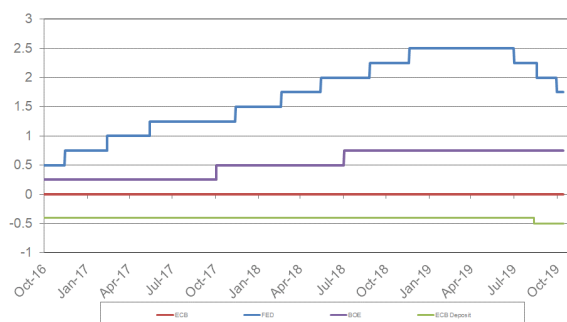


Friday, 15 November 2019

Markets

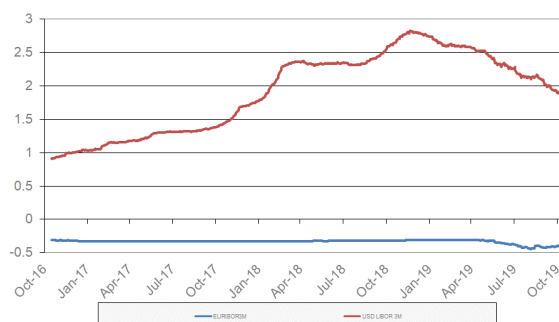
Rates

Policy Rates



The Fed cut rates for a third time straight in October and signalled it's the last of its mid-cycle policy adjustment. The ECB kept policy unchanged in October while now former president Draghi waved goodbye.

EURIBOR 3M / USD LIBOR 3M



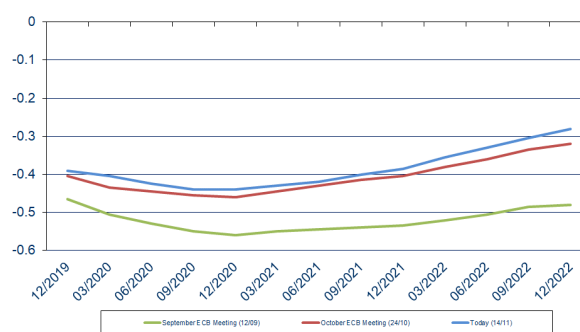
The US 3M libor rate stabilized after the Fed made clear there will be no further rate cuts for the time being. European money market rates hover near the ECB depo rate. The tiered system exerted only limited upward pressure.

Swap Rates (%)

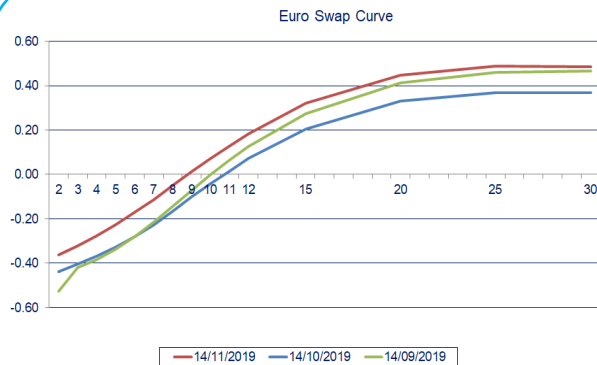


The upward trend in European and US 5-yr swap rates on Brexit and trade stalled recently. Markets await further (signs) of progress.

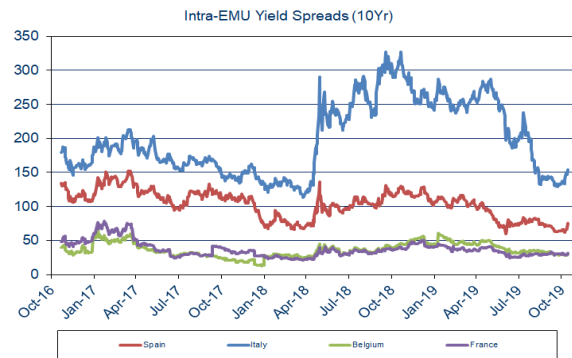
EURIBOR 3M



The Euribor 3M strip curve eked out a further, yet marginal, shift north as markets increasingly scale back expectations of future ECB rate cuts.

