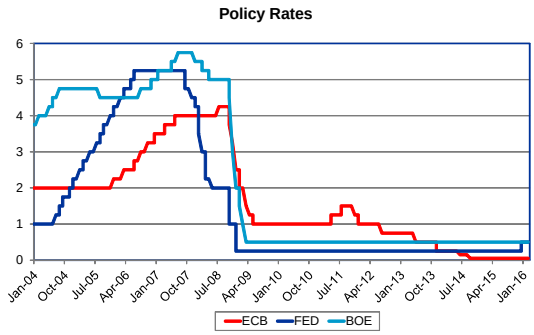
KBC Market Research Desk - Havenlaan 12, 1080 Brussels

Monthly Chartbook

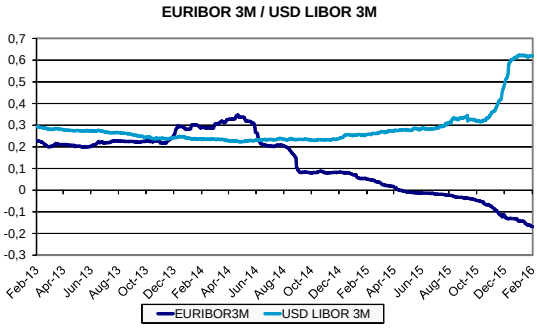
Wednesday, 10 February 2016

Markets

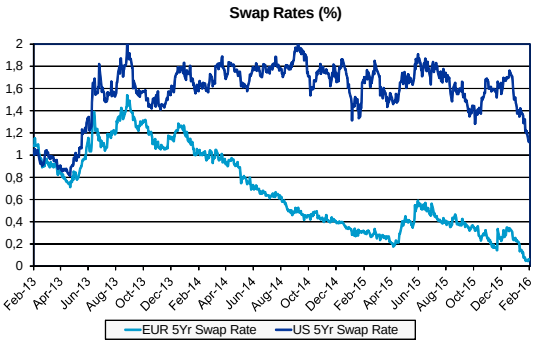
Rates



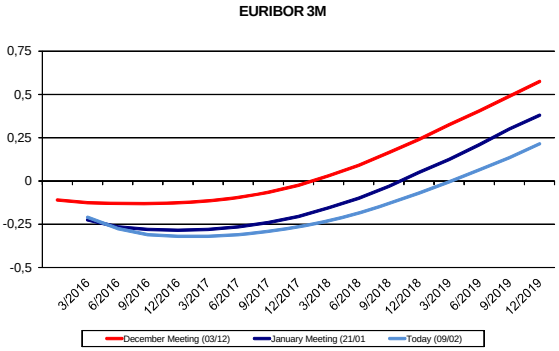
The Bank of Japan followed other central banks in uncharted territory by cutting policy rates into negative territory. Also the Fed, ECB and BoE took a dovish turn since the start of the year.



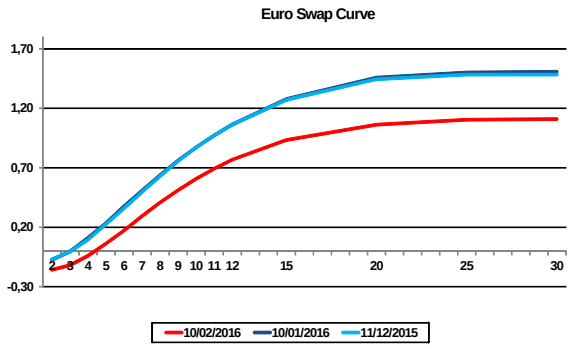
The spread between US Libor and Euribor rates increased further because of Draghi's pre-announcement of additional monetary policy easing in March.



