Friday, 27 March 2020

Rates: ECB in control of sovereign spreads

The ECB scrapped the maximum amount of bonds it can buy from each EMU sovereign (issuer limit) to fully employ its €750bn QE bazooka. Peripheral bonds rallied significantly. In combination with the prospect of unlimited OMT-purchases, it indicates that the central bank is de facto in control of sovereign credit spreads.

Currencies: USD 'long-squeeze' accelerates

A further easing in stress on global markets triggered a further unwinding of USD safe haven positions. A sharp rise in US jobless claims wasn't the main factor for the USD decline but also didn't help the US currency. The swift break of EUR/USD above 1.09 improved the technical picture. Have we entered a USD sell-on-upticks pattern?

Calendar

Headlines

S&P	↑
Eurostoxx 50	↑
Nikkei	↑
Oil	↓
CRB	↓
Gold	↑
2 yr US	↘
10 yr US	↘
2yr DE	↘
10 yr DE	↓
EUR/USD	↑
USD/JPY	↓
EUR/GBP	↓

- **US stocks** notched their best 3-day rally since the 1930s on more stimulus hopes shrugging off horrible employment data. The Dow Jones outperformed (+6.4%). **Asian markets** trade rather mixed with Indonesia (+7.9%) taking the lead.
- **EU leaders battled to come up with a collective economic response** to the coronacrisis and **agreed on more time (2w.)** to work out a plan. **G20 leaders pledged to inject over $5tn into the global economy** to limit job/income losses.
- **The RBI slashed its policy rate by 75 bps to 4.40%** and announced **several measures to boost liquidity** one day after the government outlined a fresh **$23bn round of fiscal stimulus** to help the poor hit by the corona outbreak.
- **The S&P downgraded Mexico's credit rating to BBB** due to the economic hit from the coronacrisis & plunging oil prices. **Fitch affirmed the US' credit rating** at AAA but **warned for a near-term negative rating action** amid debt piling up.
- **UK's Rishi Sunak announced he agreed with the BoE to widen the scope of the commercial paper facility** to not only grant loans to investment-grade companies but construct separate ratings allowing more businesses to benefit.
- **Companies are knocking on the doors of fiscal authorities/CBs** as they grapple with the blow from the coronacrisis. VW called on the ECB to speed up its plan to buy commercial paper while TUI is close to securing near €2bn in state aid.
- Today's **economic calendar** contains secondary, outdated data (e.g. US inflation data for February) that will be waved off by investors. Consumer confidence indicators are due across Europe & Fitch reviews the UK's sovereign debt rating.

Rates

	US yield	-1d
2	0.29	-0.04
5	0.48	0.00
10	0.84	-0.02
30	1.37	-0.01

	DE yield	-1d
2	-0.64	-0.05
5	-0.56	-0.09
10	-0.36	-0.10
30	0.12	-0.04

ECB in control of sovereign credit spreads

Core bonds rose in lockstep with equities yesterday. A vibrating US session followed a hesitant European start. Main European benchmarks ended up to 2.5% higher while US stock markets eked out 6% gains. German Bunds eventually significantly outperformed US Treasuries. The latter suffered a late setback, supposedly because of liquidity issues with a large block trade at the very end of the curve. German yields declined by 4.2 bps (30-yr) to 10 bps (10-yr) with the belly of the curve outperforming the wings. Changes on the US yield curve ranged between -3.6 bps (2-yr) and +0.1 bp (5-yr). 10-yr yield spread changes vs Germany narrowed by 5 bps for core countries, 10 bps for Belgium/France, around 20 bps for Spain, Italy and Portugal and 60 bps for Greece. **The huge rally followed the publication of legal documents that the ECB will be scrapping its issuer limit, i.e. the amount of bonds it can buy from each sovereign.** Up until now, that limit stood at 1/3rd of outstanding debt eligible for purchases. To fully employ the new bazooka (€750bn additional QE), the ECB had no option but to scrap those limits. Together with the possibility of using its OMT-programme (unlimited bond purchases of a sovereign) if EU leaders agree on using the ESM to provide credit lines to applying member states, **it means that the ECB will be de facto in control of credit spreads on EMU sovereign states.**

Asian stock markets gain around 1% this morning with Japan (+4%) outperforming. **The fact that the US overtakes China for most confirmed coronavirus cases, grabs all headlines. EU leaders concluded a teleconference indecisive.** In a joint statement, they grant the Eurogroup (ministers of Finance) two weeks' time to come up with proposals to tackle the socio-economic consequences of the virus outbreak. There's no specific reference to using the ESM or jointly issuing coronabonds. **One step forward, two steps back, it seems. Core bonds are positively oriented.** Today's eco calendar contains only second tier eco data. **End-of-quarter buying typically supports core bonds.** We continue to closely monitor the resilience of stock markets. With (US) fiscal and monetary policy fully employed, it's over to the economy. As the virus spread continues accelerating, lockdown measures risk being prolonged, with all due consequence. **From a technical point of view,** the German 10-yr yield tested the upper band of the trading band since last Summer. A break didn't occur with a **new ST equilibrium between -0.43% and -0.15%.** The **US 10-yr yield** trades volatile, but **still below the previous all-time low (2016),** which is first resistance. **For US yields, the Fed's unlimited QE announcement is the de facto start of curve control.** That implies that the mid-March Treasury sell-off in times of stress is less likely to see a repeat.