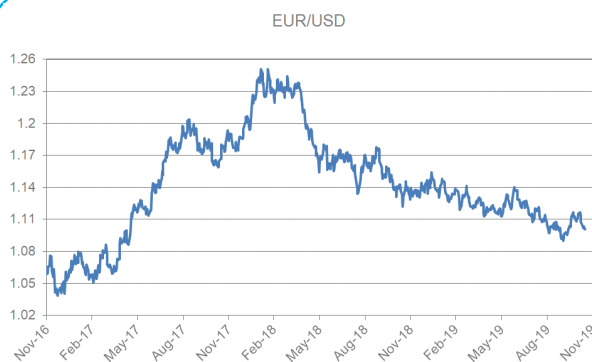


Bear steepening of the Euro swap curve continued in November. Markets conclude the ECB is probably played out while Brexit and trade developments bode well for the economic future.

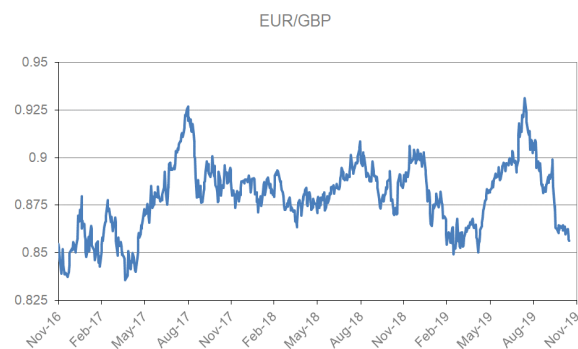


Peripheral spreads rose over the past few days, mainly the result of a mild risk-off environment. The Spanish socialists struck a preliminary deal with Podemos for a minority government after inconclusive elections.

Currencies

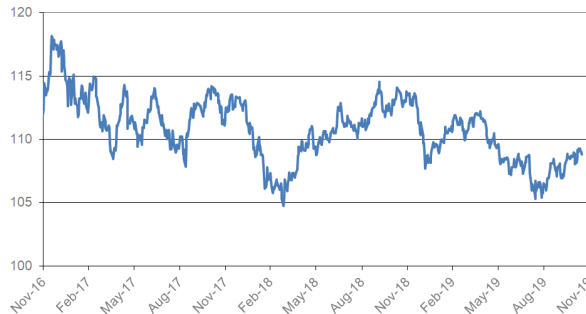


EUR/USD: dollar took the upper hand again on decent eco data and as global optimism dwindled recently. Euro bulls have been betting on a recovery of the economy but that has not been confirmed by the data (yet).



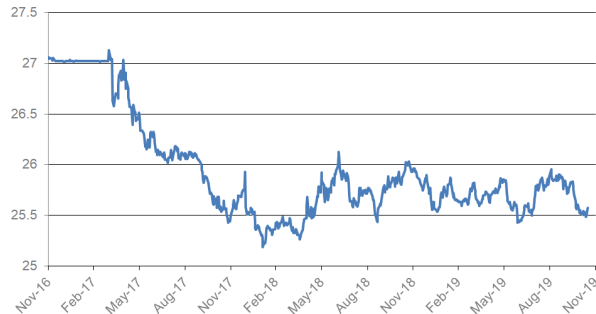
Sterling's impressive rally stalled. The pound is now trapped within a narrow sideways range near 0.86 as markets await the election outcome on December 12.