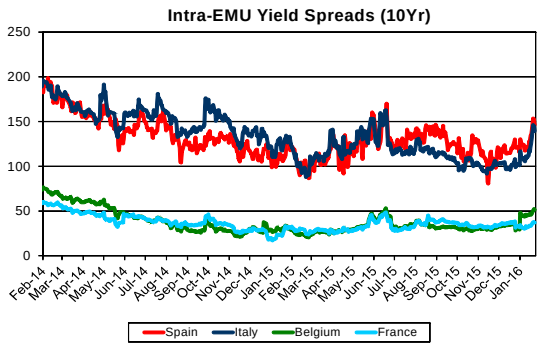
EUR and US swap rates parted ways. The spread declined as markets don't buy the Fed's scenario of additional hikes in 2016 given the global economic climate. The European 5-yr rate flirts with its zero-bound.



The ECB cut its deposit rate and extended the QE programme, pulling the Euribor strip curve lower. Markets anticipate another deposit rate cut in March. The Euribor strip curve is negative until Q2 2019.



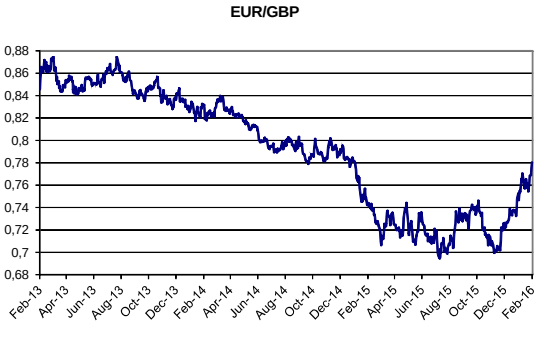
European swap rate curve: more bull flattening on the back of risk aversion, lower commodity prices and dovish central banks.



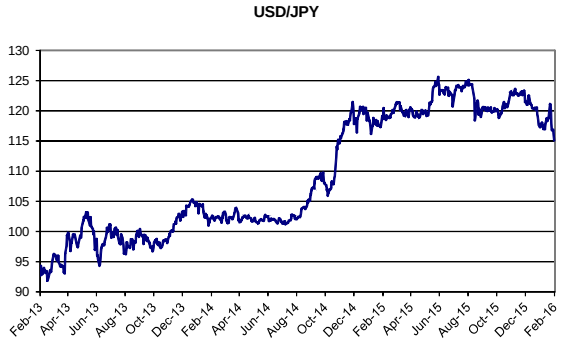
Peripheral yield spreads suffer from risk aversion. National problems take center stage: Italian banks are in trouble, Spain has no government, the leftist Portuguese government reverses austerity measures and the Greek bailout review stalls.

Currencies

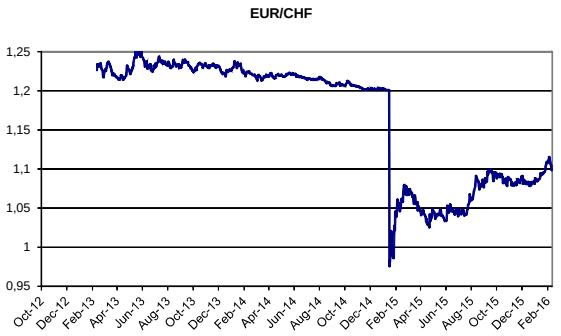
EUR/USD settled in the 1.07/10 area after the Fed lift-off. China turmoil had initially only a moderate impact. Finally, global uncertainty reduced interest rate support for the dollar and pushed EUR/USD back to the 1.13 area.



Sterling weakness persists. The combination of global uncertainty, a decline in the oil price, disappointing UK eco data and uncertainty on Brexit all conspire to protracted sterling weakness.

