



Tuesday, 09 June 2020

Rates: Improvement on bond markets improves ahead of FOMC

Core bonds found some vigor after last week sell-off as investors count down to tomorrow's FOMC meeting. Fed Chair Powell repeated on several occasions that the US central bank is ready to add stimulus if necessary. The US central bank is supposedly looking into putting yield curve caps in place (at September FOMC meeting).

Currencies: EUR/USD rally taking breather. USD/JPY guiding USD lower

The USD trading showed a different pattern compared to last week. The EUR/USD rally took a breather even as sentiment on risk stayed constructive. At the same time, USD/JPY fell prey to profit taking at least partially inspired by a modest correction in US yields. Today, more technical trading ahead of tomorrow's Fed meeting might be on the cards.

Calendar

Headlines

- **WS** ended again well in the green. The DJI (+1.7%) outperformed, the S&P500 turned positive YtD and the Nasdaq set a new all-time high. Most **Asian markets** trade positive. Japan underperforms as the yen continues to strengthen.
- During her hearing, **ECB president Lagarde defended her crisis initiatives**, saying that the net effects are "overwhelmingly positive", adding that the pandemic tools are "temporary, targeted and proportionate".
- **The Fed expanded its Main Street Lending Programme** so that more companies are eligible by lowering the loan minimum. It also lowered the share of the loan banks are required to hold on their balance from 15% to 5%.
- **The World Bank projects economic output to contract 5.2% in 2020** due to the coronavirus with risks tilted to the downside. It expects advanced economies to shrink 7% while EM will print their first 2.5% contraction since 1960.
- **North Korea will close a liaison office shared with South Korea and dismantle other official communication** including a hotline between the leaders after SK activists sent leaflets critical of Kim Jong Un across the border.
- **The UK reported the lowest number of daily deaths due to the coronavirus since the lockdown**. PM Johnson will present further restriction-easing plans to his cabinet later today, probably reaffirming the reopening date of June 15.
- **Today's economic calendar** contains NFIB Small Business Optimism and job vacancies (April data) in the US and the final EMU GDP reading. Germany 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

Core bonds find some vigor

	US yield	-1d
2	0.23	0.02
5	0.43	-0.02
10	0.88	-0.02
30	1.61	-0.02

	DE yield	-1d
2	-0.62	-0.02
5	-0.58	-0.03
10	-0.32	-0.04
30	0.21	-0.05

Core bonds ended a five-day selling streak yesterday in a rather uneventful trading session. German Bunds outperformed US Treasuries. US stock markets extended their positive run with laggards (oil companies, Boeing) catching up. European risk sentiment was more mixed. Brent crude tumbled back from \$43/b to \$40/b after Saudi Arabia announced that its additional production curbs wouldn't be extended beyond June. **The US Treasury started its mid-month refinancing operation with a strong \$44bn 3-yr Note auction.** It stopped through the 1pm bid with an above average bid cover. The German yield curve bull flattened with yields decreasing by 2.1 bps (2-yr) to 5.3 bps (30-yr). 10-yr yield spread changes vs Germany widened by up to 3 bps with Greece (+11 bps) underperforming.

Most Asian stock markets trade positive this morning with Japan (stronger yen) and South Korea (North Korea cut communications) underperforming. **Core bonds show more signs of resilience after last week's sell-off.**

Today's eco calendar remains razor thin with only US NFIB Small Business Optimism. The US Treasury continues its supply operation with **a 10-yr Note auction.** US supply could trigger underperformance of US Treasuries vs German Bunds. **Overall, investors are counting down to tomorrow's FOMC meeting. The Fed's ultra-easy monetary policy stance and willingness to add stimulus if necessary could help explain investor's preference for UST's at the start of this trading week.** Fed Chair Powell categorically ruled out introducing negative policy rates in a next move, but the Fed supposedly is studying the Australian RBA's model of targeting the 3-yr yield at the same level of the policy rate (0.25%). We argued before that the Fed's unlimited, open-ended QE programme is the de facto start of yield curve control. By targeting specific levels, the Fed would strengthen its promise of keeping policy rates near the lower bound for quite some time to come. It's unclear whether the US central bank is also exploring the Japanese option of also targeting the longer end of the curve. **A decision on the issue isn't expected tomorrow, but could come as soon as September.**

Technically, a break of the German 10-yr yield north of -0.31%/-0.29% resistance, would suggest a return to the YTD high at -0.14%. The US 10-yr yield exited the narrow trend channel of the past two months on the upside. Next resistance is the psychological 1% mark. Ahead of the Fed, some return action lower is likely despite the US supply operation.



German 10-yr yield: sustained break above -0.31%/-0.29% resistance opens path to YTD high



US 10-yr yield breaking upper bound narrow trend channel

Currencies

R2	1.495	-1d
R1	1.1412	
EUR/USD	1.1294	0.0002
S1	1.1167	
S2	1.0964	

R2	0.9212	-1d
R1	0.9033	
EUR/GBP	0.8876	-0.0037
S1	0.8621	
S2	0.8569	

EUR/USD in consolidation modus

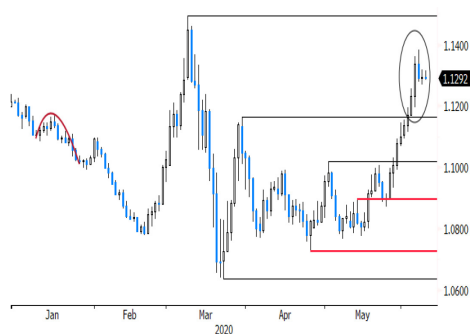
The overall USD performance was a bit diffuse/ambiguous yesterday even as the global risk rally continued. US equities extended their recent uptrend with the Nasdaq even setting a new all-time top. Even so, the dollar initially stayed rather well bid in the wake of Friday's better than expected US payrolls while US yields held near recent peak levels. Later, the (trade-weighted) dollar lost modest ground. The USD decline coincided with further equity gains. Remarkably, it was mainly driven by a setback in USD/JPY and an intraday decline in US yields.