USD/JPY



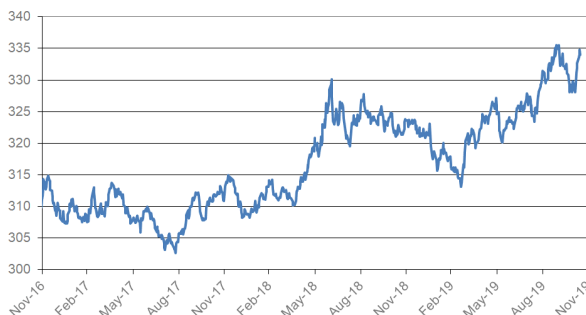
The USD/JPY rebound starting in early September is running into resistance as the reflation trade loses momentum. 108 acts as short term intermediate support.

EUR/CZK



Brexit optimism has pushed the export oriented Czech koruna further higher before meeting with resistance at the low end of the 25.5-26 sideways range. The CNB concluded its normalisation cycle, but probably won't cut policy rates soon.

EUR/HUF



The Hungarian forint is again nearing all-time lows despite (very) solid growth. Rising inflation bites while the Hungarian central bank shows no willingness to raise rates anytime soon.

EM Index



Emerging market currencies whipsawed, retracing earlier gains on trade optimism. Markets want to see action (i.e. signing of a partial trade deal) rather than just words.

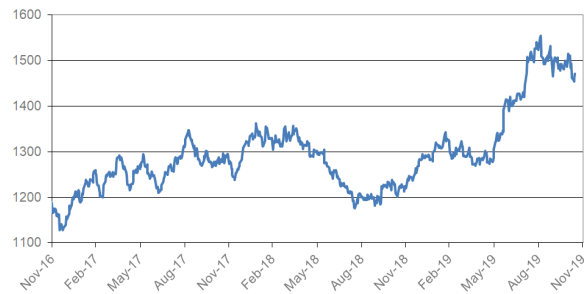
Others

Brent Crude Oil (Future) - (\$/barrel)



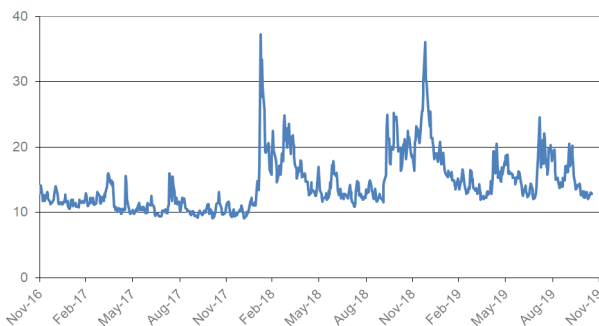
Oil prices continue their recent uptrend, retaking \$60/b (Brent) but nearing first resistance around \$63. It will probably require concrete news (trade agreement, better economic data) to push through.

Gold (Future) - \$/ounce



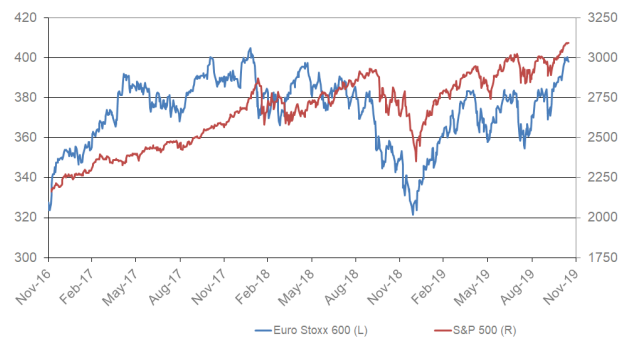
Gold is one of the past year's star performers thanks to global risk aversion but prices have retreated from a multiyear peak over the recent weeks due to easing economic concerns.

VIX Index



Early October (equity) volatility is completely erased. Markets are currently in a wait-and-see mode and watch trade/Brexit develop from the sidelines.

