

Thursday, 22 August 2019

KBC Sunrise Market Commentary

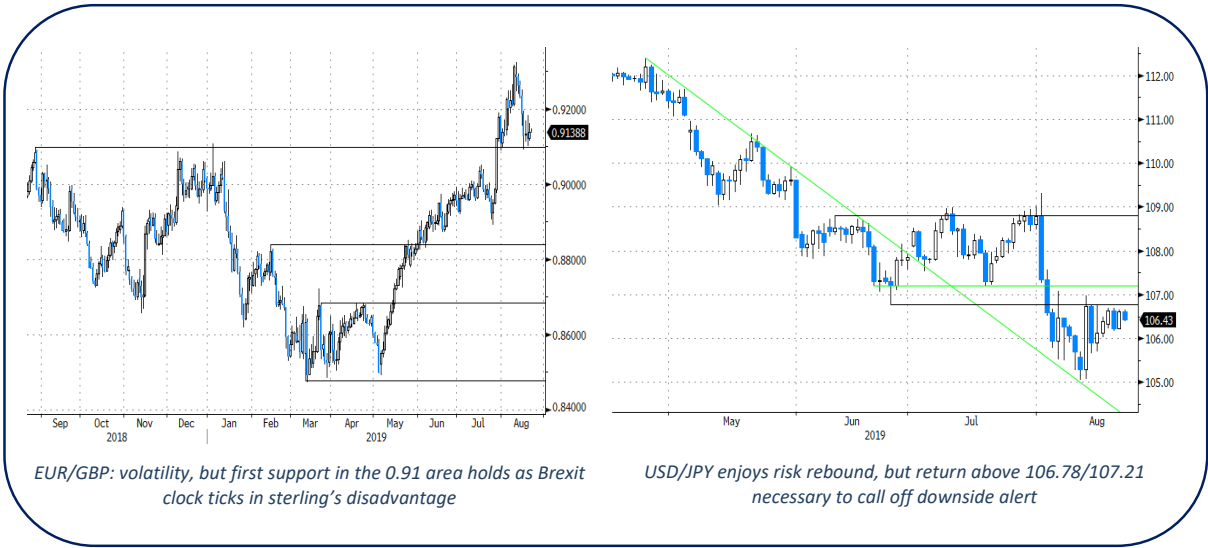
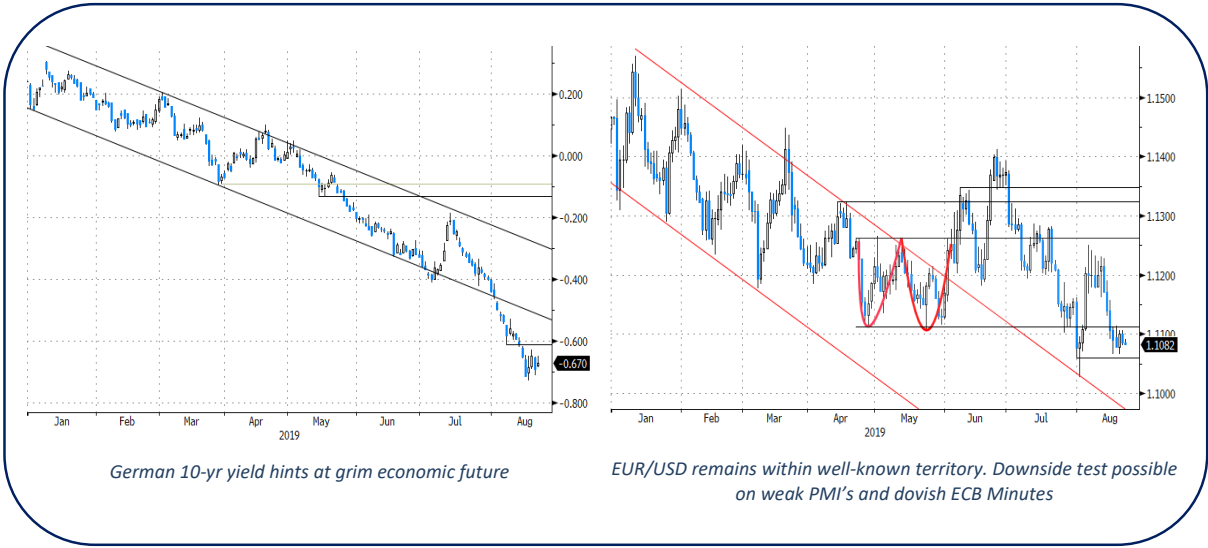
Markets