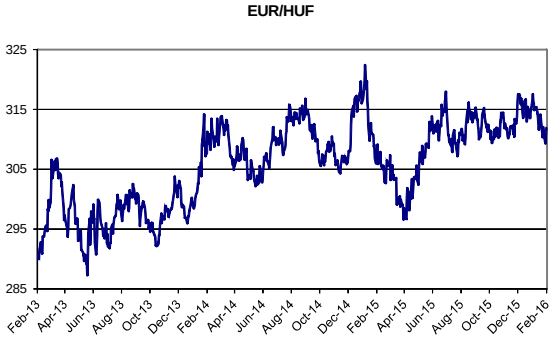


In January, the yen profited from the global risk-off sentiment. The BOJ cutting interest rates into negative territory didn't prevent further yen strength. USD/JPY dropped below the key 115.98 support



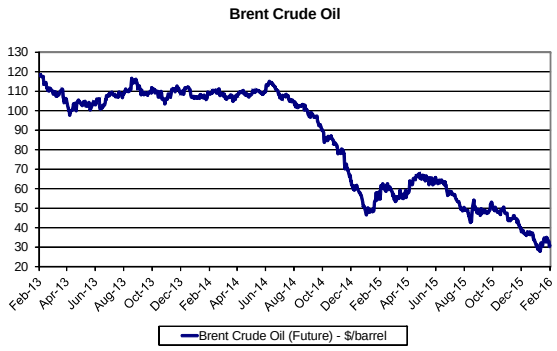
The Swiss franc declined in January and early February even as global sentiment turned outright negative. 'Selective' SNB action apparently prevented safe haven flows running to the Swiss franc .

The decline of the zloty in the wake of the formation of a new government slowed. Markets gradually embrace the idea that a change in monetary policy might be less aggressive than previously assumed.

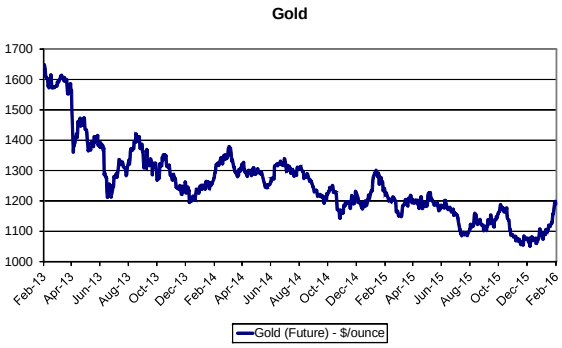


The forint is holding stable in a sideways range between 308 and 318. Global uncertainty hardly affected the forint. A further improvement in economic fundamentals gives the forint downside protection.

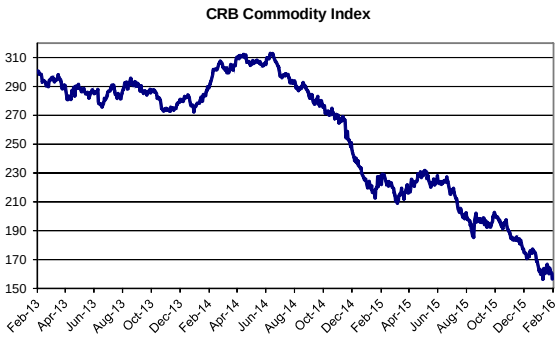
Others



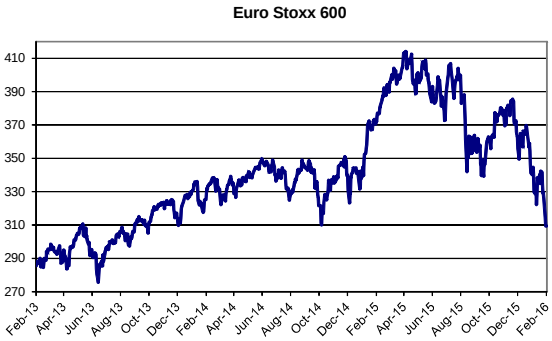
The Brent crude oil price did not fall further this month, but neither showed a significant rebound. Brent continues to hover just above $30/barrel as supply remains abundant, while demand worries still persist.



Safe haven flows and a weaker US dollar pushed the gold price back above $1200/barrel, its highest level since June last year.