Equity Indices

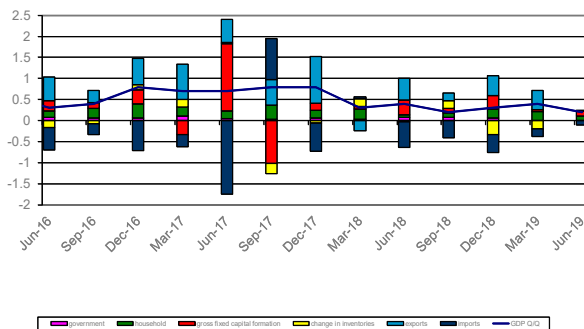


All major US indices, including S&P 500, eked out new all-time highs. The Euro Stoxx 600 hit 3 000 for the first time since early 2018, paving the way to the 2017 top were it not for the equity momentum to have stalled recently.

Economic Overview

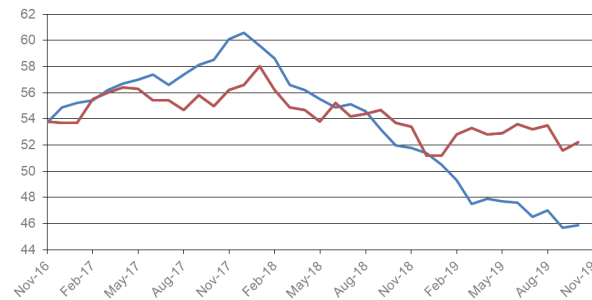
Eurozone

Euro zone GDP (Q/Q contribution to growth)



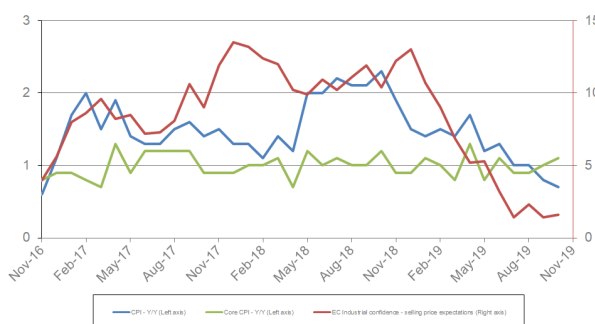
The EMU grew 0.2% QoQ during the third quarter of this year, similar to Q2. Details are not yet available. Germany managed to avoid a technical recession by growing 0.1% QoQ.

Euro zone PMI Manufacturing (blue) & Services (red)



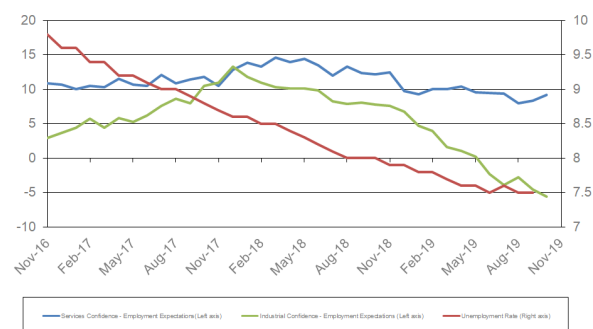
October PMI's stabilized near recent low levels with signs of contagion to the services sector and labour market building. National PMI's showed a strong discrepancy though with especially Germany disappointing.

Euro zone Inflation



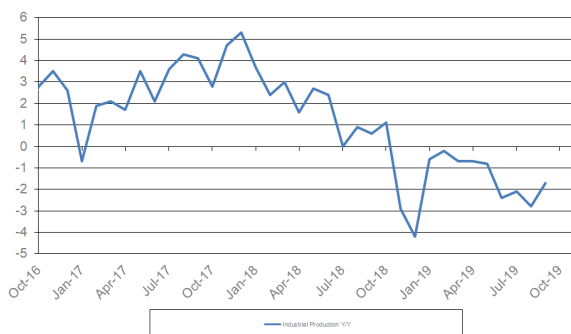
October headline inflation slipped to a mere 0.7% YoY (from 0.8%), well below the ECB's 2% target. Core measures rose to 1.1%. Inflation expectations have entrenched since June at 1.25% on average.

