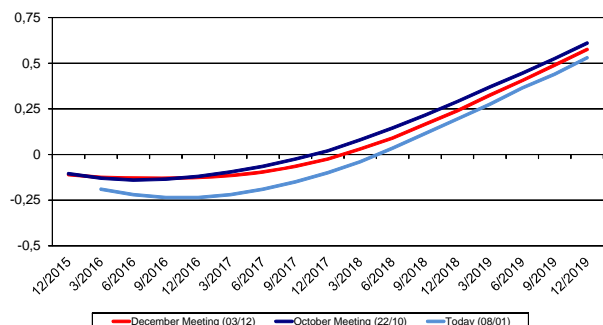
The spread between US Libor and Euribor rates increased significantly because of the combination of a Fed lift off and an ECB deposit rate cut, both in December.

Swap Rates (%)



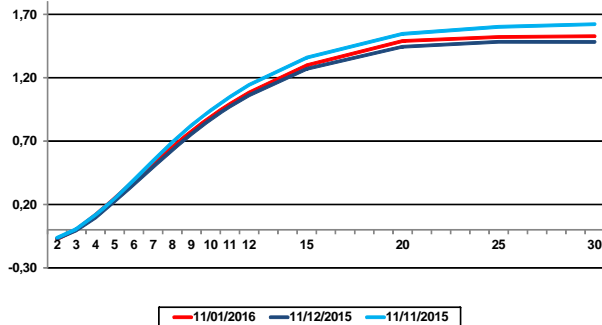
EUR and US swap rates parted ways. EUR swaps declined and tested lows on ECB easing expectations. US swaps are higher, but still in the range, due to Fed lift-off expectations and the promise the tightening cycle will be very gradual.

EURIBOR 3M



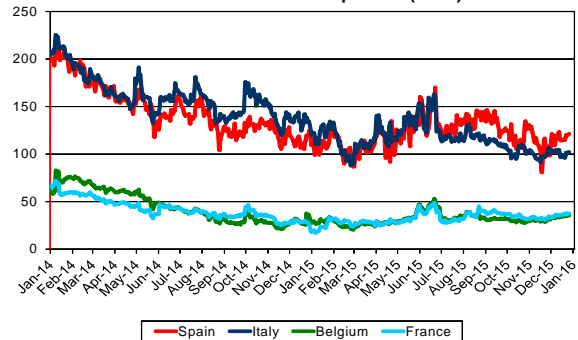
The ECB cut its deposit rate and extended the QE programme, pulling the Euribor strip curve lower. Markets anticipate another deposit rate cut given current global market turmoil.

Euro Swap Curve



European swap rate curve remains near record low levels. No signs of improving economic outlook, nor from future inflation expectations.

Intra-EMU Yield Spreads (10Yr)



Further underperformance of Spain vs Italy on the back of the political deadlock following Spanish general elections and the Catalan push for independence.

Currencies

EUR/USD



EUR/USD rebounded sharply early December as the ECB failed to deliver the policy easing the market expected. The pair settled in the 1.07/10 area after the Fed lift-off. China turmoil had only a moderate impact on EUR/USD.

EUR/GBP



EUR/GBP jumped also higher after the December ECB decision. Later, euro strength was replaced by sterling weakness. Global risk-off sentiment and the commodity decline delayed BoE rate hike expectations and Brexit uncertainty weighed on sterling too.

USD/JPY



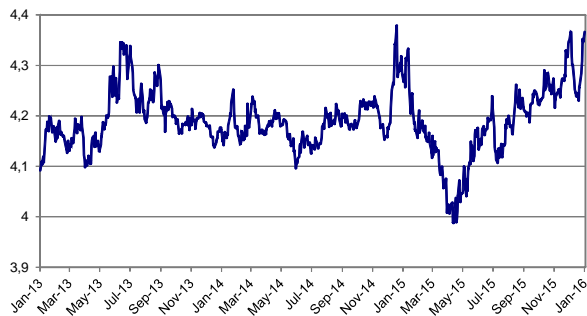
USD/JPY failed to profit from the Fed lift-off. Later in December and especially early January, the pair dropped below the 120 mark as the yen attracted safe haven flows due to the China crisis.

EUR/CZK



The Czech koruna held close to the central bank's (CNB) floor of EUR/CZK 27. The CZK more or less plays the role of safe haven of the region and is unaffected by global volatility.

EUR/PLN



Contrary to the Czech koruna and the Hungarian forint, global uncertainty caused more pronounced losses of the zloty. Uncertainty on the fiscal policy of the new government and its impact on the central bank weigh on the PLN.