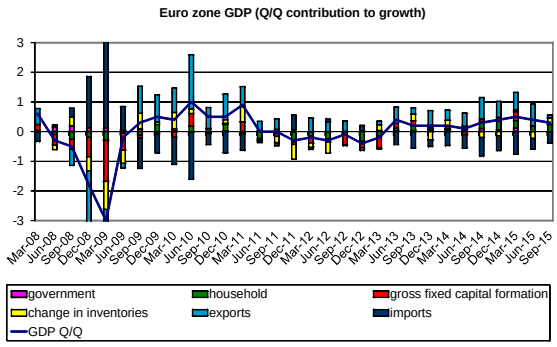
In line with the oil price, also the CRB commodity index hovered broadly sideways, around its recent lows. Most metals rebounded slightly, while soft commodities continue to hover broadly sideways.



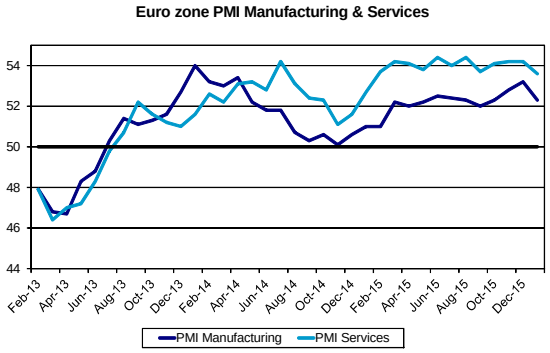
The equity market sell-off continued unabatedly due to global growth concerns. Especially financials came under pressure as concerns about their profitability increased (consequence from ECB policy?!). European shares have now fully reversed last year's gains.

Economic Overview

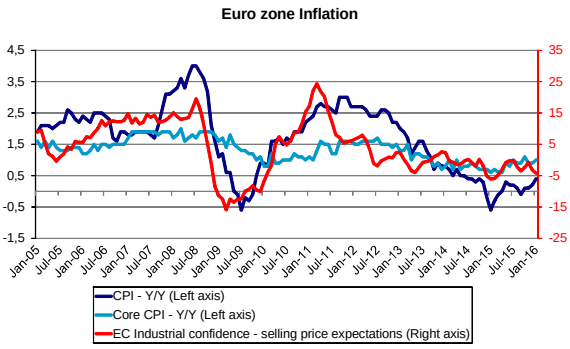
Eurozone



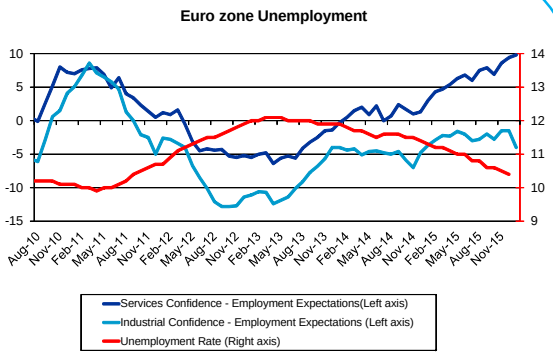
Euro zone eco growth slowed in the third quarter to 0.3% Q/Q, from 0.4% Q/Q in Q2. For the fourth quarter, a similar growth figure of 0.3 % Q/Q is expected.



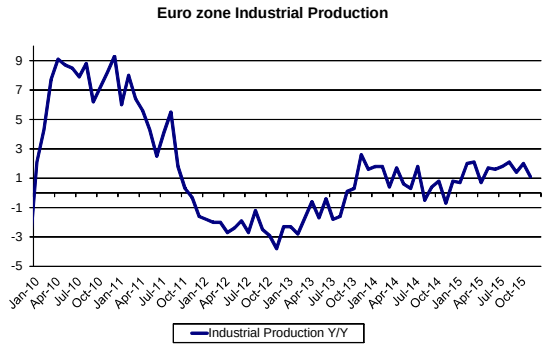
Both the euro zone manufacturing and services PMI weakened at the start of the year. Although the significant slowdown is disappointing, the underlying picture was less poor.



