



Sunrise

Friday, 12 June 2020

Rates: Fears of fresh US lockdowns hurts risk sentiment

US stock markets lost up to nearly 7% yesterday as several important US States see COVID-19 infection rates rising. Some ponder the need to install new stay-at-home orders. Core bonds thrived with US Treasuries outperforming. We're inclined to err on the side of caution even if Asian risk sentiment improved somewhat this morning.

Currencies: dollar rebounds on risk-off correction, but for how long.

The dollar finally again attracted some safe haven buying interest as equity sold-off sharply. However, some calm already return in Asian trading this morning. For EUR/USD, quite some good news is probably already discounted for the euro, but we expected underlying USD softness to persist. EUR/USD 1.1240/60 is first relevant support.

Calendar

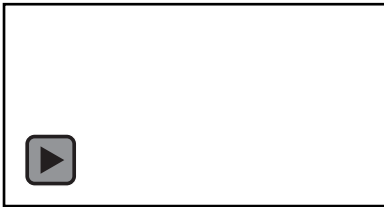
Headlines

- **US equities** finished the worst day since the violent March sell-off up to 6.90% (DJI) lower amid fears for a second wave of the coronavirus. **Asian stocks** also traded in red though well off intraday lows. South Korea (-2.3%) underperforms.
- **US Treasury Mnuchin said that the US shouldn't shut down its economy again** if there is second spike of infections. That decision is up to regional authorities though. **Houston (Texas) already said it may reimpose stay-home orders.**
- **Governor Lee said the SK central bank should be prepared to gradually normalize the unprecedented steps** it took once the coronavirus crisis eases, adding though that policy will stay accommodative until the economy recovers.
- **EU member states have agreed to sign off on a so-called prudential filter that temporarily frees banks of taking a hit to their capital ratios** and thus lending capacity in case of losses on their government debt portfolios.
- **The UK will temporarily introduce a minimal customs regime at the EU borders next year** to avoid additional pressure on its businesses, whether they reach a trade deal by end 2020 or not, dropping earlier plans of full border checks.
- **Australia's Chief Medical Officer said the country has eliminated Covid-19 in many parts** as it registered just 38 cases over the past week. Australia has had around 7 300 cases and 102 casualties.
- **Today's economic calendar** contains the US Michigan consumer sentiment for June. The UK and EMU release a slew of (outdated) industrial and manufacturing production figures.



Rates

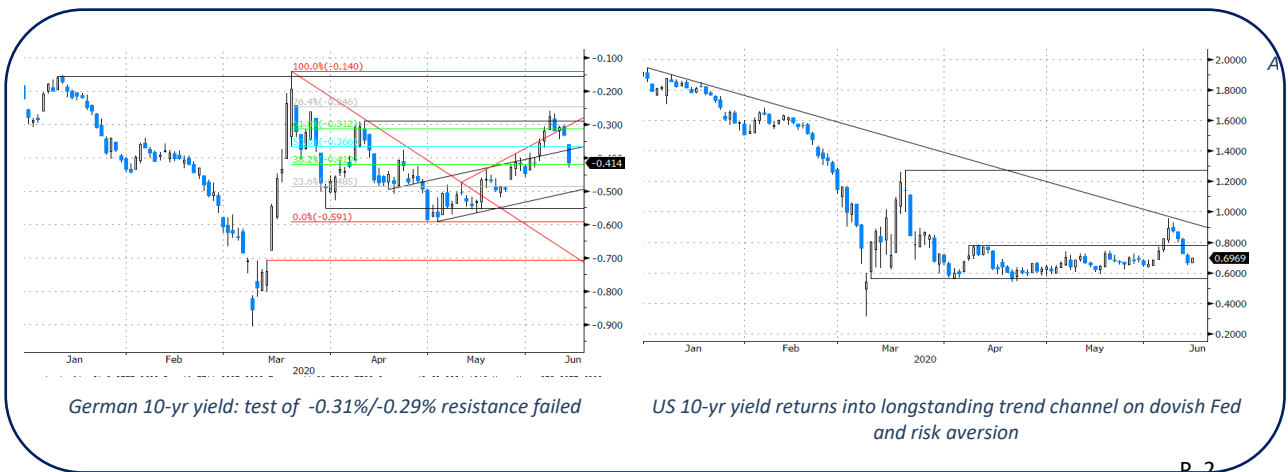
Fear of new US lockdowns hurts risk sentiment