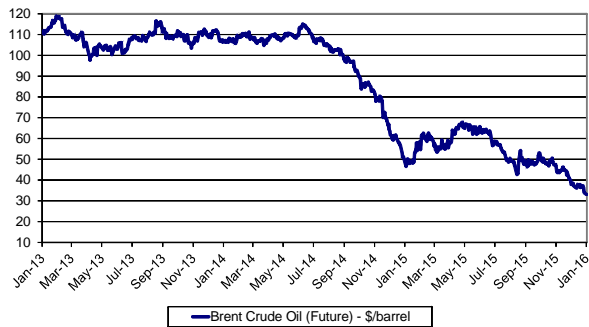
EUR/HUF



EUR/HUF is drifting higher in the 312/318 trading range. For now, the impact from global uncertainty on the forint is modest. A further improvement in economic fundamentals gives the forint downside protection.

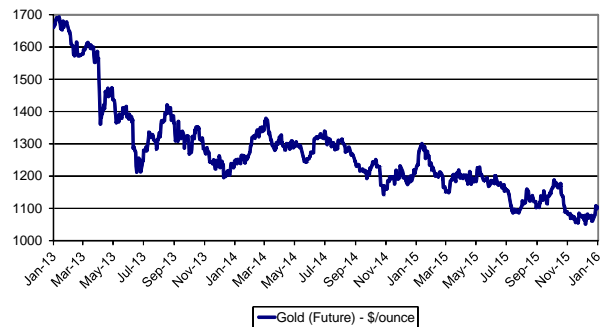
Others

Brent Crude Oil



The sell-off in the oil price continues unabatedly. The Brent crude oil price dropped to its lowest level in 11 years as oversupply and concerns about Chinese growth continued to weigh.

Gold



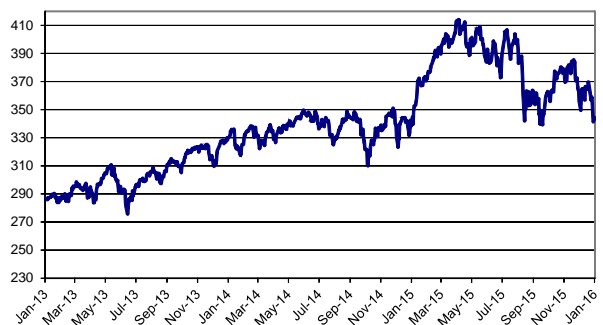
The gold price hovered sideways around its recent lows in November and December. At the start of the year however, Chinese tensions and risk-off sentiment pushed gold up again.

CRB Commodity Index



More gloom on commodity markets. The CRB commodity index dropped to new multi-year lows at the start of the year. Chinese growth concerns and the sell-off in the oil price continue to weigh on overall commodity sentiment. While soft commodities are broadly stable, metals continue to suffer.

Euro Stoxx 600

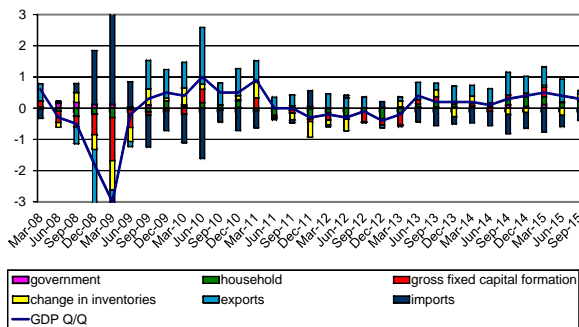


Disappointing ECB action weighed on European equities early December. After a limited rebound in the second half of December, a new selling wave kicked in at the start of the year due to renewed uncertainty around China.

Economic Overview

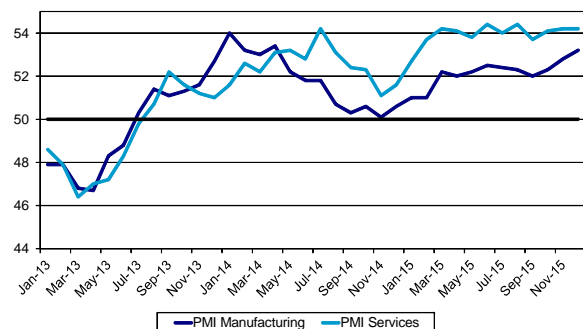
Eurozone

Euro zone GDP (Q/Q contribution to growth)