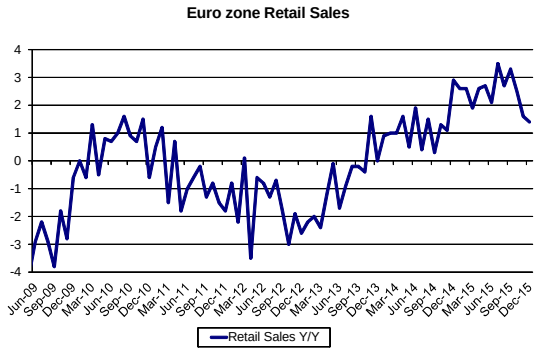
Both EMU headline and core inflation picked up in January, still supported by positive base effects. In the coming months however, negative base effects will push headline inflation again lower, possibly even in negative territory. We will keep a close eye on core inflation too. Will the modest recovery be able to push core inflation further up?



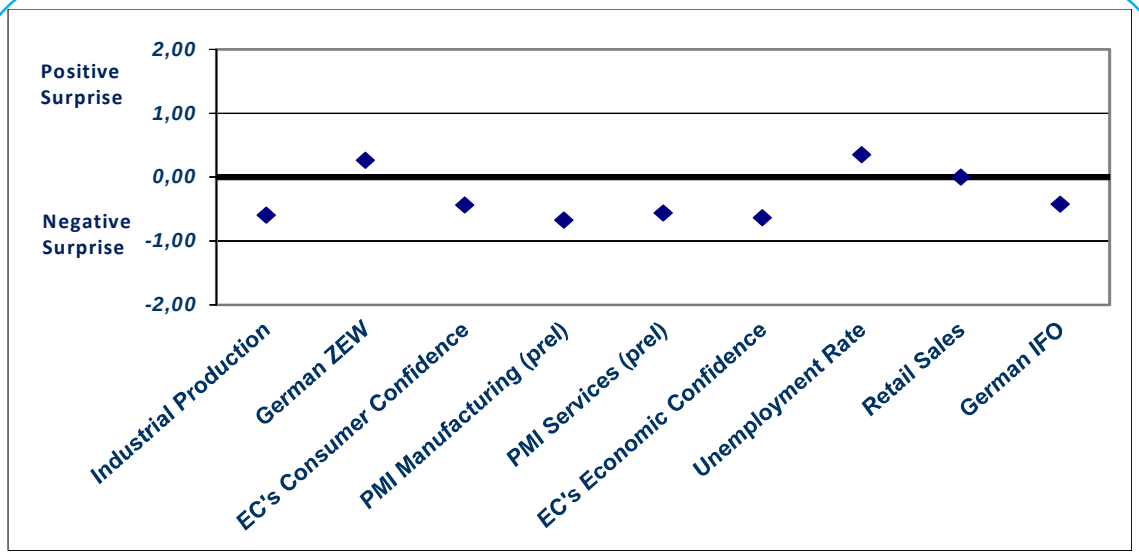
The downtrend in the euro zone unemployment rate accelerated at the end of 2015. The unemployment rate unexpectedly dropped further in December, to 10.4%. Most recent survey data were however mixed.



Euro zone industrial production remains sluggish due to poor demand from abroad. In November, production fell by 0.7% M/M and expectations for December remain poor.



