



Sunrise Market Commentary

Tuesday, 07 February 2012

Fixed Income: Global core bonds somewhat higher in dull session

In a thinly traded session devoid of key eco releases, attention went to the tribulations surrounding the Greek bail-out package. So some risk-off buying and maybe some short covering following Friday's correction led to modest daily gains. In the EMU bond markets, yield spreads to German Bunds were little changed.

Currencies: Euro slightly lower as Greek debt talks linger

On Monday, sentiment on risk turned more cautious as there was no outcome for the Greek debt talks. Intraday, EUR/GBP and EUR/USD drifted lower, but a late session short squeeze limited the intraday losses. This morning, the Aussie jumped higher, as the RBA didn't cut its policy rate.

News & Calendar: German factory orders boosted by non-EMU demand

Sunrise Headlines

S&P	→
Eurostoxx 50	→
Nikkei	→
Oil	→
CRB	→
Gold	→
2 yr US	→
10 yr US	→
2 yr EMU	→
10 yr EMU	→
EUR/USD	↗
USD/JPY	→
EUR/GBP	↗

- **US Equities** hovered broadly sideways in a thin trading session on Monday. The S&P ended marginally lower as weakness in financials was offset by rising energy shares. This morning, also **Asian shares** swing between gains and losses, while China underperforms.
- **Greek political leaders face crunch talks today** to hammer out a deal on unpopular reforms after yesterday's talks had been postponed.
- Japanese Finance Minister Jun Azumi warned this morning that **Japan will not rule out any steps to battle speculative moves**, repeating his verbal warning of action against excessive strength of the yen.
- According to the FT, **European officials are insisting that any new Greek bailout programme could be split**. The new fund would ensure bondholders are paid off, while additional cash to run the Greek government could still be withheld if the country did not live up to tough new reform demand.
- The **Reserve Bank of Australia surprised markets this morning by keeping interest rates steady at 4.25%**, although it left the door open to an easing if the economy weakened down the track. The Australian dollar strengthened after the decision.
- **Brent crude oil prices (\$116.10)** rose to their highest level in six months on Monday due to a cold spell in Europe and continued supply concerns in the Middle East.
- Today, the **eco calendar** contains the German industrial production data. Fed Chairman Bernanke testifies before the Senate Budget Committee and German Chancellor Merkel speaks on the future of Europe.

Markets: fixed income

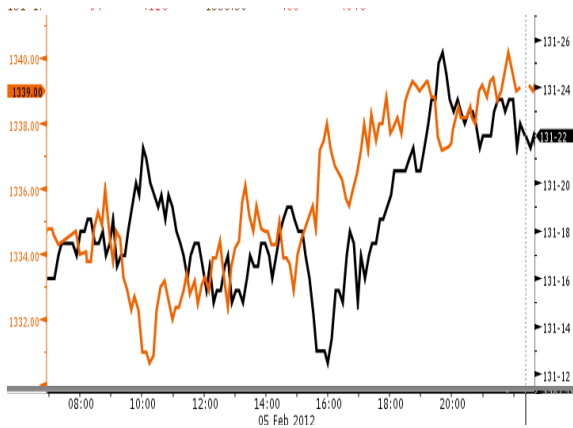
	US yield	-1d
2	0,2342	0,0040
5	0,7661	0,0016
10	1,9188	0,0035
30	3,1046	-0,0041

	DE yield	-1d
2	0,1860	-0,0140
5	0,8320	-0,0160
10	1,8900	-0,0130
30	2,4940	-0,0210

