



Sunrise

Friday, 29 May 2020

Rates: Fragile market conditions ahead of Trump's verdict on China

General market conditions are fragile this morning. Core bonds profit. US President Trump's press conference risks escalating the dormant trade/economic war with China when the (global) economy already is in dire straits. Fed Chair Powell might be questioned on the probability of yield curve control, which the Fed is considering according to NY Fed Williams.

Currencies: Dollar in the defensive even as risk sentiment turns more fragile

The EUR/USD rebound accelerated as the pair cleared the 1.1018 resistance. The move was partially due to a better sentiment on the euro after the EC economic recovery plan, but there are also signs of underlying USD softness. USD/JPY is under pressure this morning and the trade-weighted dollar is testing key support. A break would be significant.

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** erased gains in the final hour after president Trump announced a press conference on China. The DJI (-0.58%) underperformed. **Asian equity markets** decline though are off intraday lows. Japan (-0.7%) underperforms.
- **President Trump will reveal new China policies today** after the country approved the controversial security law in Hong Kong yesterday. Economic advisor Kudlow already said yesterday China will be held accountable for it.
- Meanwhile, pressure on China over the law builds as **Canada and Australia joined the US in a statement urging Beijing to reconsider**. The UK opened the door to citizenship for some 300 000 Hong Kong residents.
- **Japanese retail sales** slumped a more-than-expected -9.6% m/m in April after the government introduced a state of emergency in mid-April. **Industrial production** fell -9.1% m/m, the largest decline since the 2011 tsunami.
- **US corporate bond sales** (investment-grade debt) **hit the \$1 000 bn mark** yesterday, smashing the previous record of 2017 (August) amid extremely low rates and other unprecedented supportive policies by the Federal Reserve.
- **Germany is preparing a second phase of stimulus** with a size ranging from €50-100 bn. Proposed measures which will be discussed June 2 include an increase in family subsidies and a controversial sales bonus for the car industry.
- **Today's economic calendar** contains PCE inflation and Chicago PMI in the US. CPI inflation (May) is released along with some individual countries' final GDP readings in the EMU. Fed chair Powell speeches. Italy taps the bond market.

Rates

Waiting for Trump's verdict on China

	US yield	-1d
2	0.17	-0.01
5	0.31	-0.01
10	0.69	0.01
30	1.42	0.01

	DE yield	-1d
2	-0.63	0.00
5	-0.66	-0.01
10	-0.42	-0.01
30	0.03	0.00

Core bonds had a rather dull trading day, mostly ignoring action on FX (USD weakness) and stock markets. **The US Note future nevertheless gained some traction in the final stages of dealings as US equities failed to hold gains.** US President Trump's social media fight (narrower liability protections for social media platforms) and his announced press conference for action against China tipped the balance in the disadvantage of stocks and favour of core bonds. The US yield curve steepened slightly in a daily perspective with yield changes ranging between -1 bp (2-yr) and +1.2 bps (30-yr). Changes on the German curve varied between -0.7 bps and +0.4 bps with the belly outperforming the wings. Peripheral yield spreads vs Germany narrowed by 4 bps to 9 bps.

Asian stock markets trade near unchanged this morning, but the picture is fragile. **Dollar weakness is a recurring theme. Core bonds tend to profit.** Today's eco calendar contains US trade balance and PCE deflators for April and Chicago PMI for May. **We expect risk sentiment to be guarded though in the run-up to Trump's press conference on Chinese sanctions.** The severity of which might determine on the length of a possible risk correction. The return of a trade/economic war between the US and China in the current dire state of the (global) economy risks having an extended impact. **That should underpin core bonds.** US Fed Chair Powell takes part in a virtual discussion. After categorically ruling out the possibility of negative US policy rates, we are eager to hear for comments on official **yield curve control**; an option the Fed is considering according to NY Fed Williams. We argued before that buying an unlimited amount of bonds for an undetermined period of time implicitly already is a sort of curve control. The US 10-yr yield's flatlining between 0.6% and 0.8% for nearly two months serves as evidence. **EMU May headline inflation** is expected to slow to 0.1% Y/Y with the core reading at 0.8% Y/Y. **A deteriorating growth and inflation outlook will probably prompt the ECB to add stimulus at next week's policy meeting (raising PEPP envelope; extending forward guidance?).**

