



Friday, 03 April 2020

Rates: US payrolls won't capture full blow of corona lockdown

Trading ranges on core bonds markets are gradually returning to normal after an extremely volatile month of March. Risk sentiment remains extremely fragile and could benefit bonds in a return of their traditional negative correlation. Today's US payrolls and non-manufacturing ISM won't capture the full blow of the coronavirus.

Currencies: EUR/USD decline accelerates on... jump in US jobless claims

Yesterday, ongoing negative (eco) news continued to support the dollar. The US currency even rallied after a sharp rise in US jobless claims. Among the big three (USD, euro, yen), the single currency remains an underperformer. EUR/JPY is nearing an important support area, illustrating the yen's status as 'second best' safe haven next to the USD.

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** climbed on hopes for a truce in the oil price war, shrugging off horrible unemployment numbers. The S&P 500 (+2.28%) outperformed. **Asian markets** fall with Australia a standout decliner (-2.33%).
- Oil prices soared nearly 50% (Brent \$36.29p/b, WTI 27.39p/b) after **US president Trump stoked fresh hopes for a truce in the Russian-Saudi-Arabian oil price spat**, announcing possible coordinated output cuts of up to 15mln bpd.
- **The China Caixin services PMI rebounded in March to 43 from 26.5** but still marks the second-lowest level since the survey began. Businesses cut jobs at the fastest pace on record as (export) orders dropped and scrambled to cut costs.
- **The BoE is doubling the size of its corporate bond purchase programme** to at least £20bn to combat the coronacrisis. The **UK government** is reportedly setting up a **new emergency support package for midsized companies**.
- **Moody's reviewed its outlook for US non-bank mortgage lenders from stable to negative** warning of a big wave of delinquencies and intense liquidity pressures as a rising number of unemployed borrowers are expected to default.
- **Japanese PM Abe announced the government is rolling out an emergency stimulus package next week** to fight the coronacrisis. The bill targets small business and households and will a.o. include targeted cash handouts.
- In today's **economic calendar all eyes are on** US labour market data (payrolls, weekly earnings and hours) and the non-manufacturing ISM. However, the payrolls will only catch the front-edge of the US economic shutdown.

Rates

	US yield	-1d
2	0.23	0.02
5	0.36	0.03
10	0.60	0.01
30	1.24	0.02

	DE yield	-1d
2	-0.65	-0.01
5	-0.60	0.01
10	-0.43	0.03
30	-0.03	-0.01

March US payrolls won't capture full coronablow

French, Spanish and US (un)employment data showed the devastating impact of the coronacrisis. US weekly jobless claims for example surged in two weeks' time from below 300k to over 7 million, more than a tenfold of the previous record high. Risk sentiment hit a snag, but core bonds didn't really profit. A surge in oil prices after comments by US President Trump on cooperation between Saudi Arabia and Russia send **Brent crude from \$26/barrel to \$36/barrel, before returning to the \$30/barrel area.** (Energy) shares helped erase intraday stock market weakness **while core bonds felt some selling pressure.** German Bunds slightly underperformed US Treasuries even as the US Treasury announced that from next week they'll start increasing the debt issuance size to pay for the huge stimulus bill. That's sooner than many expected. The 3-, 10- and 30-yr auction sizes will be lifted by \$2bn, \$1bn and \$1bn respectively. **Overall, trading ranges for the German Bund and US Note future are gradually returning to normal after an extremely volatile month of March.** US yields added 1.8 bps (2-yr) to 3 bps (5-yr). German yield changes ranged between -0.8 bps (30-yr) and +2.5 bps (10-yr). 10-yr yield spread changes vs Germany widened marginally with Portugal (-5 bps) and Italy (-7 bps) outperforming.

Asian stock markets lose around 1% this morning. Apple extended the closure of its US stores at least until early May. **In a first more or less easing of lockdown measures, Germany decided that seasonal workers are allowed in the country.** Core bonds trade with an upward bias with Brent crude sliding back below the \$30/b mark. **Today's eco calendar contains US payrolls and non-manufacturing ISM's. Cut-off dates of the data compilation imply that we won't see the full impact from the coronavirus outbreak yet.** That's what we've learned from the discrepancy between March ADP employment and manufacturing ISM on the one hand and weekly jobless claims on the other hand earlier this week. Overall, we expect an underperformance of US eco data compared to Europe in coming weeks/months. **US Treasuries could therefore outperform German Bunds. Risk sentiment remains very fragile and could get another crack.** With (near) unlimited QE programmes from central banks in place, it could imply a return to the traditional negative correlation between stocks and bonds. To conclude, we continue to err on the side of caution as we haven't turned a corner in the coronacrisis yet. Elevated stress on a corporate level could be the next domino.

From a technical point of view, the German 10-yr yield lost intermediate support at -0.43% last Friday, implying a return to the lower half of the trading band. **For US yields, the Fed's unlimited QE announcement is the de facto start of curve control probably reducing volatility.** That implies that the mid-March Treasury sell-off in times of stress is less likely to see a repeat.



German 10-yr yield: return to lower half of sideways trading band.

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

Currencies

Poor US data don't hurt dollar

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.0858	-0.0106
S1	1.0879	
S2	1.0778	

R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.8759	-0.0103
S1	0.8786	
S2	0.86	

Yesterday, the established FX trends continued. The preference for the dollar remains firmly in place even as **US data signal economic activity is also falling of a cliff**. Even more, the EUR/USD decline even accelerated after US weekly jobless claims jumped an unprecedented 6.6 mln. Also the (temporary?) spike in oil prices was seen USD supportive. US yields recently declined more than German ones and basis swaps indicate that the scarcity of the liquidity in the money market has been 'addressed' by recent Fed/CB measures. It has all little to no impact. EUR/USD closed the session at 1.0858 (from 1.0964). The trade-weighted dollar (DXY) regained the 100 barrier. Even USD/JPY rebounded after the US claims data, but yen remains an outperformer compared to the other majors.