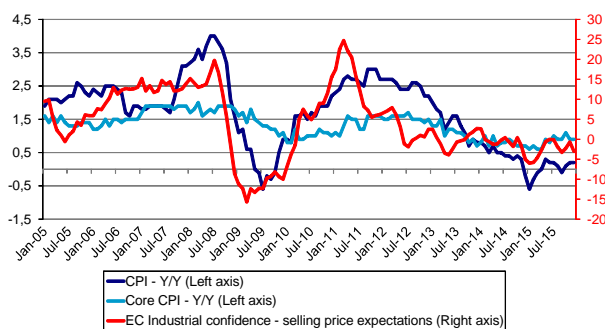
Euro zone eco growth slowed in the third quarter to 0.3% Q/Q, from 0.4% Q/Q in Q2 and 0.5% Q/Q in Q1. Details show that household consumption and inventories were the main growth drivers, while net-exports weighed on growth.

Euro zone PMI Manufacturing & Services



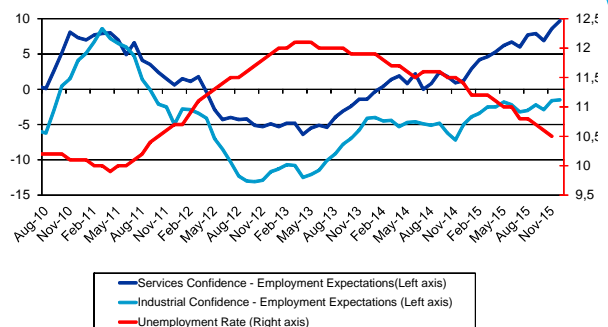
Both the euro zone manufacturing and services PMI held up surprisingly well at the end of the year. The manufacturing PMI extended its uptrend, while sentiment in the services sector remained upbeat. Despite mixed hard data, the PMI's suggest that growth picked up slightly in Q4.

Euro zone Inflation



Both EMU headline and core inflation stabilized in December. The headline rate was supported by positive base effects, but in the coming months, negative base effects will push headline inflation again lower. We will keep therefore a close eye on core inflation. Will the modest recovery be able to push core inflation further up?

Euro zone Unemployment



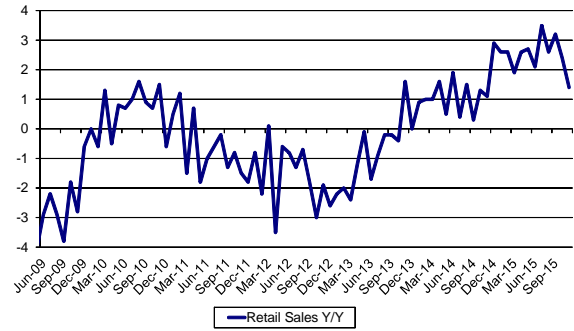
The downtrend in the euro zone unemployment rate accelerated at the end of 2015. The unemployment rate dropped to its lowest level since October 2011. Survey data suggest that labour market conditions will improve further in the coming months.

Euro zone Industrial Production

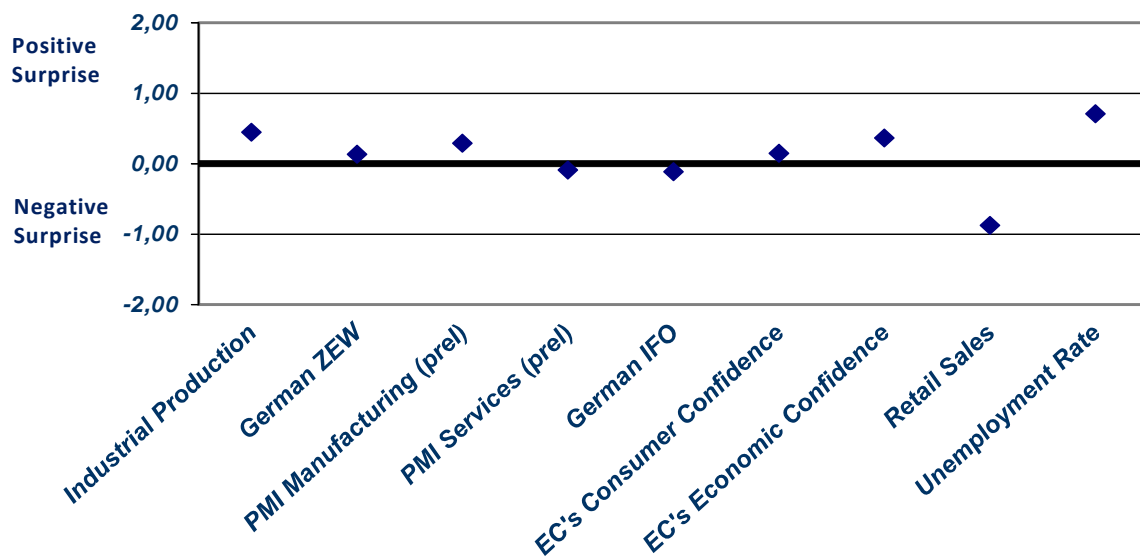


Euro zone industrial production remains sluggish due to poor demand from abroad. In October, production increased by 0.6% M/M, but expectations for November are quite poor.