From a technical point of view, the German 10-yr yield is trying to find a fresh equilibrium (-0.6% to -0.4%). **For US yields, the Fed's unlimited QE is the de facto start of curve control which reduces volatility. A trading range between 0.6% and 0.8% opened up.**



Currencies

EUR/USD rebound accelerates north of 1.11

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.1077	0.0071
S1	1.0770	
S2	1.0636	

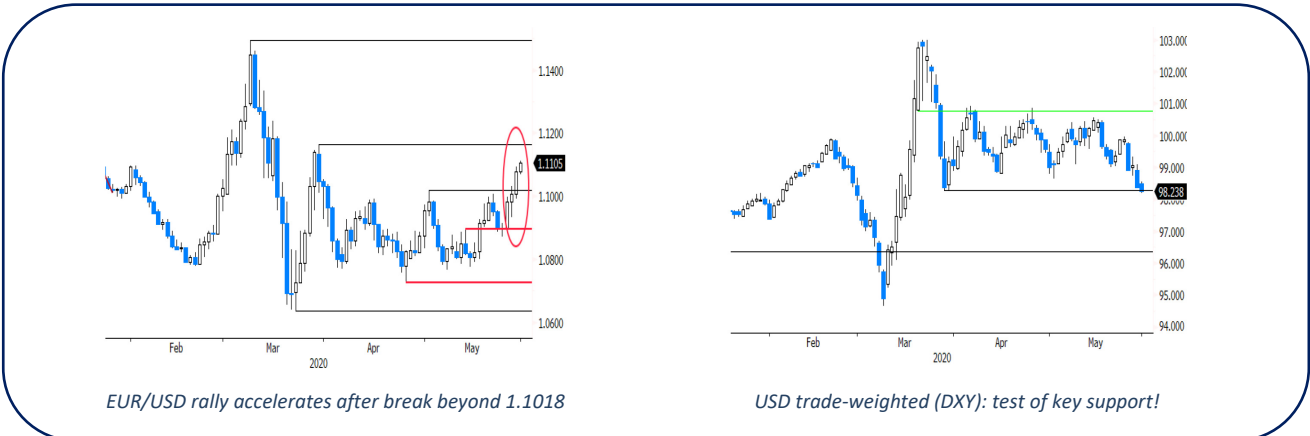
R2	0.9212	-1d
R1	0.9033	
EUR/GBP	0.8990	0.0013
S1	0.8621	
S2	0.8569	

After a hesitant start, EUR/USD yesterday resumed the uptrend from earlier this week. The move was both due to USD softness but at the same time also euro strength. A positive risk sentiment weighed on the dollar, but the EC recovery package also supported European assets and the euro. Technical pictures on several EU equity indices improved and intra-EMU spreads narrowed further. Eco data again had limited impact. EUR/USD 'easily' cleared 1.1030/35 intraday resistance and closed at 1.1077. A late session US equity correction hardly helped the dollar. The TW dollar (DXY) closed at 98.38 (below the 98.65 support). USD/JPY closed marginally lower at 107.65.

This morning, Asian equities are trading mixed. Markets await a press conference of US president Trump with the US reaction to the new China security law on Hong Kong. Still equity losses, if any, are modest. The yuan (USD/CNY 7.1650) even regains a few ticks off recent lows. The dollar remains in the defensive. USD/JPY fell off a cliff, trading in the 107.15 area. EUR/USD also stays well bid and is testing the 1.11 level.

Today, the eco calendar in Europe and the US is well filled but markets probably will consider April data as outdated. We keep an eye at the EMU CPI (ahead of next week's ECB meeting) and the Chicago PMI. However, president Trump's press conference on China probably is the dominant factor for global risk sentiment. In this respect, we look out whether the USD reaction function is changing. There are tentative signs of building USD weakness. Of course, it is easier for this trend to gain momentum in a risk-on context, but we have the impression that the dollar is also profiting less from a (mild) risk-off. **The short-term picture of EUR/USD improved after the break above 1.1018.** A test of the end March top (1.1163) might be on the cards. Also watch for a test of downside support in the TW dollar (DXY 98.27) and in USD/JPY.

Sterling gained against a softer dollar but EUR/GBP traded stable in the upper half of the 0.90 big figure. There are few UK eco data today. EUR/GBP feels some spill-over upside pressure from the rise in EUR/USD and is testing the 0.90 barrier. We expect EUR/GBP to remain well bid. The prospect of a difficult next round of EU-UK Brexit negotiations probably won't help sterling.