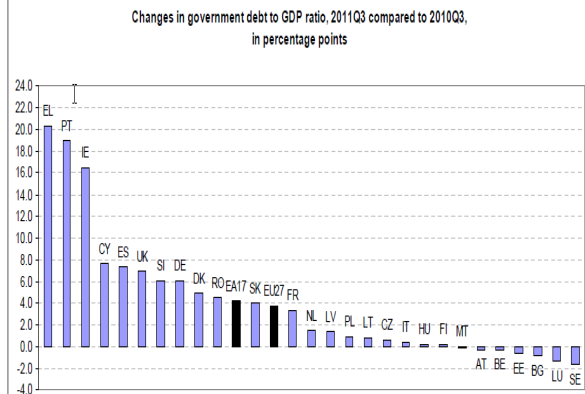
On Monday, in a low volume trading session devoid of major eco releases, a mild risk off sentiment reigned most of the time. This translated in modest gains for global core bonds and some minor losses for equities. The main reason for the risk-off sentiment was the ongoing uncertainty about the negotiations of the Greek second bail-out package. The intra-day volatility was mainly related to rumours and small news items surrounding the Greek issue. German orders were a bit stronger in December (a bond negative), but some investors might have used Friday's correction to buy into bonds. Given that Greece has understandably more importance for Europe than for the US, German bonds outperformed the US once. In the latter, yields were flat to 2 bps lower, flattening the curve. In Germany the curve flattened too, with yields down between 2.5 and 5.6 bps. Little movements in intra-EMU spreads after all (see below), while European and US equities fell only marginally on the day.

On intra-EMU bond markets, 10-year spread changes versus German bonds were limited, ranging from -3 bps (Italy) to +8 bps (Spain). In a low volume session, the Greek uncertainty had little impact and we saw more of a slowing down/profit taking of the recent rally in EMU government bonds. The issue will continue lingering over markets but investors seem to have classified the case, unless Greece would effectively default. Portuguese bonds underperformed resulting in a 27 bps widening. There were rumours that the Portuguese government would have sounded out advisers on options to restructure its debt but those were denied by the government.

Yesterday, it soon became clear that the 11 am deadline would not be reached to conclude a deal on extra austerity in Greece. Not much later, Greek PM Papademos delayed his meeting with the three Greek political party leaders to today as he was expected to meet with the Troika. As a condition for a second bailout, the Troika have demanded cross-party support for an additional 2012 reform program, to ensure there is no backsliding after a new government takes office. According to Greek officials, the leaders are close to agreeing on most of the Troika's specific demands (20% minimum wage cut, public sector lay-offs (15k), trimmed bonus salaries, bank recapitalization programme). Normally, snap elections are scheduled in April but as it doesn't make much sense if all parties are tied to exactly the same draconic austerity regime, PASOK leader Papandreou suggested that the interim government should remain in place until 2013. Other leaders seemed open to the idea but only if the remaining PASOK ministers would also be replaced by technocrats. After political leaders agree on the measures, best case scenario today, the new austerity plan would have to be voted into law in Parliament. After agreeing on the measures, the Eurogroup will meet to finalize the second bailout. Yesterday, German Chancellor Merkel and French President Sarkozy proposed to create a separate account under the second rescue plan for debt payments for Greek bondholders, instead of paying it all directly to Athens. That way, bondholders are more protected against a default and the EU/IMF have more control over Greece. If the country doesn't live up to the rules, the EU/IMF can delay/withhold cash.



March T-Note future (black) and S&P future (orange): Bonds opened somewhat higher, equities somewhat lower. Equity sentiment improved during US cash session, erasing the intra-day losses, while bonds eked out some extra gains despite recovering equities.



New Q3 debt-to-GDP figures Eurostat: Greece, Portugal and Ireland show biggest increase, but Germany and to lesser extent also France register a substantial increase, while Belgium shows a

R2	140.23	-1d
R1	139.89	
BUND	138.78	0.0800
S1	138.13	
S2	137.36	

Today, the [eco calendar](#) remains thin with only the [German industrial production](#) data. [The Netherlands \(DSL July 2022\)](#), [Greece \(T-Bill\)](#), the [US \(3-year T-Note\)](#) and [UK \(gilt 2017\)](#) will tap the market and [Fed Chairman Bernanke](#) testifies before the Senate Budget Committee. Bernanke did testify last week already for the House budget Committee. Of course, since we got strong payrolls (he knew them when talking before the House Committee) and it will be interesting whether he will qualify them, as the Fed showed itself pessimistic on the labour market and growth. Overall though, we expect Bernanke not to change tack because of that report. After the European close, [German Chancellor Merkel](#) speaks on the Future of Europe. Interestingly, given the existentialist crisis Europe is in now, but most likely it won't contain much flesh for the markets to trade on.

