



Tuesday, 07 April 2020

Rates: More supply-related underperformance of US Treasuries?

A US stock market outperformance and the start of the US Treasury's mid-month refinancing operation triggered underperformance of US Treasuries vs German Bunds. Risk sentiment is less vibrating this morning, but supply remains at play. European investors await the outcome of a Eurogroup teleconference on EMU fiscal aid programmes.

Currencies: dollar rally slows, for now.

Yesterday and this morning, the recent rise of the (trade-weighted) dollar slowed. However, the US currency quite easily retains recent gains despite the outright risk-on yesterday. Global risk sentiment and the outcome of the meeting of the EU finance ministers will set the tone for EUR/USD trading. Will the EU crisis response help to put a floor for the euro?

Calendar

Headlines

- **US equities** soared, buoyed by tentative signs the number of NY coronavirus cases may be plateauing. The Dow Jones (+7.73%) outperformed. **Asian markets** are less bullish (+1%) with India outperforming in a catch-up move (+4.50%).
- **The Japanese government is reportedly raising an additional ¥16.81tn** through debt-covering and construction bonds, expanding its ¥108tn stimulus package with a large chunk targeted at cash handouts for households and smaller firms.
- **The Fed established a new facility** that will provide term financing to banks against loans issued under the Small Business Administration's Paycheck Protection Program (PPP) **to speed the flow of funds to small businesses.**
- **The IMF mulls backing up the Fed's campaign** to keep dollars flowing around the world by launching **a new program that offers short-term dollar loans** to countries that lack sufficient Treasuries to participate in the Fed's program.
- **House speaker Nancy Pelosi said Congress's next stimulus bill to fight the coronacrisis will be at least another \$1tn** aimed at increasing direct payments to individuals, extending unemployment insurance and adding funds to the PPP.
- **The EU contemplates a further relaxation of state aid rules** to tackle the coronacrisis, FT reported. The proposal would allow member states to help affected business through the injection of equity or hybrid capital instruments.
- **Today's economic calendar** eyes meagre with only US JOLTS grabbing the attention. EU finance ministers meet to review measures to combat the coronacrisis. Ireland, Slovenia, the UK and the US tap the bond market.

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	→

Rates

	US yield	-1d
2	0.26	0.03
5	0.47	0.06
10	0.67	0.08
30	1.32	0.07

	DE yield	-1d
2	-0.65	0.02
5	-0.61	0.00
10	-0.43	0.02
30	-0.02	0.03

More underperformance of US Treasuries on US Supply?

Core bonds ended mixed. The German Bund flatlined after a somewhat softer opening while US Treasuries ceded additional ground. Positive risk sentiment at the start of the Eastern-shortened trading week triggered the early losses. US political heavyweights sounded upbeat on early signs of stabilization in New York. We'd remain cautious given the time lag by which the virus spreads through the rest of the US. **The Austrian government is the first E(M)U one to put forward a time schedule for the exit strategy of tight lockdown measures,** running between mid-April and the end of June. **A rather weak \$40bn 3-yr Note auction and a late surge on the US stock market (S&P 500 +7%; taking out 2650 38% retracement) weighted on US Treasuries.** US yields increased by 3.4 bps (2-yr) to 7.5 bps (10-yr) on a daily basis. German yields added between 0.3 bps (5-yr) and 3.3 bps (30-yr). 10-yr yield spreads vs Germany narrowed by 4 bps with Greece and Italy (-8 bps) outperforming.

Asian stock markets are less ebullient this morning. Most gain around 1% apart from China and India which had some catching up to do. News flow is rather thin. Both the Bund and the US Note future extend yesterday's downward trajectory. Today's eco calendar is extremely thin. **The US Treasury continues its mid-month refinancing operation with a \$25bn 10-yr Note sale. In absence of other drivers, this could trigger more underperformance of US Treasuries vs German Bunds.** 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 today 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. An additional advantage is that in some cases it could trigger unlimited ECB sovereign bond buying through the OMT-programme. Resistance against joint EU-backed debt ("coronabonds") remains too large. **The fortunes for riskier assets seem less positive this morning, underwriting the fragility of the risk rebound. Looking beyond today/the next days,** we continue to err on the side of caution. We welcome positive steps like the ones taken in Austria, but we probably haven't turned the 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 is playing with intermediate technical mark around -0.43%. intraday trading ranges are becoming smaller, suggesting the creation of a new short term equilibrium. **For US yields, the Fed's unlimited QE announcement is the de facto start of curve control probably reducing volatility. A trading range between 0.5% and 1% could open up.**



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

Euro awaiting EU Fin Min answer to corona crisis

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.0793	-0.0008
S1	1.0778	
S2	1.0636	