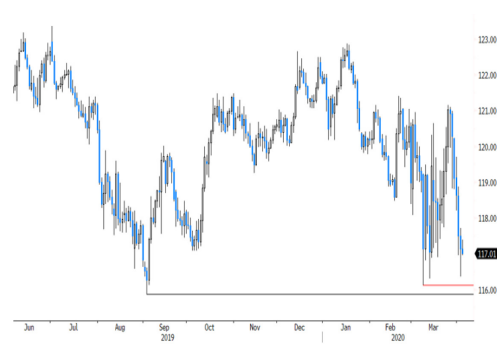
This morning, Asian markets mostly show modest losses. The China Caixin services PMI printing at 43 (up from 26.5) only illustrates the difficult process of restarting economic. The oil price is easing after yesterday's rebound as markets doubt the initiatives of president Trump will result in a deal, adding to overall market uncertainty. The yuan stabilizes (USD/CNY 70850 area). The PBOC indicated that it is in no hurry to cut the deposit rate further and that is making a more complete evaluation. AUD/USD stabilizes north of 0.60 (0.6070 area) as the RBA bond buying continues according to plan.

Today, the final EMU PMIs, the US non-manufacturing ISM and the US March payrolls will be published. US employment is expected to have declined by 100k. It is difficult to expect good news, also from the US data. However, for now, the dollar stays preferred regardless of (US) news flow. The picture in USD/JPY and in the trade-weighted dollar is a bit more 'balanced'. The euro recently was an underperformer against the USD amongst the majors. EUR/USD falling below the 1.09 area deteriorated the technical picture. Next support is seen near 1.0775 and at 1.0634. Also look for the EUR/JPY cross rate with the low 116 being a key support! A break could have impact on other (euro) cross rates.

Yesterday, the euro underperformance also continued to filter through the EUR/GBP cross rate. The pair dropped to the 0.8750 area. Today, the final UK services PMI will be published. The drop below EUR/GBP 0.90 was a euro negative/sterling positive from a technical point of view. Still, we remain cautious to join this sterling rebound, but for now there is no trigger to fight this EUR/GBP decline.



EUR/USD drops below 1.09 area, deteriorating technical picture.



EUR/JPY nearing key support area.

Calendar

Friday, 3 April		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Mar)	-100k	273k
14:30	Change in Private Payrolls (Mar)	-132k	228k
14:30	Change in Manufact. Payrolls (Mar)	-10k	15k
14:30	Unemployment Rate (Mar)	3.80%	3.50%
14:30	Average Hourly Earnings MoM/YoY (Mar)	0.20%/3.00%	0.30%/3.00%
14:30	Average Weekly Hours All Employees (Mar)	34.1	34.4
14:30	Labor Force Participation Rate (Mar)	63.30%	63.40%
14:30	Underemployment Rate (Mar)	--	7.00%
16:00	ISM Non-Manufacturing Index (Mar)	43.0	57.3
EMU			
10:00	Markit Eurozone Services PMI (Mar F)	28.2	28.4
10:00	Markit Eurozone Composite PMI (Mar F)	31.2	31.4
11:00	Retail Sales MoM/YoY (Feb)	0.10%/1.60%	0.60%/1.70%
Italy			
09:45	Markit Italy Services PMI (Mar)	22.5	52.1
09:45	Markit Italy Composite PMI (Mar)	25.0	50.7
China			
03:45	Caixin China PMI Composite (Mar)	46.7A	27.5
03:45	Caixin China PMI Services (Mar)	43.0A	26.5
Spain			
09:15	Markit Spain Composite PMI (Mar)	30.8	51.8
09:15	Markit Spain Services PMI (Mar)	25.8	52.1
Sweden			
08:30	Swedbank/Silf PMI Services (Mar)	--	56.7
08:30	Swedbank/Silf PMI Composite (Mar)	--	55.7

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.60	0.01	US	0.23	0.02	DOW	21413.44	469.93	
DE	-0.43	0.03	DE	-0.65	-0.01	NASDAQ	7487.311	126.73	
BE	0.13	0.04	BE	-0.40	0.01	NIKKEI	17820.19	1.47	
UK	0.33	0.02	UK	0.12	0.00	DAX	9570.82	26.07	
JP	-0.01	0.00	JP	-0.13	-0.03	DJ euro-50	2688.49	8.19	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.29	0.43	0.48	Eonia	-0.4420	0.0000	Libor-1	1.0163	0.0000
5y	-0.23	0.50	0.51	Euribor-1	-0.4540	0.0140	Libor-3	1.4365	0.0000
10y	-0.04	0.66	0.58	Euribor-3	-0.3360	0.0070	Libor-6	1.1953	0.0000
				Euribor-6	-0.2680	0.0080			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0858	-0.0106	EUR/JPY	117.14	-0.35	CRB	124.84	6.34	
USD/JPY	107.91	0.74	EUR/GBP	0.8759	-0.0103	Gold	1637.70	46.30	
GBP/USD	1.2396	0.0025	EUR/CHF	1.0572	-0.0013	Brent	29.94	5.20	
AUD/USD	0.6061	-0.0010	EUR/SEK	10.9668	-0.0113				
USD/CAD	1.4138	-0.0053	EUR/NOK	11.2834	-0.1780				

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