[German industrial production](#) is expected to have stabilized in December, after falling by 0.6% M/M in November. We believe that an upward surprise is not excluded, although the headline figure will probably face a drag from weakness in utilities due to the warm weather. We hope however that strength in the manufacturing sector will be able to offset weakness in utilities.

[St-Louis Fed governor Bullard](#) spoke on inflation targeting. He fully supported the FOMC decision to set a 2% explicit numerical inflation target as an important step forward that could stop the nation from misreading the output gap and thereby allowing the Fed to tighten monetary policy when it is needed. He referred to the mistakes of the 1970s when a misreading of the size of the output gap led the Fed to maintain easy policies for too long. The target is flexible, he added, matching a desire to keep inflation low and stable in the long run with the challenge of providing some business cycle stabilization in the shorter term. Targeting inflation makes sense because the Fed can only influence inflation and not any real macroeconomic variable in the long run. His optimistic comments on growth and unemployment were largely the same as those he made to Bloomberg in the weekend. He also repeated he sees a first rate hike in 2013.

The [ECB kept its SMP bond buying programme on the backburner](#). Indeed, in the last week under review it bought only €124 M of bonds, following €63M in the previous one. We aren't surprised, as in the last several weeks, Italian and Spanish bonds rallied, narrowing sharply the spread with German Bunds. It was in those markets that the ECB intervened beforehand. The ECB gives no geographical

Technical March Bund

The LT picture became again neutral some time ago. The contract is in a broad sideways trading range and approached again the highs in the final days of December. Following a downward correction, the highs were re-approached last week, but the US payrolls hit the contract that is now again deeper in the range.

Support:

S1: 138.13: Friday low
 S2: 137.36/18 Bollinger bottom reaction low
 S3: 136.69: Dec 21 low

Resistance

R1: 139.89: last week high
 R2: 140.23 Contract high
 R3: 140.48: Boll top
 R3: 141.14: Fibon proj.target

breakdown of its purchases, but recently there was speculation that the ECB intervened (in modest amounts) in the Portuguese market. It was our opinion that the ECB stopped intervening in the markets of those countries that were taken off the market after receiving a bail-out package (Greece, Portugal & Ireland). The small amount of ECB purchases last week and the week before, when Portuguese yields skyrocket, suggests that the ECB may have re-started buying in the Portuguese bond market.

Today, [the Dutch debt agency issues a new 10-year DSL \(2.25% Jul2022\)](#) for minimum €5B. The initial spread guidance is 46 to 50 bps over the German Bund (2.0% Jan2022), ie 5 to 9 bps over midswap. We don't think the Netherlands will have difficulties to raise this amount. Currently, the Netherlands completed about 8% of this year expected bond issuance (€60B). On Mar 06, the Dutch treasury is expected to launch a new 20-year DSL.

[In the US, the treasury kicks off its mid-month refinancing operation with a \\$32B 3-year Note.](#) Tomorrow follows a \$24B 10-year Note auction and the Treasury wraps up on Thursday with a 16B 30-year Bond auction. The recent "commitment" of the Fed to keep rates low until late 2014 should be supportive for the auction. The average bid/cover for all three 3-year note auctions over the past year has been 3.27. The 3-year note auction last month went extremely well. The auction stopped 0.3 basis points below the 1:00 P.M. bid side, and the 3.73 bid cover was the largest since November 1986. The auction was once again quite dealer dominated, however. Currently, the WI is trading around 0.335%.