Calendar

Friday, 29 May		Consensus	Previous
US			
14:30	Advance Goods Trade Balance (Apr)	-\$65.0b	-\$64.4bR
14:30	Wholesale Inventories MoM (Apr P)	-0.70%	-0.80%
14:30	Personal Income/Spending (Apr)	-6.00%/-12.80%	-2.00%/-7.50%
14:30	PCE Deflator MoM/YoY (Apr)	-0.60%/0.50%	-0.30%/1.30%
14:30	PCE Core Deflator MoM/YoY (Apr)	-0.30%/1.10%	-0.10%/1.70%
15:45	MNI Chicago PMI (May)	40	35.4
16:00	U. of Mich. Sentiment (May F)	74.0	73.7
Canada			
14:30	Quarterly GDP Annualized (1Q)	-10.0%	0.30%
Japan			
01:30	Tokyo CPI YoY (May)	0.40%A	0.20%
01:30	Tokyo CPI Ex-Fresh Food YoY (May)	0.20%A	-0.10%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (May)	0.50%A	0.20%
01:30	Jobless Rate (Apr)	2.60%A	2.50%
01:50	Retail Sales MoM/YoY (Apr)	-9.6%A/-13.7%A	-4.6%R/-4.7%R
01:50	Industrial Production MoM/YoY (Apr P)	-9.1%A/-14.4%A	-3.70%/-5.20%
UK			
01:01	Lloyds Business Barometer (May)	-33A	-32
EMU			
10:00	M3 Money Supply YoY (Apr)	8.20%	7.50%
11:00	CPI MoM/YoY (May P)	-0.10/0.40%	0.30%/0.40%
11:00	CPI Core YoY (May P)	0.80%	0.90%
France			
08:45	CPI EU Harmonized MoM/YoY (May P)	0.00%/0.30%	0.00%/0.40%
08:45	Consumer Spending MoM (Apr)	-14.7%/-32.2%	-17.9%/-18.1%
08:45	GDP QoQ/YoY (1Q F)	-5.80%/-5.40%	-5.80%/-5.40%
Italy			
10:00	GDP WDA QoQ/YoY (1Q F)	-4.70%/-4.80%	-4.70%/-4.80%
11:00	CPI EU Harmonized MoM/YoY (May P)	--/--	0.50%/0.10%
Belgium			
11:00	GDP SA QoQ/YoY (1Q F)	--/--	-3.90%/-2.80%
Sweden			
09:30	GDP QoQ/WDA YoY (1Q)	-0.30%/0.50%	0.20%/0.80%
Events			
10:30	ECB's Visco Speaks in Rome		
11:00	Italy to Sell Bonds		
17:00	Fed Chair Powell Takes Part in a Moderated Virtual Discussion		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.69	0.01	US	0.17	-0.01	DOW	25400.64	-147.63	
DE	-0.42	-0.01	DE	-0.63	0.00	NASDAQ	9368.989	-43.37	
BE	0.00	-0.06	BE	-0.49	-0.01	NIKKEI	21877.89	-38.42	
UK	0.21	0.02	UK	-0.02	0.00	DAX	11781.13	123.44	
JP	0.01	0.00	JP	-0.16	-0.02	DJ euro-50	3094.47	43.39	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.30	0.28	0.27	Eonia	-0.4560	0.0000	Libor-1	0.1736	0.0000
5y	-0.27	0.39	0.31	Euribor-1	-0.4610	0.0140	Libor-3	0.3625	0.0000
10y	-0.11	0.69	0.42	Euribor-3	-0.2900	-0.0100	Libor-6	0.5484	0.0000
				Euribor-6	-0.1420	0.0070			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1077	0.0071	EUR/JPY	119.24	0.70	CRB	129.76	0.59	
USD/JPY	107.65	-0.07	EUR/GBP	0.8990	0.0013	Gold	1728.30	1.50	
GBP/USD	1.2321	0.0060	EUR/CHF	1.0680	0.0023	Brent	35.29	0.55	
AUD/USD	0.6637	0.0015	EUR/SEK	10.5441	-0.0422				
USD/CAD	1.3763	0.0011	EUR/NOK	10.8317	-0.0271				

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Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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