USD/JPY closed at 108.43 (from 109.59 on Friday) despite the risk-on. At the same time, EUR/USD held a rather tight sideways consolidation pattern around the 1.13 pivot (close 1.1294). EMU yields declining faster than US ones might have been part of the explanation.

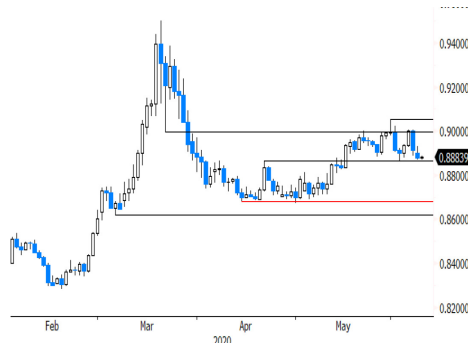
Yesterday's trends mainly continue **this morning**. Asian equities mostly trade in positive territory (Japan is the exception). Core/US yields are easing slightly further. USD/JPY continues drifting lower and is testing the 108 big figure. AUD/USD again tried to regain the 0.70 barrier, but no sustained break occurred yet (currently 0.6995 area). NAB confidence data show signs of a gradual improvement as the impact of corona on the economy eases. The yuan holds a cautious positive bias (USD/CNY 7.0730). EUR/USD is holding near 1.13.

Today, the US the NFIB small business confidence is interesting, but is seldom a mover for USD trading. Yesterday, the EUR/USD rally lost some momentum after Friday's US payrolls. For now, the correction is modest. We expect more technical trading ahead of tomorrow's Fed decision. The Fed will reconfirm its commitment to support the economy. Even so, will it be enough to further sustain the risk rally and the USD down-leg? In a short term perspective, we turn a bit more neutral. EUR/USD moved from the lower to the higher part of the 1.0727/1.1495 range, but this move was blocked on Friday. **Some consolidation might be on the cards with EUR/USD 1.1133 (38% retr since 1.0727) a first support which should hold to keep the EUR/USD picture constructive MT.**

EUR/GBP returned temporarily north of 0.89, but the risk rally finally help the UK currency to reverse earlier losses. **EUR/GBP closed at 0.8875**. This morning, BRC retail sales printed rather strong. There are no other UK data today. Yesterday's sterling performance wasn't too bad. However, with risk rally maybe taking a breather an a persistent stalemate in the Brexit talks we consider EUR/GBP rather well protected.



EUR/USD: in consolidation modus ahead of Fed policy decision



EUR/GBP: Technical correction after rejected test 0.90

Calendar

Tuesday, 9 June		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (May)	92.5	90.9
16:00	JOLTS Job Openings (Apr)	5750	6191
Japan			
01:30	Labor/Real Cash Earnings YoY (Apr)	-0.6%A/-0.7%A	0.10%/-0.30%
01:50	Money Stock M3 YoY (May)	4.10%A	3.00%
08:00	Machine Tool Orders YoY (May P)	--	-48.30%
UK			
01:01	BRC Sales Like-For-Like YoY (May)	7.90%A	5.70%
EMU			
11:00	GDP SA QoQ/YoY (1Q F)	-3.80%/-3.20%	-3.80%/-3.20%
Germany			
08:00	Trade Balance (Apr)	11.6b	17.4b
08:00	Current Account Balance (Apr)	14.1b	24.4b
08:00	Exports/Imports SA MoM (Apr)	-15.6%/-16.0%	-11.7%R/-5.0%R
France			
08:45	Trade Balance (Apr)	-3000m	-3343m
08:45	Current Account Balance (Apr)	--	-3.3b
Events			
10:00	ECB's Rehn Speaks in Helsinki		
11:30	Germany to Sell EUR 3 Bln of 0% 2027 Bonds		
19:00	US to Sell 10-Year Notes		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	0.88	-0.02		US	0.23	0.02	DOW	27572.44	461.46
DE	-0.32	-0.04		DE	-0.62	-0.02	NASDAQ	9924.745	110.66
BE	0.04	-0.04		BE	-0.50	-0.02	NIKKEI	23091.03	-87.07
UK	0.33	-0.02		UK	0.00	-0.01	DAX	12819.59	-28.09
JP	0.02	-0.04		JP	-0.16	-0.04	DJ euro-50	3366.29	-18.00
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	-0.31	0.34	0.31	Eonia	-0.4590	0.0000			
5y	-0.26	0.49	0.37	Euribor-1	-0.4810	0.0020	Libor-1	0.1801	0.0000
10y	-0.05	0.86	0.52	Euribor-3	-0.3650	-0.0120	Libor-3	0.3129	0.0000
				Euribor-6	-0.1950	0.0010	Libor-6	0.4813	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	1.1294	0.0002		EUR/JPY	122.46	-1.25	CRB	137.50	-1.47
USD/JPY	108.43	-1.16		EUR/GBP	0.8876	-0.0037	Gold	1705.10	22.10
GBP/USD	1.2724	0.0056		EUR/CHF	1.0816	-0.0048	Brent	40.80	-1.50
AUD/USD	0.7021	0.0052		EUR/SEK	10.391	-0.0726			
USD/CAD	1.3382	-0.0040		EUR/NOK	10.4595	-0.0590			

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