[Regarding trading, we should rapidly forget yesterday's session.](#) Global core bonds showed some rebound, but the thinness of trading and the resilience of riskier assets make us think that prices were driven by temporarily co-incidences. One might even say that the inability of core bonds to profit more from increased risks on an eventual Greek default is slightly disappointing, but also this would probably be an over-interpretation. The calendar is razor thin with only the German production data worth mentioning and even these won't stir much reaction. Bernanke testifies to the Senate, but as explained yesterday, he shouldn't rock the boat either. That leaves the Dutch 10-year and US 3-year auction, but these should go smoothly

So, today's trading session may resemble yesterday's. Small news items, probably again on Greece may drive core bonds around, but the moves should be insignificant from a longer term perspective. The usual wild cards are Greece and maybe linked equities, but as we have no clue about what direction they take, we stay sidelined.

[For bonds longer term, we stick playing the range.](#) We see little value in longer term bonds in case they would break above recent (often historically) highs. As we are still high in the range (see graph), a sell-on-upticks (profit taking) may be rewarding. This said, in a longer term perspective, we stay neutral bonds for the moment.



Mar Bund Future: Correction off the highs (key resistance), but no follow through selling yesterday, albeit in lacklustre session .



T-Note future: Also correction and below uptrendline, but contrary to Bund an albeit sluggish up-trend is intact .

Currencies

R2	1,3219	-1d
R1	1,3142	
EUR/USD	1,31238	0,0051
S1	1,3103	
S2	1,3028	

Technicals EUR/USD

Support

S1: 1.3103/82 STMA/ Break-up
 S2: 1.3028/26 Reaction lows
 S3: 1.2989/66 Daily Boll bottom/LTMA

Resistance

R1: 1.3142: reaction high
 R2: 1.3219/34 Reaction highs
 R3: 1.3282: Previous reaction low.

The pair is in neutral territory.

On Monday, uncertainty on the outcome of the Greek debt negotiations provided the perfect excuse for profit taking on the recent risk rally. EUR/USD moved lower in step, but the 1.3026 support held. The global picture hasn't changed as a late session rebound reversed most of the earlier losses.

The EUR/USD cross rate drifted lower in Asia yesterday morning and was changing hands in the 1.3075 area at the open of the European markets. The impact of the strong US payrolls report on (global) currency trading waned. The focus turned to the negotiations between Greece and the Troika on a new rescue package for Greece. Both Greece and its European counterparts were playing the game very hard. EUR/USD filled offers in the 1.3030 area during the morning session, but a break of the key 1.3026 support didn't occur. A second test in the afternoon failed, too. During the day, there were again all kinds of rumours that the Greece was coming closer to the meet that requirements of the Troika. However, a final agreement was not (yet?) reached. At the end of trading in Europe, the euro succeeded a remarkable rebound/short squeeze. We didn't see a specific reason for the move. Are investors still afraid to be wrong-footed by an 'unexpectedly early' agreement between Greece and the Troika? Whatever the reason, EUR/USD closed the session at 1.3130, compared to 1.3158 on Friday. Not such a bad performance given uncertainty on Greece and the 'risk off' sentiment on global markets.

Overnight, the headlines on the Greek negotiations continued to flash on the screens, but the bottom line is that the difficult negotiations will continue today. Aside from the Greek debt talks, the calendar is again thin. The German December production data are interesting but no market mover. In the US, there are only some second tier eco data on the agenda. Greece will sell 6-month T-bills and the Netherlands will auction 10-year bonds. However, we don't expect those sales to be of major importance for EUR/USD trading. Late in the European session, Fed's Bernanke will appear before the Senate Budget committee. He will not change the message he brought before the House committee last week. After the strong payrolls report, he will face even more skepticism on the Fed's ultra-loose policy approach. High profile headwinds for its ultra-loose monetary policy could in theory be considered as slightly dollar supportive, but we don't expect any lasting impact. So, the focus for EUR/USD trading will remain on Greece. The least one can say is that the euro is holding remarkably resilient even as tensions on Greece are running high. This suggests that investors remain confident that in the end an agreement will be reached and/or that the market is already heavily short euro. If so, the downside in EUR/USD remains rather well protected unless the Greek negotiations would fail. The pair holding above the 1.3026 support confirms this view.

