



Thursday, 23 April 2020

Rates: Flurry of bad eco news vs recovery of oil prices

A flurry of bad economic news probably awaits today with EU leaders still at loggerheads over how to structure fiscal aid packages to tackle the current health crisis. For markets, it hangs in the balance with the fragile recovery on the oil market which started yesterday.

Currencies: EUR/USD trading sideways, holding north of the 1.0770 support

The dollar slightly outperformed yesterday even as sentiment on risk improved. Still, most major USD cross rates held within established ranges. Today, economic data probably will confirm the devastating economic impact of corona. The EU summit probably also won't bring big positive news for the euro. Even so, we don't expect a new, sustained EUR/USD downtrend.

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	↔

- **WS** regained lost ground as Congress is expected to pass the \$484bn rescue bill and amid some better-than-expected corporate earnings. The Nasdaq outperformed (2.81%). Most **Asian markets** push higher, SK (1.5%) taking the lead.
- **The ECB announced it will accept some junk-rated debt as collateral** to ensure banks' access to its ultra-cheap liquidity. The move comes amid fears for an expected wave of credit rating downgrades in response to the coronacrisis.
- **Oil prices pushed higher after US president Trump stoked tensions with Iran**, ordering US warships to "shoot down and destroy" Iranian vessels if they posed a threat, sending Brent crude back to \$22 per barrel.
- **Japan's Jibun bank PMI slipped to 27.8 from 36.2 this month. The services sector took a hammering** with the PMI sliding 10 points to a record low of 22.8 while the downturn in the manufacturing sector (43.7 from 44.8) gained speed.
- **South Korea's economy recorded its most severe contraction (-1.4% Q/Q) since the financial crisis** as the coronacrisis hit consumer spending and trade slumped, and the worst is yet to come given the widening scope of the pandemic in Q2.
- **Germany's ruling coalition agreed on a fresh €10bn package of further measures to tackle the coronacrisis** including increasing state wage support, a temporary VAT reduction for restaurants and tax relief for small companies.
- **Today's economic calendar** is jampacked with PMIs due across Europe and in the US. We brace for another jump in US jobless claims. EU leaders will be discussing the bloc's economic recovery path. Hungary taps the bond market.

Rates

	US yield	-1d
2	0.21	0.01
5	0.36	0.03
10	0.62	0.05
30	1.19	0.05

	DE yield	-1d
2	-0.66	0.02
5	-0.61	0.05
10	-0.41	0.07
30	-0.01	0.06

Flurry of bad news against recovery on oil market

Oil prices found a short term bottom yesterday even when storage constraints remain an issue. In absence of other telling stories, it proved sufficient to create a more positive risk environment. European equities gained around 1.5% with the Euro Stoxx 50 bouncing off short term support at 2792. Main US indices closed up to 2.8% higher. Core bonds fell prey to profit taking due to these higher oil and stock markets. German Bunds remarkably underperformed US Treasuries. April EMU consumer confidence dropped to the lowest level since March 2009. The US yield curve bear steepened with yields rising by 1.1 bp (2-yr) to 5.2 bps (30-yr). German yields added 2.3 bps (2-yr) to 7 bps (10-yr) on a daily basis. 10-yr yield spread changes vs Spain/Portugal widened by around 6 bps while Italian debt outperformed (-15 bps). The BTP rally came late in the session after it became clear that the ECB will accept until September 2021 collateral in its market operations which rates below the current minimum requirements. Fallen angels (junk to investment grade) thus remain eligible. The Spanish underperformance was related to a huge €15bn 10-yr syndicated deal (order book nearly €100bn).

News flow remains rather thin this morning. Asian PMIs (e.g. Japan/Australia) crash into uncharted territory. US Treasury Secretary Mnuchin said the US economy will probably only fully open up by late Summer. Asian stock markets add around 1% while oil prices extend yesterday's rebound. Core bonds face some selling pressure.