Euro zone Unemployment



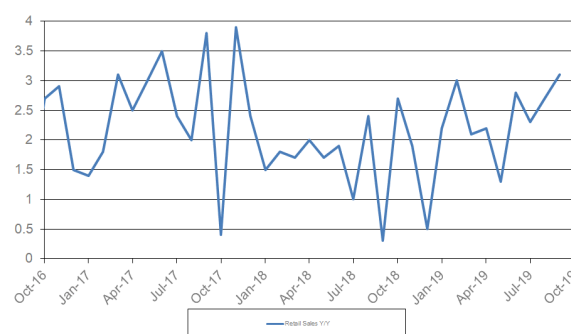
The euro zone unemployment rate stabilized at 7.5% in September, the lowest level since mid-2008 and nearing the all-time low of 7.3%.

Euro zone Industrial Production

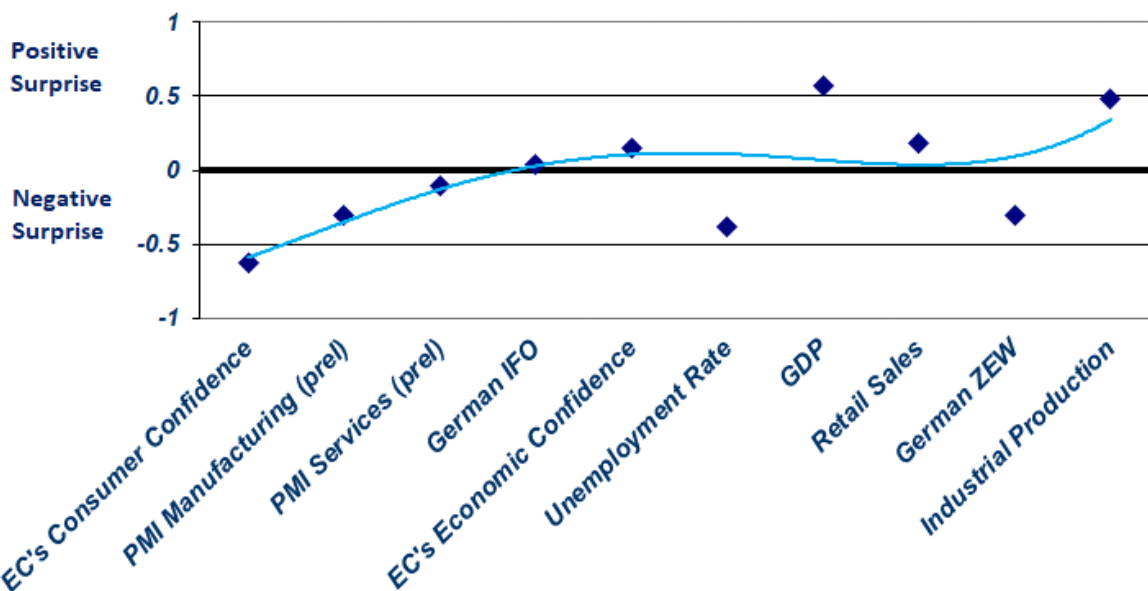


September industrial production slowed on a monthly basis to 0.1% MoM (-1.7% YoY) coming from a 0.4% (-2.8% YoY) rebound in August as Germany's declining production (-1.0% MoM) weighed the figure down.

Euro zone Retail Sales



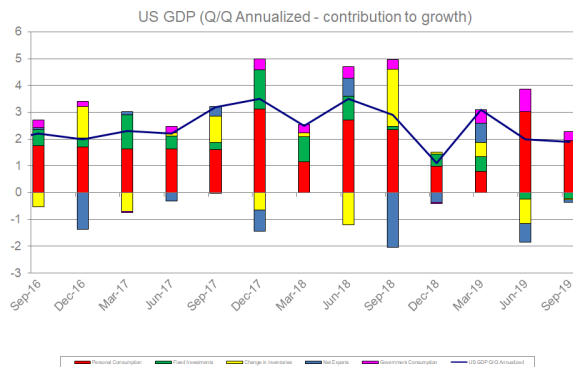
EMU September retail sales rose 0.1% MoM (3.1% YoY) following a strong an upwardly revised 0.6% in August on pharmaceutical goods and fuel.