Technical Picture. During the last quarter of 2011, EUR/USD was captured in a standing downtrend which lasted till mid January. The pair dropped below several important support levels, including the key 1.2867 area (Jan 2011 low). Mid January, the decline of the euro slowed. The euro downgrade of S&P caused EUR/USD to set a new reaction low at 1.2624, but a test of the 1.2588 didn't occur. The decline in EUR/USD was exhausted and a technical rebound kicked in. The pair regained the 1.2858/79 area (Previous low/reaction high) and broke out of a downward trend channel. This indicated that the short-term pressure was easing. The pair got a boost from Fed decision and regained a series of key resistance levels (1.3077; 1.3146 and finally also the 1.3197 reaction high). Sustained trading above the 1.3146/1.3197 (LT neckline/reaction high) would improve the picture further. Until now we assumed that such a break would be difficult. This assumption is under

heavy pressure. Stop-loss protection on EUR/USD shorts remains warranted. Nevertheless, we don't feel inclined to prepare for a break higher yet. A break below the 1.3026 area would be ST negative for EUR/USD.



R2	77.04	-1d
R1	76.81	
USD/JPY	76.688	0,0480
S1	76.48	
S2	76,03	

On Monday, USD/JPY had to return (a small) part of the post-payrolls gains as yields on core bond markets were again slightly lower, due the market uncertainty on the outcome of the Greek debt talks. However, the downside was well protected in the 76.50 area. So, the recent lows just above 76.00 remained out of reach.

Technicals USD/JPY

Support

- S1: 76.48 Reaction low
- S2: 76.36 : Previous reaction high
- S3:76.03/98: Reaction low/Boll Bottom
- S4:75.33 Reaction low

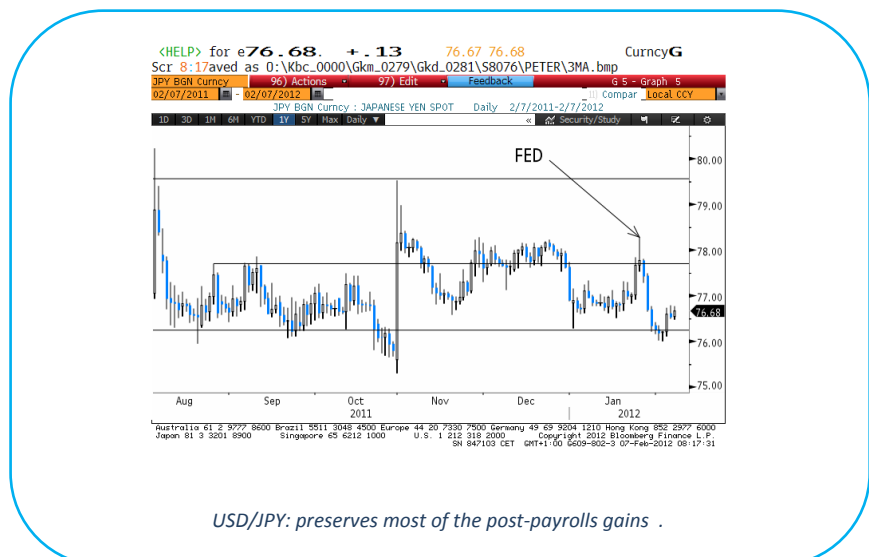
Resistance

- R1: 76.80/81: Reaction high/MTMA
- R2: 77.04 : LMTA
- R3: 78.28: Range top

The pair is neutral territory

This morning, USD/JPY received some support as data were published that the 31 October interventions were followed by covert buying of USD/JPY early November. At the same time, Japanese Fin Min Azumi gave again an in extenso warned that Japan won't allow speculative moves that drive markets away from economic fundamentals. However, a test/break of the post-payrolls high didn't occur yet. That said, we have the impression that the downside in the USD/JPY cross rate is becoming better protected. We keep an eye on the swings in core/US bond yields to look for a clue for USD/JPY trading.