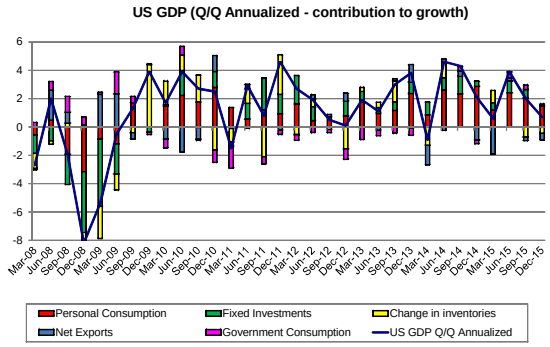
Euro zone retail sales picked up slightly in December and also the previous month's figure was revised higher, suggesting that consumption remained the main growth driver in Q4.



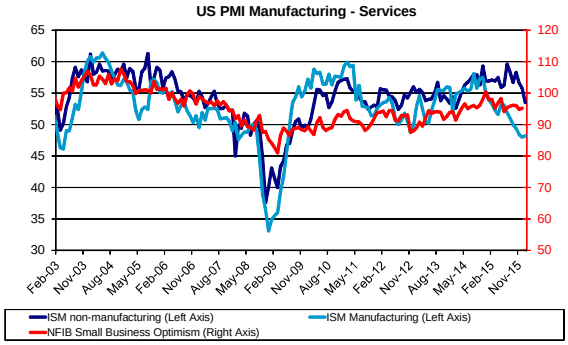
Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data.

Most recent EMU economic data disappointed, signalling that the EMU economy is not immune to slowing growth abroad.

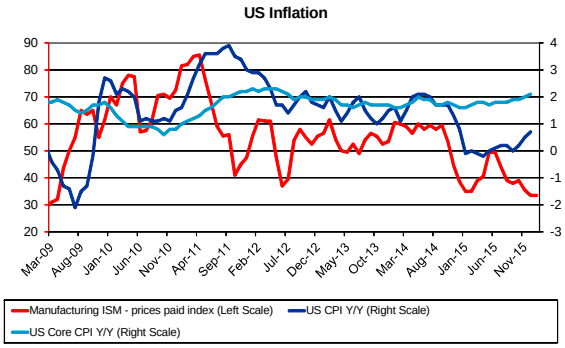
US



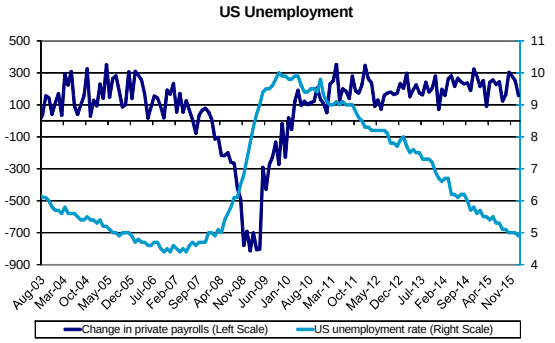
US economic growth slowed further at the end of last year, to only 0.7% Q/Qa in Q4, from 2.0% Q/Qa in Q3. Although having slowed, personal consumption remained the main growth driver, while investments acted as a drag on growth.



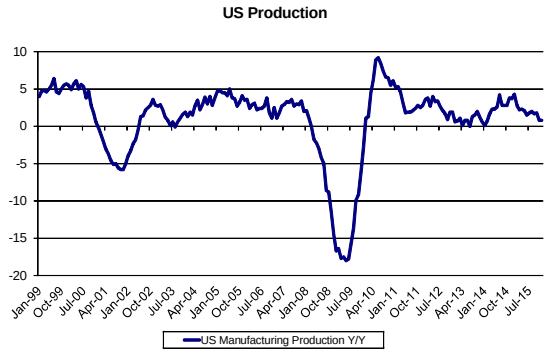
Although the downtrend in the US manufacturing ISM came to an halt at the start of the year, there are no signs of improvement yet. More worrying, sentiment in the non-manufacturing sector weakened sharply in January, suggesting that the US economy took a poor start to the new year.