Euro zone Retail Sales



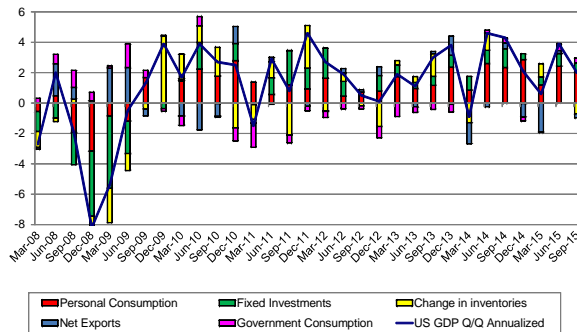
In November, euro zone retail sales dropped for a third consecutive month, suggesting that the rebound in household consumption stalls. We hope however to see a rebound in December, boosted by strong end of year sales.



Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data. Most euro zone economic data continued to surprise on the upside of expectations recently. Only retail sales disappointed, which is a poor sign for Q4 GDP.

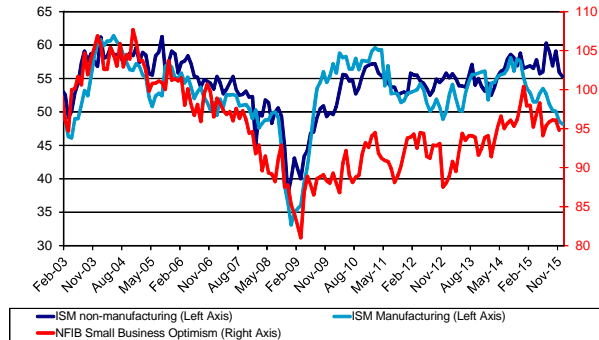
US

US GDP (Q/Q Annualized - contribution to growth)



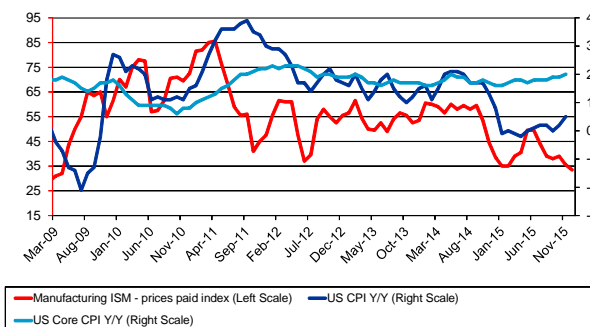
US economic growth slowed to 2.1% Q/Qa in Q3 from 3.9% Q/Qa in Q2. The headline figure is somewhat misleading as inventories weighted on the result. More important, private consumption remained strong and investment contributed positively.

US PMI Manufacturing - Services



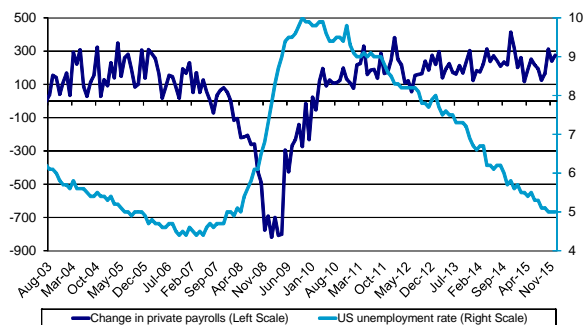
The downtrend in the US manufacturing ISM continued at the end of last year with the index back below the 50 mark at its weakest level since 2009. In the meantime, sentiment in the non-manufacturing sector weakened as well, suggesting that growth might have slowed further in the fourth quarter of 2015.