Today's eco calendar heats up with April PMIs, US weekly jobless claims and an EU Summit by video call. We expect the data to show the devastating blow from grinding a global economy to near standstill. In this respect, we continue to warn against joining the enthusiasm around reversing the lockdown measures. We fear it's an illusion to make current rules more socially acceptable while the real economic turnaround/opening isn't around the corner. Additionally, we fear more collateral damage in the corporate sector. Expectations ahead of the EU Summit are low given the stark norther/southern divide on how to bundle fiscal aid. Rumours earlier this week suggested that a deal isn't in the making yet. This flurry of bad news should be plotted against the current recovery on the oil market. The latter could outweigh.

From a technical point of view, the German 10-yr yield is trying to find a fresh 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: trying to find fresh equilibrium.



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

Currencies

EUR/USD holding tight range, stays north of 1.0770

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.0823	-0.0035
S1	1.0778	
S2	1.0636	

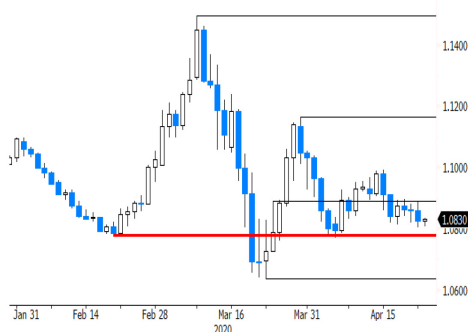
R2	0.9212	-1d
R1	0.9033	
EUR/GBP	0.8775	-0.0059
S1	0.8749	
S2	0.8569	

There was no obvious link between global FX (USD) trading and the developments on other markets yesterday. Initially EUR/USD held strong in the upper part half of the 1.08 figure as global sentiment improved after the oil-related sell-off earlier this week. Later, the dollar regained traction, even as equities rallied further. The move coincided with a rise in US yields, but we doubt this was a big factor as rate differentials didn't change much. **Euro caution ahead of today's EU summit** maybe played a role but we see the move mainly as order-driven, technical trade. EUR/USD closed at 1.0823 (from 1.0858). **USD/JPY held recent very tight range** to close the session at 107.75.

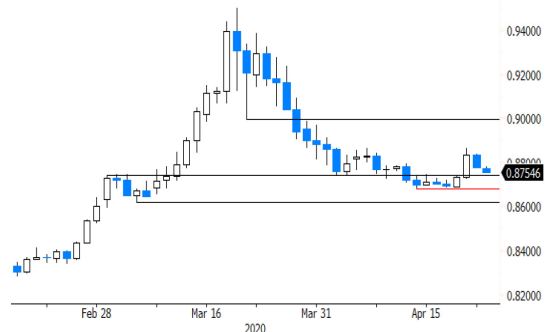
This morning, most Asian equity indices are trading in positive territory, but gains are modest compared to the WS rebound yesterday. Regional data were mixed (better than expected South Korean growth, but very weak Japan PMI's). Still the impact on yen was very limited. The Aussie dollar declined temporarily after an awful PMI release (services at 18!) but the move was reversed later on a broader USD decline. AUD/USD (0.6330) is holding recent consolidation pattern (0.6250/0.6450 area).

Today, the EMU & US preliminary PMI's and the US jobless claims are taking centre stage. The data will probably only illustrate the corona meltdown. Negative news might be slightly USD supportive, but we don't expect a big market reaction. EU leaders will again discuss a corona stimulus package. The EC made a proposal, but a political consensus on a detailed package (including the structure of funding) is unlikely. Germany decided on an additional domestic fiscal support (€10 bln). Question is whether this is a euro supportive. It only illustrates the fragmented crisis approach. **EUR/USD is going nowhere**. The 1.0770 support stays within reach, but hasn't been challenged of late. For now, we keep a neutral bias and don't anticipate a big break lower.

Sterling reversed part of Tuesday's sell-off yesterday as the risk-off eased and oil rebounded. EUR/GBP left behind the 0.88+ area to close the day at 0.8775. Today, the UK PMI's and the CBI data are expected to show further (steep) declines. The data probably won't be sterling supportive, but global sentiment probably will be more important for GBP trading rather than UK specific data. We keep the hypothesis that the EUR/GBP 0.8680/0.87 area should provide solid support.