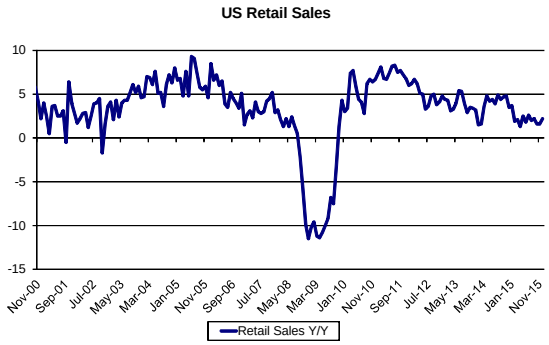
US CPI inflation picked up further in December, from 0.5% Y/Y to 0.7% Y/Y, its highest level in one year. Core inflation jumped higher too, to 2.1% Y/Y. Nevertheless, negative base effects will probably push headline inflation again lower in the coming months.



Headline January payrolls disappointed, showing a slowdown in hiring to 151 000, mainly due to reduced job growth in the services sector. The details were more positive with the unemployment rate dropping to a new low (4.9%) and now reaching the Fed's target. Wage growth slowed, to 2.5% Y/Y from 2.7% Y/Y in December, but came out well above the market consensus.



US industrial production continued to disappoint in December as firms still suffer from poor demand from abroad, the strong US dollar and historically low oil prices. Confidence indicators show however early signs that sentiment is not worsening further.



US retail sales disappointed in December. Weakness was not only based in the energy sector, but core retail sales were poor too. With wages slowly picking up and continued low energy prices, we hope to see retail sales picking up in the coming months.

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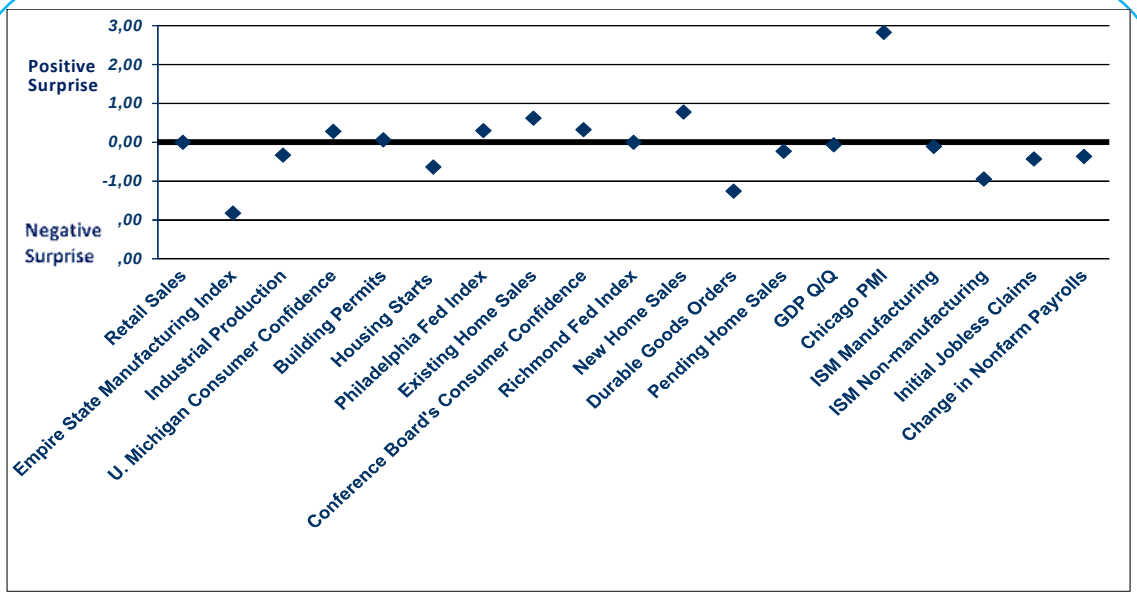

Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of US economic data.

Since the previous report, US economic data showed a mixed picture. While there are no signs of substantial improvement, the data were not as bad as last month.

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