



Monday, 25 May 2020

Rates: US and UK markets are closed, implying slow start to trading week

Hong Kong protests remain this weekend's main talking point, but barely spoil Asian risk sentiment. US and UK markets are closed today, implying low volume trading. US Treasuries could underperform German Bunds in the run-up to this week's supply operation. Risk sentiment will otherwise be responsible for intraday gyrations within known technical boundaries.

Currencies: EUR/USD topside test again rejected

Last week, a better risk sentiment and hope on an EU rescue package pushed EUR/USD back to the 1.10 area. However a softer risk sentiment and opposition of four northern countries on EU grants in rescue package sent EUR/USD back in the established range as markets await an initiative of the EU commission later this week.

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	→

- **Wall Street** erased most of the intraday losses, ending flat (DJI) or marginally higher (Nasdaq +0.43%). **Asian stocks** trade mixed with some markets closed. Hong Kong (-1%) underperforms, extending Friday's slide.
- The relative calm on the Hong Kong streets due to the virus outbreak all but evaporated. **China drafted legislation end of last week to impose a national security law on Hong Kong**, reviving mass protests on Sunday.
- At the emergency meeting on Friday, the **Bank of Japan launched a new lending programme worth 30tn yen**, aimed at supporting small businesses by funneling money to companies via the country's financial institutions.
- **The Netherlands, Austria, Denmark and Sweden proposed an emergency fund on Saturday** in which they reject any grants, arguing for "favourable loans" instead. The counterproposal comes days ahead of the EC's release.
- **China's foreign minister Wang Yi warned the US is pushing ties with the country "to the brink of so-called new Cold War"** over interfering with internal matters including Hong Kong and Taiwan.
- **European savings surged in March as households braced for Covid 19**. Savings quintupled in France, Spain and Italy, possibly hindering a consumption-driven recovery. German deposits fell, a move also seen during the GFC.
- **Today's economic calendar** will provide little inspiration. US and UK financial markets are closed. In Germany, the IFO sentiment indicator and a second GDP reading is published.

Rates

US and UK markets closed, implying slow start

	US yield	-1d
2	0.17	0.00
5	0.33	0.00
10	0.66	-0.01
30	1.37	-0.02

	DE yield	-1d
2	-0.68	0.01
5	-0.67	0.01
10	-0.49	0.01
30	-0.05	0.02

Core bonds started last Friday on a solid footing following **PMI releases** a day earlier and as **Asian risk sentiment was soured by China's move to tighten Hong Kong security laws**. The European PMI's showed a rebound off all-time lows in May as economies gradually reopened. **While the rate of contraction slowed compared to April, PMI's remain at very distressed level, suggesting a 10% Q/Q GDP drop in Q2**. An additional concern raised by IHS Markit (who conduct the survey) is that demand is likely to remain extremely weak for a prolonged period, putting further pressure on companies to make more aggressive job cuts as government job retention schemes expire. They therefore expect GDP to slump by almost 9% in 2020 and for a full recovery to take several years. **Core bonds came off their intraday peak though and gradually returned towards their opening levels with US investors gearing up for the long weekend. German Bunds eventually slightly underperformed US Treasuries**. The German yield curve bear steepened with yields rising by 0.6 bps (2-yr) to 1.9 bps (30-yr). Peripheral yield spread changes vs Germany narrowed by 3 bps to 5 bps. The US yield curve flattened with daily changes varying between +0.1 bp (2-yr) and -1.5 bps (30-yr).

Asian stock markets trade mixed this morning. Weekend news flow was rather thin with Hong Kong protests still dominating headlines. **US (Memorial Day) and UK (Spring Bank Holiday) markets are closed, implying strongly reduced trading volumes**. Core bonds hover sideways.

Today's eco calendar contains German IFO business sentiment (May). We expect the indicator to show a similar rebound as Thursday's PMI's which thus won't come as a surprise. **US Treasuries could show some underperformance in the run-up to this week's supply operation, but we otherwise have no strong view to start the trading week. Risk sentiment could trigger some intraday gyrations, but within the well-known technical boundaries**. Other highlights this week are the European Commission's recovery fund proposal (Wednesday) and participations by ECB Lagarde (Wednesday) and Fed Chair Powell (Friday) in virtual events.