EUR/USD: holding tight consolidation pattern north of 1.0770 support



EUR/GBP: sterling fighting back on Tuesday's sell-off.

Calendar

Thursday, 23 April		Consensus	Previous
US			
14:30	Initial Jobless Claims	4500k	5245k
14:30	Continuing Claims	16738k	11976k
15:45	Markit US Manufacturing PMI (Apr P)	335.0	48.5
15:45	Markit US Services PMI (Apr P)	30.0	39.8
15:45	Markit US Composite PMI (Apr P)	--	40.9
16:00	New Home Sales Total/MoM (Mar)	644k/-15.8%	765k/-4.40%
17:00	Kansas City Fed Manf. Activity (Apr)	-.37	-17
Japan			
02:30	Jibun Bank Japan PMI Mfg (Apr P)	43.7A	44.8
02:30	Jibun Bank Japan PMI Services (Apr P)	22.8A	33.8
02:30	Jibun Bank Japan PMI Composite (Apr P)	27.8A	36.2
UK			
08:00	PSNB ex Banking Groups (Mar)	1.8b	0.3b
10:30	Markit UK PMI Manufacturing SA (Apr P)	42	47.8
10:30	Markit/CIPS UK Services PMI (Apr P)	27.8	34.5
10:30	Markit/CIPS UK Composite PMI (Apr P)	29.5	36
12:00	CBI Trends Total Orders (Apr)	-51	-29
12:00	CBI Trends Selling Prices (Apr)	-4	7
12:00	CBI Business Optimism (Apr)	-58	23
EMU			
10:00	Markit Eurozone Manufacturing PMI (Apr P)	38	44.5
10:00	Markit Eurozone Services PMI (Apr P)	22.8	26.4
10:00	Markit Eurozone Composite PMI (Apr P)	25.0	29.7
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Apr P)	39	45.4
09:30	Markit Germany Services PMI (Apr P)	28	31.7
09:30	Markit/BME Germany Composite PMI (Apr P)	28.5	35
France			
09:15	Markit France Manufacturing PMI (Apr P)	37	43.2
09:15	Markit France Services PMI (Apr P)	24.5	27.4
09:15	Markit France Composite PMI (Apr P)	24.5	28.9
Events			
Q1 earnings	Southwest Airlines (bef-mkt), Citrix Systems (13:15) ... Intel (aft-mkt) ...		
23APR	Hungary likely to issue new bonds		
23APR	EU leaders discuss their Covid-19 response		
11:30	BoE's Vlieghe Speaks on Policy and Balance Sheet		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.62	0.05		US	0.21	0.01	DOW	23475.82	456.94
DE	-0.41	0.07		DE	-0.66	0.02	NASDAQ	8495.379	232.15
BE	0.24	0.07		BE	-0.39	0.03	NIKKEI	19429.44	291.49
UK	0.33	0.03		UK	0.09	0.02	DAX	10415.03	165.18
JP	0.00	-0.01		JP	-0.15	-0.02	DJ euro-50	2834.9	43.56
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.20	0.39	0.46	Eonia	-0.4560	0.0000	Libor-1	0.6246	0.0000
5y	-0.16	0.46	0.49	Euribor-1	-0.4180	0.0070	Libor-3	1.0430	0.0000
10y	0.01	0.66	0.55	Euribor-3	-0.1900	0.0430	Libor-6	1.0243	0.0000
				Euribor-6	-0.1240	0.0540			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0823	-0.0035		EUR/JPY	116.63	-0.41	CRB	111.11	4.82
USD/JPY	107.75	-0.05		EUR/GBP	0.8775	-0.0059	Gold	1738.30	50.50
GBP/USD	1.2334	0.0045		EUR/CHF	1.0516	-0.0012	Brent	20.37	1.04
AUD/USD	0.6323	0.0043		EUR/SEK	10.9257	-0.0393			
USD/CAD	1.4161	-0.0050		EUR/NOK	11.6545	0.0885			

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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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