

Monday, 06 April 2020

Rates: US supply and fragile improvement risk sentiment could weigh on core bonds

The US Treasury starts its mid-month refinancing operation today with a \$40bn 3-yr Note auction. This week's auction sizes are increased by a combined \$5bn. Together with a fragile improvement in risk sentiment at the start of the holiday-shortened trading week, we could get some selling pressure on core bonds with US Treasuries underperforming Bunds.

Currencies: EUR/USD decline slows, but picture remains fragile

On Friday, preference for the dollar persisted. The US economy losing 700 000 jobs as measured by the payrolls report didn't hurt the dollar. This morning, risk sentiment apparently improves. However, this probably won't change markets' assessment on the dollar in a profound way. On the euro side of the story, we look out for a EU response to the crisis.

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** slipped as investors became wary of the economic disruption from the coronacrisis. The Dow Jones (-1.69%) outperformed. **Asian markets** climb with Australia a standout performer (+4.32%). Chinese and Indian markets are closed.
- Oil prices (Brent \$33.47p/b; WTI \$27.35 p/b) gave up some of last week's rally after **OPEC+ delayed a planned meeting to discuss output curbs and signs emerged the US won't join any deal**, raising doubts over the price-war truce.
- **US banks are ringing the alarm bell, warning of a chaotic and delayed launch of the small-business rescue program (\$349bn)** that is part of the US' massive \$2tn stimulus package due to failed technology and a lack of clear guidelines.
- **Hungary is reportedly drawing up a massive stimulus bill (18-22% of the country's GDP; roughly \$30 bn)** to bolster the economy as recession risks are looming due to the fallout from the coronavirus outbreak.
- **Fitch affirmed Belgium's credit rating at AA- but lowered the economic outlook from stable to negative.** Fitch cited a substantial deterioration of Belgium's public finances as the government is throwing cash at the coronacrisis.
- **Japan plans to tackle the coronacrisis with a two-stage stimulus plan, Bloomberg reported.** Phase one targets stemming job losses and bankruptcies while the second phase aims to prop up a V-shaped economic recovery.
- **Today's economic calendar** is little inspiring with only second-tier data on the agenda (UK final consumer confidence figures, factory orders and construction PMI in Germany). The US and Turkey tap the bond market.

Rates

	US yield	-1d
2	0.23	0.00
5	0.41	0.00
10	0.59	0.00
30	1.25	-0.03

	DE yield	-1d
2	-0.66	-0.01
5	-0.61	-0.01
10	-0.44	-0.01
30	-0.05	-0.02

US supply and fragile risk improvement weigh on bonds

US payrolls declined by 701k in March and only show the tip of the iceberg after weekly jobless claims exploded to 6.6 million. **US Treasury gains were modest at best, suggesting that quite some bad news is discounted at current levels.** US yields fell by 0.7 bps (10-yr) to 2.3 bps (30-yr) with the belly of the curve underperforming the wings. Changes on the German yield curve remained small with the very long end (30-yr) outperforming (-3 bps). 10-yr yield spread changes vs Germany widened by up to 5 bps with Italy (+9 bps) and Greece (+18 bps) underperforming. Oil prices shot up from \$28/b to \$34/b currently as OPEC+ would discuss production cuts today through a videoconference.

Asian stock market gain around 3% this morning with China and India closed.

US equity futures record gains as well after US President Trump and Vice-President Pence said that there are early signs that the US outbreak is stabilizing (decline in NY deaths). **While such news flow might (positively) impact short term market momentum in absence of headline stories, we'd be very cautious to read too much into them.** Something to follow-up on with a potentially much bigger impact is an FT story on several EMU governments starting with preparations to ease lockdown restrictions. Core bonds face some selling pressure, **adding to our working hypothesis that we are seeing a return of the traditional negative correlation between stocks and (core) bonds.**

Today's eco calendar is extremely thin. **The US Treasury starts its mid-month refinancing operation with a \$40bn 3-yr Note sale** (\$2bn larger than previous). 10-yr and 30-yr Bond sales follow tomorrow and on Wednesday. **In absence of other drivers, this could trigger some underperformance of US Treasuries vs German Bunds and adds to the possible downward intraday bias.** Traded volumes are traditionally rather light in the run-up to the long Eastern weekend with most European and US markets closed on (Good) Friday. **European markets will follow up on developments on EU-backed fiscal aid to countries in need.** European Ministers of Finance (Eurogroup) meet tomorrow to discuss options. The most likely scenario is the use of the standing ESM facility to grant credit lines with the aim of tackling the current health crisis. Resistance against joint EU-backed debt ("coronabonds") remains too large. **The fortunes for riskier assets seem positive this morning, but risk sentiment remains very fragile. Looking beyond today/the next days,** 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.**



German 10-yr yield: toying with -0.43% technical mark.