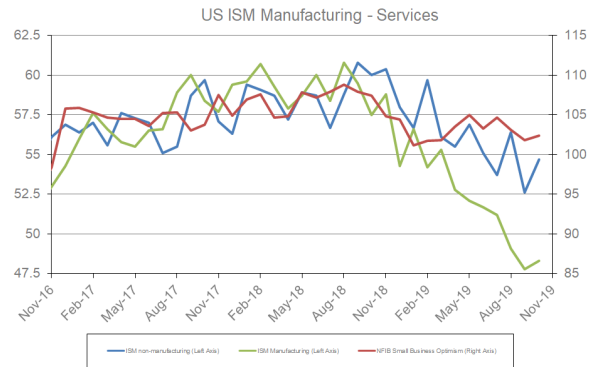
Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data.

Recent data surprises tend to be on the upside, particularly in 'hard' data.

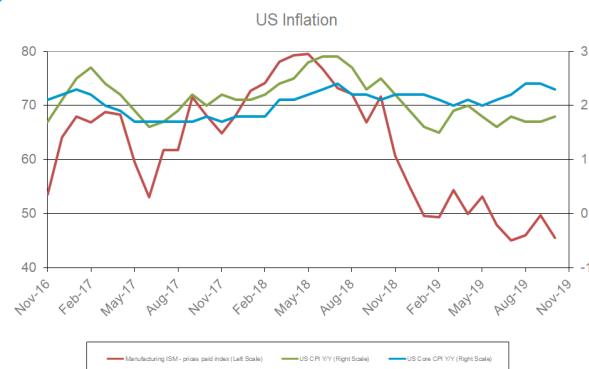
US



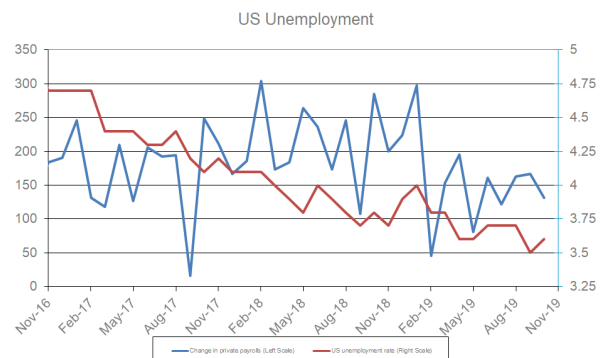
The US economy grew by 1.9% QoQa in the third quarter of this year, in essence completely on the back of still-solid American consumer spending (contributing 1.93%).



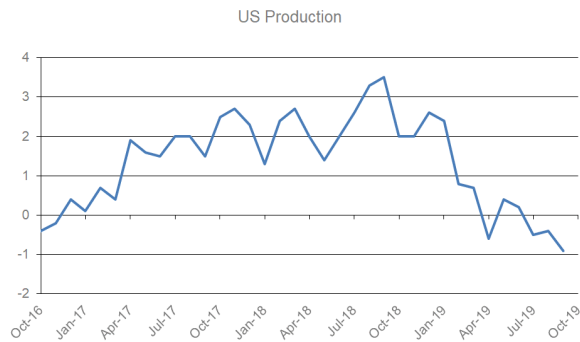
The manufacturing ISM, although still below the 50 boom/bust mark, did not deteriorate further in October. Non-manufacturing rebounded more than expected, suggesting resilience in the services sector going forward.