US Inflation



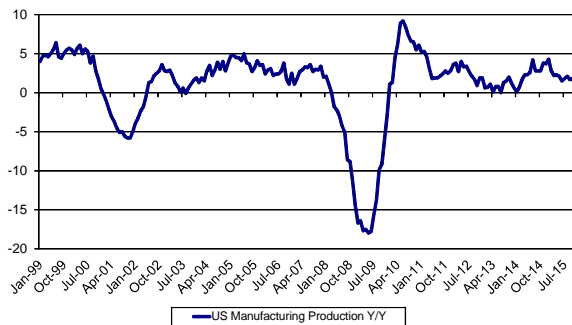
US CPI inflation edged up to 0.5% Y/Y in November, its highest level for the year. Core inflation even jumped to 2.0% Y/Y. The sell-off in the oil price, together with negative base effects, will probably push headline inflation again lower in the coming months. We expect however to see a further increase in underlying price pressures.

US Unemployment



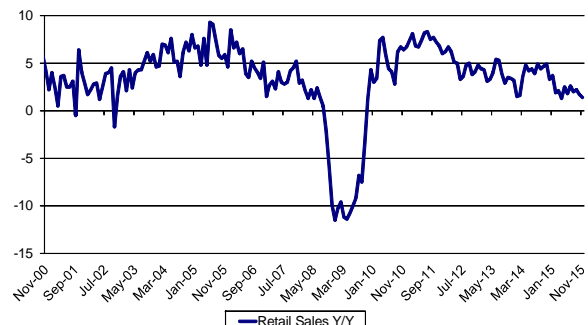
In December, we got another very strong payrolls report with employment growth close to 300K. Despite signs of slowing growth, the US labour market remains in excellent shape. Wage growth accelerated too, to 2.5% Y/Y, its strongest pace since 2009, although remaining well below the market consensus.

US Production

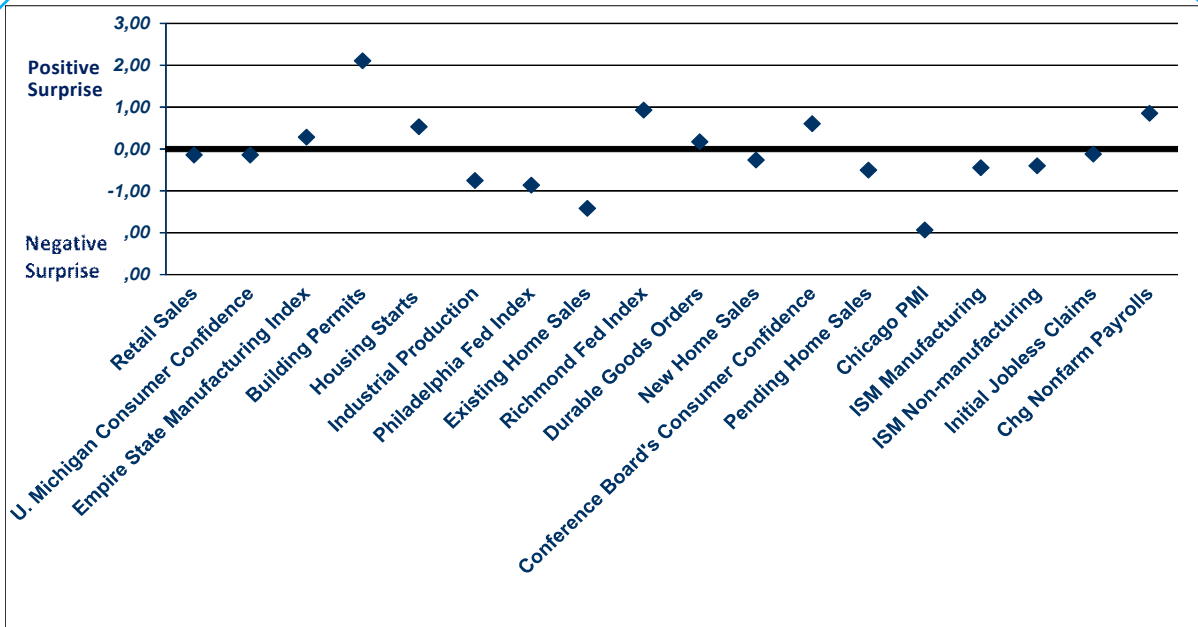


US industrial production remained poor in November as firms continue to suffer from poor demand from abroad, the strong US dollar and historically low oil prices. Confidence indicators suggest that we are not yet out of the woods.

US Retail Sales



US retail sales picked up slightly in November, but the headline figure was depressed by lower gasoline station sales (price effect). Core retail sales (control group) were however strong (0.6% M/M) and evidence suggests that end of year sales were strong too.



Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of US economic data. Overall, US economic data mostly disappointed, suggesting that momentum slowed further in the fourth quarter. Labour market data however remained surprisingly strong.

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