German 10-yr yield: new ST equilibrium between -0.15% and -0.43%

US 10-yr yield: unlimited QE by the Fed de facto start of curve

Currencies

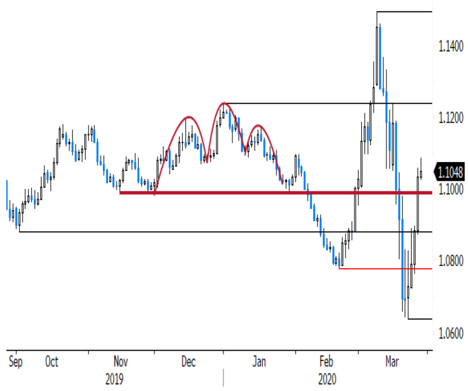
R2	1.125	-1d
R1	1.1109	
EUR/USD	1.1032	0.0150
S1	1.1000	
S2	1.0879	

R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.9041	-0.0122
S1	0.8786	
S2	0.86	

Dollar long squeeze accelerates

Yesterday, the broad unwinding of USD long positions continued and accelerated due to multiple drivers. The ample provision of USD liquidity by the Fed both in- and outside the US (swaps) continues doing its job. Global tensions eased (cf. stocks), reducing USD safe haven demand. The trend of declining USD interest rate support continued. The exceptional spike in US jobless claims brought hard evidence of the severe impact of the crisis on the US economy. Claims weren't the main driver behind the USD correction, but didn't help either. The trade-weighted USD (DXY) fell below the 100 mark. EUR/USD regained the 1.10 barrier (close 1.1032). USD/JPY closed around 109.30 despite a risk-on context.

This morning, the repositioning out of the dollar continues even as US equity futures suggest that the risk rally might slow. USD/JPY (mid 108 area) declines further. The USD decline is said to be reinforced by yen repatriation flows toward the end of the Japanese fiscal year. Contrary to last week, the Chinese yuan is an 'underperformer' with USD/CNY stabilizing in the 7.0750 area. Most other regional FX are also rebounding. EUR/USD (1.1040) maintains yesterday's gain.
Today, (consumer) confidence data in France and Italy will probably nosedive in an unprecedented way, but are probably no factor for the euro. Yesterday, **EU leaders** didn't agree on the (financial) structure of their crisis response. The likes of Germany and The Netherlands still don't agree on financing on an EU level via coronabonds. This a key political topic for the EU, but as mentioned yesterday, we don't think that the ESM/OMT option, if it were to be the outcome, should be that negative for the euro. Yesterday and on Wednesday, there were already **technical signs of an EUR/USD bottoming.** The swift break above 1.09 improves the technical picture. EUR/USD might have entered a buy-on-dips pattern even as end-of quarter repositioning still might cause some nervous swings. 1.1237/50 is a next topside reference.
Yesterday, EUR/GBP initially hovered in the 0.92 area, but the risk-on sentiment and decline of the dollar also caused an aggressive unwinding of sterling shorts. EUR/GBP is now nearing the 0.90 support, which worked as short-term technical reference/bottom during peak period of financial stress. Sterling trading will continued to be dominated by global trends, but maybe the EUR/GBP decline might slow from here.



EUR/USD: USD sell-off accelerates. EUR/USD technical picture improves

EUR/GBP nearing first key support in the 0.90 area.

Calendar

Friday, 27 March		Consensus	Previous
US			
13:30	Personal Income/Spending (Feb)	0.40%/0.20%	0.60%/0.20%
13:30	PCE Deflator MoM/YoY (Feb)	0.10%/1.70%	0.10%/1.70%
13:30	PCE Core Deflator MoM/YoY (Feb)	0.20%/1.70%	0.10%/1.60%
15:00	U. of Mich. Sentiment (Mar F)	90.0	95.9
Japan			
00:30	Tokyo CPI YoY (Mar)	0.40%A	0.40%
00:30	Tokyo CPI Ex-Fresh Food YoY (Mar)	0.40%A	0.50%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Mar)	0.70%A	0.70%
France			
08:45	Consumer Confidence (Mar)	91	104
Italy			
10:00	Consumer Confidence Index (Mar)	100.5	111.4
10:00	Manufacturing Confidence (Mar)	88.0	100.6
10:00	Economic Sentiment (Mar)	--	99.8
China			
02:30	Industrial Profits YTD YoY (Feb)	-38.3%A	--

10-year	Close	-1d		**2-year**	Close	-1d	**Stocks**	Close	-1d
US	0.84	-0.02		**US**	0.29	-0.04	**DOW**	22552.17	1351.62
DE	-0.36	-0.10		**DE**	-0.64	-0.05	**NASDAQ**	7797.537	413.24
BE	0.07	-0.20		**BE**	-0.53	-0.10	**NIKKEI**	19389.43	724.83
UK	0.40	-0.05		**UK**	0.13	0.02	**DAX**	10000.96	126.70
JP	0.03	0.03		**JP**	-0.14	0.09	**DJ euro-50**	2847.78	47.64

IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	-0.27	0.50	0.48	**Eonia**	-0.4420	0.0000			
5y	-0.18	0.60	0.52	**Euribor-1**	-0.4430	0.0150	**Libor-1**	0.9591	0.0000
10y	0.06	0.76	0.60	**Euribor-3**	-0.3490	0.0200	**Libor-3**	1.2670	0.0000
				Euribor-6	-0.2740	0.0240	**Libor-6**	1.0676	0.0000

Currencies	Close	-1d	**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1.1032	0.0150	**EUR/JPY**	120.91	-0.11	**CRB**	126.35	-3.25
USD/JPY	109.58	-1.63	**EUR/GBP**	0.9041	-0.0122	**Gold**	1660.30	26.00
GBP/USD	1.2203	0.0325	**EUR/CHF**	1.0627	-0.0005	**Brent**	26.34	-1.05
AUD/USD	0.6063	0.0104	**EUR/SEK**	11.0059	-0.0004			
USD/CAD	1.402	-0.0171	**EUR/NOK**	11.4859	-0.1885			

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