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

Currencies

EUR/USD slide slows but USD preference persists

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.0801	-0.0057
S1	1.0778	
S2	1.0636	

R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.8794	0.0036
S1	0.8747	
S2	0.86	

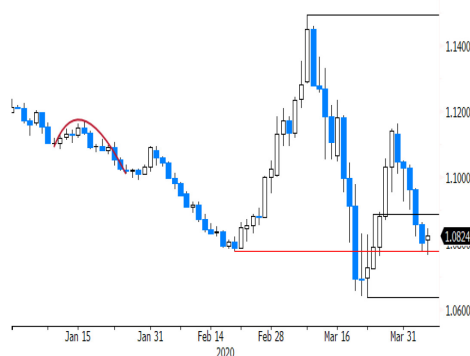
Investor preference of the USD simply persisted on Friday going into the weekend. EMU PMI's confirmed the devastating impact of the lockdown on activity. On the other side of the Atlantic, the US payrolls signalled a similar ravage as the US economy lost 700 000 jobs in March. Still, that didn't change investors' USD preference. The trade-weighted dollar trended further north of 100 (close 100.58). USD/JPY closed at 108.55 (from 107.91). EUR/USD declined further to close at 1.0801. However, there was no underperformance of the euro against the yen anymore (EUR/JPY hovered sideways around the 117 pivot).

This morning, sentiment on Asian markets is rather risk-on (mainland China is closed). **Headlines from Japan are mixed.** Sources are reporting that the government might declare a state of emergency. At the same time, markets are looking forward for a new fiscal stimulus package. The risk rebound and a modest rise in US yields, at least for now, are causing a modest decline of the yen. USD/JPY is testing the 109 area. EUR/USD is regaining a few ticks (1.0825/30 area).

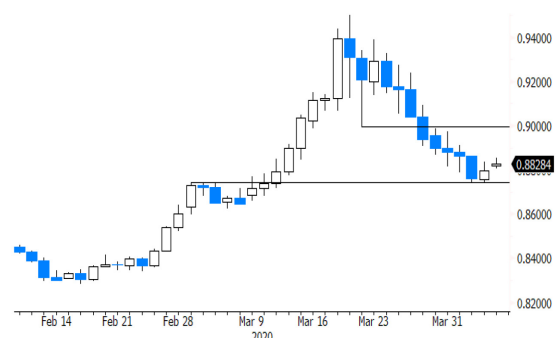
Today, the eco calendar is thin. Sentiment on corona will continue to dominate trading. The rise in US futures suggests some investors are pondering whether there is light at the end of the tunnel. It is too early for conclusions and for investors to give up their USD preference. At best, a more positive mood might pause the bid for the dollar. **From the euro side of the story we keep an eye at intra-EMU spreads going into a meeting of the EU finance ministers** tomorrow as they have to deliver on an EU-wide answer. Will an EU compromise on the funding convince markets or be a (mildly) euro supportive? For now the jury is still out.

Last week, EUR/USD falling below the 1.09 area deteriorated the technical picture. The pair tested the 1.0775 support. The March correction low comes in at 1.0636. We also keep an eye at the trade-weighted dollar. The US currency might remain well bid, but we see no compelling reason for a break beyond the top near 103.

On Friday, the (remarkable) outperformance of sterling against the euro halted. EUR/GBP rebound to close the day at 0.8794. This morning, UK GFK consumer confidence tumbled most on record to -34 from -9. Press headlines this morning also give a lot of attention to UK PM Johnson being brought to hospital. Sterling had a very strong run against the euro of late. We see no reason for further gains. Some consolidation in the 0.8750/0.90 area might be on the cards.



EUR/USD: decline slows, but picture remains fragile



EUR/GBP: has sterling rebound run its course?

Calendar

Monday, 6 April		Consensus	Previous
UK			
01:01	GfK Consumer Confidence (Mar F)	-34A	-9
10:00	New Car Registrations YoY (Mar)	--	-2.90%
10:30	Markit/CIPS UK Construction PMI (Mar)	44.0	52.6
EMU			
10:30	Sentix Investor Confidence (Apr)	-37.5	-17.1
Germany			
08:00	Factory Orders MoM/WDA YoY (Feb)	-2.50%/-0.20%	5.50%/-1.40%
09:30	Markit Germany Construction PMI (Mar)	--	55.8
Switzerland			
10:00	Total Sight Deposits CHF	--	620.5b
Events			
06APR	Chinese markets closed in observance of Tomb Sweeping Day		
19:00	US to Sell 3-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.59	0.00		US	0.23	0.00	DOW	21052.53	-360.91
DE	-0.44	-0.01		DE	-0.66	-0.01	NASDAQ	7373.083	-114.23
BE	0.15	0.02		BE	-0.43	-0.03	NIKKEI	18576.3	756.11
UK	0.31	-0.02		UK	0.09	-0.03	DAX	9525.77	-45.05
JP	0.01	0.01		JP	-0.12	0.01	DJ euro-50	2662.99	-25.50
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.30	0.45	0.46	Eonia	-0.4490	0.0000			
5y	-0.24	0.51	0.49	Euribor-1	-0.4380	0.0160	Libor-1	0.9851	0.0035
10y	-0.04	0.65	0.56	Euribor-3	-0.3410	-0.0050	Libor-3	1.3874	0.0144
				Euribor-6	-0.2770	-0.0090	Libor-6	1.2089	0.0040
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0801	-0.0057		EUR/JPY	117.13	-0.01	CRB	127.96	3.12
USD/JPY	108.55	0.64		EUR/GBP	0.8794	0.0036	Gold	1645.70	8.00
GBP/USD	1.2269	-0.0127		EUR/CHF	1.0562	-0.0010	Brent	34.11	4.17
AUD/USD	0.5997	-0.0064		EUR/SEK	11.0055	0.0387			
USD/CAD	1.4205	0.0067		EUR/NOK	11.4542	0.1708			

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