The dovish Fed meeting and risk aversion proved to be a good cocktail for core bonds. European stock markets ended up to 5% lower, while the profit taking move in the US shed up to 7% (Dow) from main indices. **Experts warn that evidence of a second wave of infections was building in Arizona, Texas, Florida and California.** US Treasury Secretary Mnuchin tried to sooth worries by saying that there wouldn't be a second shutdown, but that's not how local authorities are thinking. **Houston-area officials are weighing a new lockdown.** Another thing probably triggered the profit taking move is that talks over more fiscal stimulus will be postponed to late July. **US Treasuries outperformed German Bunds.** The US yield curve flattened with yield changes ranging between +3 bps (2-yr) and -10.4 bps (30-yr). The German yield curve bull flattened with yield falling by 3.4 bps (2-yr) to 8.9 bps (30-yr). 10-yr yield spread changes vs Germany widened by up to 4 bps.

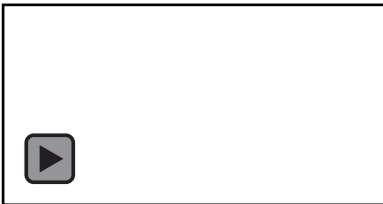
Losses on Asian stock markets are relatively small (-2%) compared to yesterday's WS scare. US equity futures recover as well with core bonds returning some of yesterday's gains. Today's eco calendar only contains April EMU production data and June University of Michigan consumer confidence. National EMU data already showed the impact on production, so the -18.5% M/M consensus estimate shouldn't come as a surprise. The US confidence gauge is the first indication for the month of June after US eco data generally beat consensus in May after most states eased lockdown restrictions. It will be interesting, and possible market-sensitive, to see whether this momentum lasts early June. **Overall, we continue to keep a close eye on stock markets though. We think that the threat of fresh lockdowns to fight the 2nd wave of infections will only rise, making stock markets prone for additional profit taking moves.** Especially ahead of the weekend, we'd err on the side of caution, **preferring core bonds.** Yesterday's rumours that **French President Macron could call for snap elections on Sunday** to strengthen his mandate could play as well. Fresh French presidential elections could weaken the German-Franco European axis and interfere with the search for consensus on the EC's recovery fund proposal.

Technically, the US 10-yr yield returned in the April-May trading range. Adverse risk conditions could force a test of the lower bound around 0.56%. The German 10-yr yield turned south as well after failing to break sustainably above the -0.31%/-0.29% resistance area. First support stands around -0.50%.



Currencies

USD profit from risk-off but for how long?



Yesterday's global trading finally resulted in an outright risk-off session. A series of negative assessments on the global economy (OECD) and the fear for a new wave of coronavirus in the US triggered an aggressive equity correction. Initially, the risk-off hardly helped the dollar. EUR/USD hovered in the upper half of 1.13. Even headlines on French president Macron considering snap presidential elections at first didn't hurt the euro. Mounting losses on US equities (5-7%) finally caused a safe haven run on the dollar. **EUR/USD longs threw in the towel.** The pair closed at 1.1299. **The yen (slightly) outperformed** (USD/JPY close at 106.87). **Smaller less, less liquidate currency also fell prey to profit recent rally.**

This morning, Asian markets feel the heat of the WS sell-off, but losses are more contained and regional indices regain ground as the session develops. The nature of this 'rebound' is uncertain. Even so, USD/JPY already succeeded a nice intraday up-tick (currently 107.20). The Aussie dollar was hit hard yesterday, but tries to build a bottom in the 0.6800 area (0.6850 area). The corona virus is eliminated in several parts of the country, paving the way for a further reopening of the economy.