- Trading remained confined to recent ranges yesterday. The eco/event calendar was unenticing apart from **FOMC Minute of the July meeting**. These showed that most participants joined Powell's hawkish rate cut view (one-off adaption) with headwinds from doves (50 bps reduction) and hawks (unchanged policy). **US yields and the dollar rose marginally after the release of the Minutes as they raise some doubt ahead of tomorrow's speech by Fed Chair Powell in Jackson Hole**. We think Powell will change his tone compared to the Minutes and adapt to new economic/market reality by stating that **the normalization process is over and re-installing a more accommodative bias**. One of the conclusions of the Fed's monetary policy framework review was that **they could more easily and pre-emptively use unconventional tools like forward guidance and QE**. The US yield curve bear steepened in a daily perspective with yields rising by 6.3 bps (2-yr) to 3.4 bps (30-yr). German yields added 1.8 bps (2-yr) to 2.5 bps (5-yr). The feared "buyer's strike" at the German 30-yr Bund auction (0% coupon; -0.11% avg yield) didn't occur. Total bids were low, but marginally higher than in July. 10-yr yield spread changes vs Germany ended close to unchanged with Italy (-6 bps) outperforming. Investors bet that President Mattarella will be able to install a (technocrat) caretaker government to ready the 2020 Budget before returning to the ballot box. We would still shun BTP's given heightened political risk. EUR/USD whipsawed around 1.11 for most of the session before falling towards 1.1080 after the Minutes. USD/JPY closed the day higher, at 106.62, but remains below the first resistance area (106.78/107.21). EUR/GBP rose from 0.9121 to 0.9140 with sterling feeling some pressure from **French government officials saying that they expect the UK to leave the EU without a withdrawal agreement**. The first meeting between German Chancellor Merkel and UK PM Johnson also didn't yield any progress. **Merkel challenged Johnson to find a solution for the Irish backstop in the next 30 days**.
- Asian stock markets lose ground this morning with Hong Kong underperforming. **Japanese (marginally better) and Australian PMI's (significantly weaker) were mixed**. Today's eco calendar focuses on Europe with EMU PMI's and Minutes of the previous ECB meeting. Consensus expects a further setback in both manufacturing (46.2 from 46.5) and services (53 from 53.2) gauges. **We fear risks remain tilted to the downside of expectation. July Minutes from the ECB will probably be dovish and might provide hints on how a September easing package might look like**. The combination of both is **positive for Bunds (with outperformance vs US Treasuries) and can pull EUR/USD down for a test of the recent lows around 1.1027/1.1066**.

News Headlines

- FOMC Minutes** of the July monetary policy meeting showed that most participants agreed with the 25 bps policy rate cut as a **"recalibration of the stance of policy, or a mid-cycle adjustment, in response to the evolution of the economic outlook"**. Participants also noted that the experience acquired by the Committee with **the use of forward guidance and asset purchases** has led to an improved understanding of how these tools operate; **as a result, the Committee could proceed more confidently and pre-emptively in using these tools in the future if economic circumstances warranted**.
- The US Congressional Budget Office (CBO)** said that the latest budget deal, which lifts spending above caps enacted in 2011, will add roughly \$1.7tn to deficits between 2020 and 2029. **Annual deficits are expected to average 4.7% of GDP over that period**, compared to the 4.4% of GDP the CBO estimated in May. The average US deficit over the past 50 years was 2.9% of GDP. **The government debt-to-GDP ratio is forecast to swell from 79% this year to 92% by the end of 2029**. That would be the highest level since just after WW II.

Graphs & Table



Source: Bloomberg

Calendar

Thursday, 22 August		Consensus	Previous
US			
14:30	Initial Jobless Claims	216k	220k
14:30	Continuing Claims	1707k	1726k
15:45	Markit US Manufacturing PMI (Aug P)	50.5	50.4
15:45	Markit US Services PMI (Aug P)	52.8	53
15:45	Markit US Composite PMI (Aug P)	--	52.6
Japan			
02:30	Jibun Bank Japan PMI Mfg (Aug P)	A: 49.5	49.4
02:30	Jibun Bank Japan PMI Composite (Aug P)	A: 51.7	51.2
02:30	Jibun Bank Japan PMI Services (Aug P)	A: 53.4	51.8
UK			
12:00	CBI Retailing Reported Sales (Aug)	-15	-16
12:00	CBI Total Dist. Reported Sales (Aug)	--	-11
EMU			
10:00	Markit Eurozone Manufacturing PMI (Aug P)	46.2	46.5
10:00	Markit Eurozone Services PMI (Aug P)	53	53.2
10:00	Markit Eurozone Composite PMI (Aug P)	51.2	51.5
16:00	Consumer Confidence (Aug A)	-7	-6.6
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Aug P)	43	43.2
09:30	Markit Germany Services PMI (Aug P)	54	54.5
09:30	Markit/BME Germany Composite PMI (Aug P)	50.6	50.9
France			
09:15	Markit France Manufacturing PMI (Aug P)	49.5	49.7
09:15	Markit France Services PMI (Aug P)	52.5	52.6
09:15	Markit France Composite PMI (Aug P)	51.8	51.9
Sweden			
09:30	Unemployment Rate SA (Jul)	6.5%	6.6%
Events			
00:30	Fed's Kashkari Speaks at Economic Conference in Minneapolis		
13:30	ECB Publishes Account of Policy Meeting		
20:30	Fed's Kashkari Discusses Too Big to Fail		

	<u>Close</u>	<u>-1d</u>		<u>2-year</u>	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.59	-0.02		US	1.51	-0.03	DOW	26202.73	240.29
DE	-0.69	0.02		DE	-0.89	0.02	NASDAQ	8020.208	71.65
BE	-0.35	0.02		BE	-0.76	0.02	NIKKEI	20628.01	-49.21
UK	0.48	0.00		UK	0.51	0.02	DAX	11651.18	-64.19
JP	-0.24	-0.01		JP	-0.30	0.00	DJ euro-50	3350.23	-18.96
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.53	1.43	0.67	Eonia	-0.3630	0.0010	Libor-1	2.1686	0.0000
5y	-0.49	1.39	0.64	Euribor-1	-0.4050	0.0040	Libor-3	2.1515	0.0000
10y	-0.25	1.46	0.64	Euribor-3	-0.4210	0.0010	Libor-6	2.0291	0.0000
				Euribor-6	-0.4250	-0.0020			
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1100	0.0022		EUR/JPY	117.93	-0.20	CRB	170.90	0.12
USD/JPY	106.62	0.39		EUR/GBP	0.9121	-0.0014	Gold	1515.70	4.10
GBP/USD	1.213	-0.0040		EUR/CHF	1.0855	-0.0020	Brent	60.03	0.29
AUD/USD	0.6778	0.0014		EUR/SEK	10.7595	0.0283			
USD/CAD	1.3319	-0.0005		EUR/NOK	9.9713	0.0250			

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