



Monday, 06 July 2020

KBC Sunrise Market Commentary

Markets

- Markets experienced a mild, **corrective risk-off session on Friday**. US market were closed for the Independence Day holiday, resulting in lower traded volumes across most markets. European equities opened little changed but gradually slipped in a corrective downtrend. EMU final June PMI's were upwardly revised but stayed in contraction territory (composite 48.5), with little direct impact on trading. Bloomberg reporting some disagreement within the ECB on the scope of the PEPP crisis program maybe was a source of caution. European equities closed with losses of around 1%. The Bund contract initially gained modestly on the risk off but couldn't hold the gains. **European yields declined less than one bp. EUR/USD traded directionless roughly between 1.1220/50**. EUR/GBP held a tight range in the low 0.90 area. An early ending to last week's EU-UK talks over the post-Brexit agreement didn't hurt sterling.
- This morning, **Asian markets are starting the week in risk-on modus with China strongly outperforming**. Local state media this weekend gave positive comments on recent stock market rally indicating that the government sees a positive equity sentiment as supportive for the recovery. Chinese equity indices are rising >4%. A further record rise in global corona infections still doesn't hurt positive sentiment. US equity futures join the Asian risk rally and are gaining 1%+. **The yuan strengthens with USD/CNY declining to the 7.05 area**. The trade-weighted dollar is drifting below the 97 handle.
- Today's **calendar is moderately interesting** with **German factory orders** and the May EMU retail sales. In the US the Markit Services PMI and the US non-manufacturing ISM are scheduled for release. Of late, sentiment indicators like the PMIs/ISM mostly came out better than expected despite the rise in worldwide infections, including in the US. As such, the data supported positive market sentiment and there is no reason to expect today's data to bring a different signal for global trading. Later this week, the calendar is rather thin with production data in several EMU countries and US PPI on Friday. The Reserve bank of Australia will hold a regular policy meeting tomorrow. The US Treasury will hold regular 3-y (Tuesday), 10-y (Wednesday) and 30-y (Thursday) auctions. Especially the 10-y and 30-y sale might influence the short-term dynamics on core bond markets.
Of late, **German and US 10-y yields drifted lower in established ranges**. A positive risk sentiment and upcoming (US) supply might cause some temporary underperformance of US treasuries (modest rise in US LT yields). However, we don't expect the established ranges to be broken. **On FX markets global sentiment still remains more important as a driver for global USD trading rather than interest rate differentials**. A constructive sentiment supports EUR/USD. The 1.1160/1.12 area looks rather solid support. 1.1349 is a next reference on the technical charts. Sterling (EUR/GBP) was captured in a narrow range just north of 0.90 and the end of last week. According to press reports this weekend UK Fin Min Sunak might announced (limited) tax cuts this week. The UK and the EU restart negotiations on the post-Brexit relationship. With no concrete prospects of a breakthrough, the EUR/GBP 0.8950/0.90 might not be that easy to break for sterling.

News Headlines

- Spain will probably extend its employee furlough scheme until the end of the year** and possibly into 2021 for industries worst hit by the coronacrisis, including tourism, aviation and leisure sectors. Labour minister Díaz only recently extended the scheme, under which the state pays 70% of salaries of furloughed staff, until September. Some 2 million workers are currently covered.
- ECB President Lagarde said the **euro zone faces disinflationary or deflationary price pressures for about two years** as the transition to more digitization, automation, shorter supply chains and greener industries materializes. Lagarde said the pandemic has accelerated this shift and hopes it will improve productivity which ultimately should trigger inflation dynamics.

Graphs & Table



CSI 300: Rally of Chinese equities accelerates after breaking key technical barrier



US 10-y yield: US treasuries might underperform ahead of this weeks bond sales



EUR/USD: rebounds off 1.1160/1.12 area as sentiment turns risk-on. 1.1350 area next reference on the charts



EUR/GBP: sterling rebounds meets resistance in the EUR/GBP 0.90 area.

Source: Bloomberg

Calendar

Monday, 6 July		Consensus	Previous
US			
16:00	ISM Non-Manufacturing Index (Jun)	50	45.4
UK			
10:00	New Car Registrations YoY (Jun)	--	-89.00%
10:30	Markit/CIPS UK Construction PMI (Jun)	46	28.9
EMU			
10:30	Sentix Investor Confidence (Jul)	-10.4	-24.8
11:00	Retail Sales MoM/YoY (May)	15%/-6.5%	-11.70%/-19.60%
Germany			
08:00	Factory Orders MoM/WDA YoY (May)	15.40%/-24%	-25.80%/-36.60%
09:30	Markit Germany Construction PMI (Jun)	--	40.1
Events			
06JUL	EC's director-general for economic and financial affairs Verwey discusses efforts around pandemic		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.67	0.00		US	0.15	0.00	DOW	25827.36	0.00
DE	-0.43	0.00		DE	-0.68	0.00	NASDAQ	10207.63	0.00
BE	-0.12	0.00		BE	-0.58	0.01	NIKKEI	22714.44	407.96
UK	0.19	0.00		UK	-0.08	0.01	DAX	12528.18	-80.28
JP	0.04	0.01		JP	-0.13	0.00	DJ euro-50	3294.38	-25.71
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.39	0.23	0.20	Eonia	-0.4630	0.0000			
5y	-0.35	0.33	0.25	Euribor-1	-0.5020	0.0070	Libor-1	0.1626	-0.0011
10y	-0.16	0.65	0.38	Euribor-3	-0.4350	-0.0060	Libor-3	0.2759	-0.0279
				Euribor-6	-0.3140	-0.0120	Libor-6	0.3663	0.0001
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1248	0.0009		EUR/JPY	120.95	0.13	CRB	140.60	0.00
USD/JPY	107.51	0.01		EUR/GBP	0.9013	-0.0002	Gold	1790.00	0.00
GBP/USD	1.2483	0.0015		EUR/CHF	1.0629	0.0004	Brent	42.80	-0.34
AUD/USD	0.6939	0.0015		EUR/SEK	10.4767	0.0053			
USD/CAD	1.3547	-0.0017		EUR/NOK	10.6596	-0.0539			

If you no longer wish to receive this mail, please contact us: "kbcmarketresearch@kbc.be" to unsubscribe

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		
Petr Baca	+420 2 6135 3570		
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		

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