Elsewhere in the region, the Reserve Bank of Australia surprised investor by leaving its policy rate unchanged at 4.25%, while a rate cut to 4.00% was expected. AUD/USD is changing hands north of 1.08 at the moment of writing.



R2	0,835	-1d
R1	0,8308	
EUR/GBP	0,8302	0,0020
S1	0,8265	
S2	0,8222	

Technicals EUR/GBP

Support

S1: 0.8283 Reaction low
 S2: 0.8265/55: Reaction low/Daily Boll bottom.
 S3: 0.8222: Rang bottom

Resistance

R1: 0.8308 : STMA
 R2: 0.8334/43: MTMA/reaction highs hourly
 R3: 0.8350 Breakdown area
 R4: 0.8410/22 Reaction high/range top

On Monday, there was little to tell on EUR/GBP trading. The pair joined the broader correction of the single currency as uncertainty on Greece continued to weigh. However, no important technical level was broken.

On Monday morning, the euro was under pressure across the board due to uncertainty on the Greek debt talks. This downward pressure was also visible in the EUR/GBP cross rate. The Halifax house prices were better than expected, but the focus of EUR/GBP traders was on the EMU side of the story. In technical trading, the pair drifted sideways to slightly lower. EUR/GBP reached an intraday low at 0.8265, but from there joined the short-squeeze of the headline EUR/USD cross rate. EUR/GBP close the session at 0.8298, compared to 0.8318 on Friday. So, also for the EUR/GBP cross rate, the price the euro has to pay for the uncertainty on Greece is rather limited.

Overnight, the UK BRC like-for-like sales came out better than expected at -0.3% Y/Y (-0.8% expected from +2.2% in December), but still a poor performance. There was no reaction on the EUR/GBP charts. Later today, there are no important data on the calendar in the UK. So, the focus for EUR/GBP will remain on the Greek debt negotiations. With respect to EUR/USD, we indicated that the downside in the headline cross rate remains rather resilient. To some extent, this also the case for EUR/GBP. However, the picture in this cross rate remains more fragile as the January rebound was far less impressive and as the key 0.8222 support remains within striking distance. In a day-to-day perspective, this area should hold as long as there is no failure of the Greek debt talks. There is still no obvious market positioning ahead of Thursday's BoE (and ECB) meetings.

Global context. In December, the EUR/GBP cross rate joined the broader market repositioning out of the euro. The ample liquidity providing by the ECB was a negative for the single currency too. Investors are well aware that the ECB will keep monetary policy extremely loose in the foreseeable future and that even further policy easing is likely. The poor eco outlook and the unresolved debt crisis caused the euro to lose its advantage over the UK currency. We are no big supporters of the UK currency being a safe haven in case of market turbulence, but we couldn't ignore the decent performance of the UK currency versus the euro. Over the last two weeks, the pair showed some tentative signs that the decline was slowing. On the downside, the 0.8222 is holding up and several other key support levels are lining up (0.8142/0.8068). We assume that this support area will be difficult to break unless some high profile euro negative event occurs (e.g. in Greece). A sustained rebound above 0.8422 area (end December high) would improve the ST picture in this cross rate. However, for now this looks difficult too. So, range trading between 0.8222 and 0.8422 looks to be the name of the game.