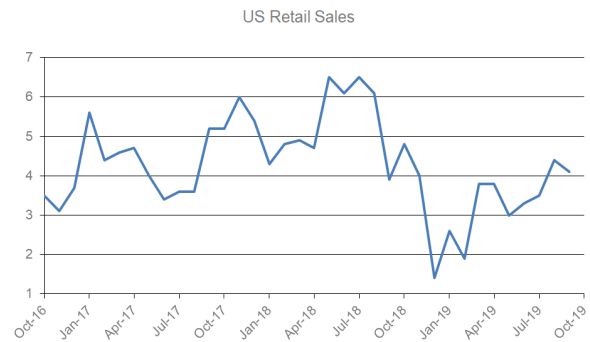
Headline (1.8% YoY) and core (2.3%) converged marginally to the 2% symmetrical target in October. Both figures are no reason for the Fed to change its wait-and-see attitude however.



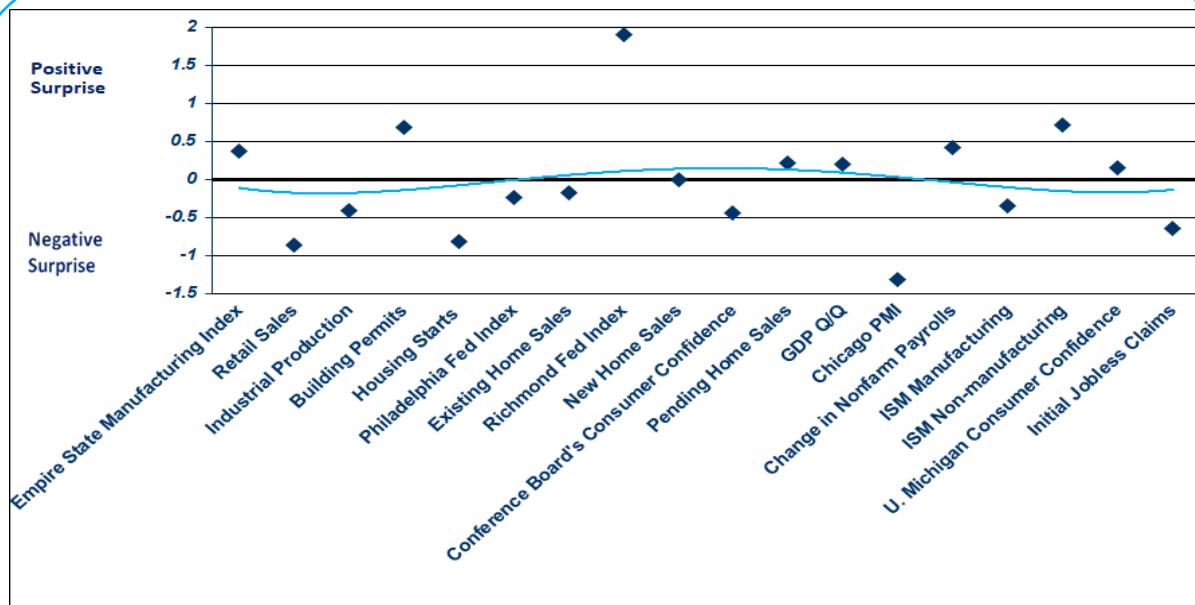
October payrolls were less dramatic than expected. The GM strike did have an impact on October payrolls (128k), yet less than expected. On top, the two previous months enjoyed an upward revision of 95k in total. The unemployment rate rose to 3.6% as the participation rate edged up to 63.3%. Inflationary wage pressures remain absent.



Industrial production declined -0.4% M/M (-0.9% Y/Y) in September after a 0.8% bounce in August. Activity in manufacturing (-0.5%) and mining (-1.3%) drove the decline while utilities (+1.4%) rose. Capacity utilization slipped back to 77.5%.



September US retail sales disappointed (-0.3% headline, 0% control group), stoking fears that Joe Sixpack is starting to cut spending as the growth slowdown and trade conflict drags on.



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

US data came in more balanced compared to expectations, undoing the positive surprise bias in October.

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