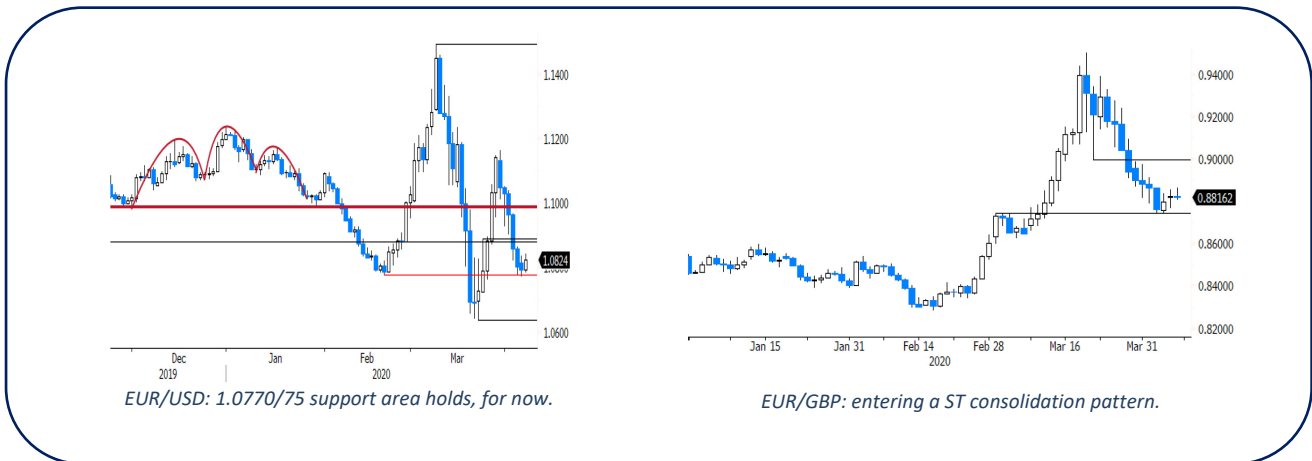
R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.8824	0.0029
S1	0.8747	
S2	0.86	

Yesterday was some kind of a 'classic risk-on session' on global markets. (Some investors reacted to tentative signs that the coronavirus could reach its peak in Europe (maybe in the US) in a not that distant future. The trade-weighted USD stabilized (close 100.68), but the risk-on didn't cause a big USD selling yet. USD/JPY even profited from the risk-on. Interest rate differentials also moved in favour of the US dollar but it probably was only of second tier importance for USD positioning. EUR/USD tested the recent lows (1.0770/75 area) intraday, but closed little changed at 1.0793. Still, the euro performance euro was mediocre compared to other risk-sensitive currencies like the Aussie dollar.

This morning, most Asian equity indices are in positive territory, but gains are modest given the WS rebound yesterday. The Japanese government announced an extra budget of JPY 16.8T. **The yen** is gaining modest ground, probably also as US equity futures show a mixed picture. The **yuan** is trading slightly stronger this morning, even as the PBOC took several measures to ease monetary conditions of late (USD/CNY 7.0770 area). The RBA as expected left its policy unchanged (policy rate at 0.25%). The **Aussie dollar remains well bid** after the meeting as the tone of the statement/comments was balanced (AUD/USD 0.6150 area). EUR/USD also tries to rebound from the 1.08 area.

Today, the eco calendar stays thin. Global sentiment and headlines on the Meeting of the EU Finance Ministers will to set the tone for trading. We assume most of the EU response will come within the established framework (ESM etc.). Some additional measures/steps to be financed on an EU level could support sentiment and the euro. Still, the outcome as usual might be balanced and quite complicated. **Last week**, EUR/USD falling below 1.09 deteriorated the technical picture. The pair tested 1.0775/70 support, but no sustained break occurred. The March low comes in at 1.0636. We also keep an eye on 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. EUR/USD rebounding above the 1.0950 area would be a first indication that downside pressure is easing.

Yesterday, the sterling initially remained rather well bid. EUR/GBP even returned to/below the 0.88 area. However, the UK currency lost some ground on headlines that UK PM Johnson had been moved to intensive care. Some consolidation in the 0.8750/0.90 area might be on the cards.



Calendar

Tuesday, 7 April		Consensus	Previous
US			
16:00	JOLTS Job Openings (Feb)	6500	6963
21:00	Consumer Credit (Feb)	\$14.000b	\$12.021b
Japan			
01:30	Labor/Real Cash Earnings YoY (Feb)	1%A/0.5%A	1.2%R/0.4%R
01:30	Household Spending YoY (Feb)	-0.3%A	-3.90%
01:50	Official Reserve Assets (Mar)	\$1366.2bA	\$1359.0b
UK			
10:30	Output Per Hour YoY (4Q F)	--	0.30%
10:30	Unit Labor Costs YoY (4Q)	--	3.60%
Germany			
08:00	Industrial Production SA MoM/YoY (Feb)	-0.8%/-3.0%	3.00%/-1.30%
Australia			
06:30	RBA Cash Rate Target	0.25%A	0.25%
Events			
07APR	EU finance ministers meet to discuss measures to fight the coronavirus		
19:00	US to Sell USD25 Bln 10-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.67	0.08	US	0.26	0.03	DOW	22679.99	1627.46	
DE	-0.43	0.02	DE	-0.65	0.02	NASDAQ	7913.238	540.16	
BE	0.14	-0.01	BE	-0.40	0.03	NIKKEI	18950.18	373.88	
UK	0.33	0.02	UK	0.11	0.02	DAX	10075.17	549.40	
JP	0.01	-0.02	JP	-0.13	-0.01	DJ euro-50	2795.97	132.98	
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.28	0.48	0.48	Eonia	-0.4540	0.0000	Libor-1	0.9851	0.0000
5y	-0.23	0.55	0.51	Euribor-1	-0.4310	0.0070	Libor-3	1.3874	0.0000
10y	-0.02	0.72	0.59	Euribor-3	-0.3180	0.0230	Libor-6	1.2089	0.0000
Currencies	<u>Close</u>	<u>-1d</u>	Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>	
EUR/USD	1.0793	-0.0008	EUR/JPY	117.88	0.75	CRB	128.06	0.10	
USD/JPY	109.22	0.67	EUR/GBP	0.8824	0.0029	Gold	1693.90	48.20	
GBP/USD	1.2231	-0.0038	EUR/CHF	1.0563	0.0000	Brent	33.05	-1.06	
AUD/USD	0.6088	0.0091	EUR/SEK	10.9297	-0.0758				
USD/CAD	1.4111	-0.0094	EUR/NOK	11.2544	-0.1998				

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