News

EMU: German factory orders boosted by non-EMU demand

In December, [German factory orders](#) rose by 1.7% M/M, beating the market consensus which was looking for an increase by 1.0% M/M. The rebound was however far too slow to offset the 4.9% M/M decline in November. The details show that strength was based in orders from non-euro zone countries (12.3% M/M), while domestic orders dropped by 1.4% M/M and orders from euro zone countries fell by 6.8% M/M. Orders for intermediate goods stabilized in December, while orders for capital (2.8% M/M) and consumer (1.9% M/M) goods picked up during the last month of the year. [In the fourth quarter, German orders rose in two out of the three months and we hope that this will soon translate into stronger German production data as also business confidence indicators suggested that the trend has turned.](#)

Calendar

Tuesday, 7 February		Consensus	Previous
US			
16:00	IBD/TIPP Economic Optimism (FEB)	48.1	47.5
16:00	JOLTs Job Openings (DEC)	--	3161
21:00	Consumer Credit (DEC)	\$7.000B	\$20.374B
Australia			
04:30	RBA CASH TARGET	A 4.25%	4.25%
Japan			
06:00	Coincident Index CI (DEC P)	A 93.2	90.3
06:00	Leading Index CI (DEC P)	A 94.3	93.2
UK			
01:01	BRC Sales Like-For-Like YoY (JAN)	A -0.3%	2.2%
Germany			
12:00	Industrial Production MoM YoY (DEC)	-0.2%/4.4%	-0.6%/3.6%
France			
08:45	Trade Balance (Euros) (DEC)	-5350M	-4412M
Norway			
10:00	Industrial Production MoM YoY (DEC)	--	1.2%/-1.2%
10:00	Ind Prod Manufacturing MoM YoY (DEC)	0.1% / 0.0%	0.2%/0.4%
Events			
11:15	ECB Announces Allotment in 7-Day Main Refinancing Tender		
13:00	ECB Announces Allotment in 7-Day Term Deposits		
11:45	SNB's Jordan speaks in Geneva		
16:00	Fed's Bernanke Testifies on "Economic Outlook & Federal Budget" to Senate Budget Committee		
19:00	German Chancellor Merkel Speaks at Event on the Future of Europe		
Netherlands			
DSL Auction (€5.0B 2.5% Jul2022)			
Greece			
T-Bill Auction (€0.625B 6-month bills)			
UK			
Conventional Gilt Auction (£4.0B 1.75% Jan2017)			
US			
3Yr Notes Auction (\$32B)			

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d	
US	1.92	0.00	US	0.23	0.00	DOW	12845.20	12845.20	
DE	1.89	-0.01	DE	0.18	-0.02	NASDAQ	0.00	0.00	
BE	3.68	0.00	BE	1.51	0.02	NIKKEI	8917.52	8917.52	
UK	2.19	0.01	UK	0.39	-0.01	DAX	6764.83	6764.83	
JP	0.98	0.00	JP	0.19	0.00	DJ euro-50	2507.89	2507.89	
IRS	EUR	USD (3M)	GBP	Eonia	0.37	-0.01			
3y	1,201	0,613	1,320	Euribor-1	0,67	-0,01	Libor-1	0,763	0,76
5y	1,570	1,041	1,608	Euribor-3	1,09	-0,01	Libor-3	1,077	1,08
10y	2,306	2,008	2,430	Euribor-6	1,39	-0,01	Libor-6	1,392	1,39
Currencies		-1d	Currencies		-1d	Commodities	CRB	GOLD	BRENT
EUR/USD	1,31249	0,0052	EUR/JPY	100,59	0,42		314,2	1727,7	115,99
USD/JPY	76,67	0,03	EUR/GBP	0,83	0,0018	-1d	314,20	1727,70	-198,23
GBP/USD	1,5806	0,0026	EUR/CHF	1,206	0,0004				
AUD/USD	1,0810	0,0098	EUR/SEK	8,8189	0,03				
USD/CAD	0,9962	0,0005	EUR/NOK	7,6294	0,01				

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