From a technical point of view, the German 10-yr yield is trying to find a fresh equilibrium (-0.6% to -0.5%). **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 0.8% opened up.**



German 10-yr yield tries to find fresh equilibrium



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

Currencies

EUR/USD topside test again rejected

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.0901	-0.0049
S1	1.0770	
S2	1.0636	

R2	0.9212	-1d
R1	0.9033	
EUR/GBP	0.8959	0.0000
S1	0.8621	
S2	0.8569	

The dollar reversed earlier losses end of last week. China preparing a new security law for Hong Kong further escalated tensions between the US and China. The risk-off supported the yen and the dollar. EUR/USD on Thursday tried a new topside test of the 1.10 area, but it was again rejected. Next to the China-related risk-off, **intra-EU political division on the structure of the EU rescue package also undermined initial optimism on a German-French proposal** that the supported the euro earlier last week. EUR/USD closed the week at 1.0901. USD/JPY held within the tight ST sideways trading pattern to close at 107.64.

This morning, Asian markets show mixed picture. China and Hong Kong underperform as political tensions persist, with China warning the US that their mutual relationship could move to a new cold war. **The yuan stays under pressure**. The PBOC put the yuan reference rate at the weakest level since 2008. The offshore yuan also weakens further north of USD/CNH 7.15. Japanese markets outperform as the country will lift the state of emergence and as the government prepares an additional stimulus plan. The yen weakness slightly (107.65 area). EUR/USD hovers in the 1.09 area.

Today, trading will probably develop in thin market conditions as **US and UK investors enjoy a holiday**. German IFO business confidence is expected to rise slightly from last months depressed levels. It will be interesting to see the reaction in cease of a (mildly) positive surprise. At same time, political bickering on the EU rescue package will probably continue. The EU commission is expected to launch its proposal on Wednesday. Four northern countries repeat their view that they only want loans and no grants for countries that need support. **Last week's rejected test of 1.10 again pushed EUR/USD well within the sideways consolidation pattern between 1.0727 and 1.1018**. Some further slide within the established range is possible as sentiment remains fragile. In line with EUR/USD, **EUR/GBP also tested resistance near 0.90 on Thursday**, but no break occurred and EUR/GBP returned in the 0.89 big figure. Headlines coming from the UK are not really sterling supportive. PM Johnson is under pressure on Dominic Cummings breaking lockdown rules, the EU-UK talks are in an absolute stalemate and the debate on negative rates lingers. We assume EUR/GBP to be rather solid support.



EUR/USD: topside test of 1.10 again rejected



EUR/GBP: not break above 0.90, but sterling might continue to trade rather soft

Calendar

Monday, 25 May		Consensus	Previous
Germany			
08:00	GDP SA QoQ/WDA YoY (1Q F)	-2.20%/-2.30%	-2.20%/-2.30%
10:00	IFO Business Climate (May)	78.5	74.3
10:00	IFO Expectations (May)	75	69.4
10:00	IFO Current Assessment (May)	80	79.5
Belgium			
15:00	Business Confidence (May)	-29.3	-36.1
Sweden			
09:30	Unemployment Rate SA (Apr)	7.80%	6.70%
Switzerland			
10:00	Total Sight Deposits CHF	--	673.5b
Events			
25MAY	US financial markets closed for Memorial Day		
25MAY	UK financial markets closed for Spring Bank Holiday		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	0.66	-0.01		US	0.17	0.00	DOW	24465.16	-8.96
DE	-0.49	0.01		DE	-0.68	0.01	NASDAQ	9324.587	39.71
BE	0.04	0.03		BE	-0.49	0.01	NIKKEI	20741.65	353.49
UK	0.17	0.00		UK	-0.05	0.00	DAX	11073.87	7.94
JP	0.00	0.00		JP	-0.17	0.00	DJ euro-50	2905.47	0.49
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	0.28	0.27	Eonia	-0.4600	0.0000			
5y	-0.29	0.37	0.30	Euribor-1	-0.4730	0.0020	Libor-1	0.1738	0.0055
10y	-0.14	0.66	0.40	Euribor-3	-0.2790	0.0030	Libor-3	0.3693	0.0098
				Euribor-6	-0.1540	-0.0090	Libor-6	0.5700	-0.0066
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0901	-0.0049		EUR/JPY	117.32	-0.52	CRB	129.53	-0.98
USD/JPY	107.64	0.03		EUR/GBP	0.8959	0.0000	Gold	1753.50	16.60
GBP/USD	1.2173	-0.0050		EUR/CHF	1.0592	-0.0035	Brent	35.13	-0.93
AUD/USD	0.6537	-0.0028		EUR/SEK	10.5419	0.0106			
USD/CAD	1.3996	0.0041		EUR/NOK	10.8973	0.0103			

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