Today's US Michigan consumer confidence is interesting given current fear of a new wave of the virus. Even so, global sentiment will be the main driver after yesterday's sharp equity sell-off. Headlines on the development of corona in the US might still sent **shivers through markets but** we expect **the intensity of the sell-off to ease rather soon.** If so, yesterday's EUR/USD sell-off might slow, looking for a bottom. Earlier this week, the recent impressive EUR/USD rally finally showed signs of fatigue and yesterday's risk-off was a good reason for profit taking. On the euro side of the story, quite some good news is probably discounted. However, we expect the trend of underlying USD softness to persist. A first support comes in at EUR/USD 1.1240/60. A return below 1.1157 (38% retr) would question the EUR/USD uptrend, but we don't expect that to happen.

Sterling suffered of the overall risk-off yesterday with EUR/GBP retesting the 0.90 area. However, some headlines on tentative goodwill in the UK-EU negotiations eased sterling selling. Today's UK April production data will be poor. In a risk-on context EUR/BGP might return lower in the 0.8860/0.90 range, but the downside remains tough.



EUR/USD looking for a bottom after yesterday's risk-off correction



EUR/GBP: technical trading in 0.8860/0.90 trading range

Calendar

Friday, 12 June		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (May)	0.60%/-6.40%	-2.60%/-6.80%
14:30	Import Price Index ex Petroleum MoM (May)	-0.50%	-0.50%
14:30	Export Price Index MoM/YoY (May)	0.50%/--	-3.30%/-7.00%
16:00	U. of Mich. Sentiment (Jun P)	75.0	72.3
16:00	U. of Mich. Current Conditions (Jun P)	85.2	82.3
16:00	U. of Mich. Expectations (Jun P)	69.0	65.9
16:00	U. of Mich. 1 Yr Inflation (Jun P)	3.10%	3.20%
16:00	U. of Mich. 5-10 Yr Inflation (Jun P)	--	2.70%
UK			
08:00	Monthly GDP (MoM) (Apr)	-18.70%	-5.80%
08:00	Industrial Production MoM/YoY (Apr)	-15.0%/-19.30%	-4.20%/-8.20%
08:00	Manufacturing Production MoM/YoY (Apr)	-15.60%/-19.90%	-4.60%/-9.70%
08:00	Construction Output MoM/YoY (Apr)	-25.0%/-31.30%	-5.90%/-7.10%
08:00	Index of Services MoM (Apr)	-20.0%	-6.20%
08:00	Visible Trade Balance GBP/Mn (Apr)	-£11000	-£12508m
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Apr)	-18.50%/-28.80%	-11.30%/-12.9%

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.67	-0.06	US	0.20	0.03	DOW	25128.17	-1861.82	
DE	-0.41	-0.08	DE	-0.65	-0.03	NASDAQ	9492.727	-527.62	
BE	-0.01	-0.08	BE	-0.51	-0.02	NIKKEI	22305.48	-167.43	
UK	0.20	-0.07	UK	-0.05	-0.01	DAX	11970.29	-559.87	
JP	0.01	0.00	JP	-0.15	-0.01	DJ euro-50	3144.57	-149.14	
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	-0.32	0.28	0.26	Eonia	-0.4630	0.0000			
5y	-0.29	0.37	0.30	Euribor-1	-0.4790	-0.0010	Libor-1	0.1905	0.0000
10y	-0.11	0.66	0.40	Euribor-3	-0.3580	-0.0070	Libor-3	0.3184	0.0000
				Euribor-6	-0.1830	0.0100	Libor-6	0.4265	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1299	-0.0075	EUR/JPY	120.74	-1.11	CRB	134.90	-4.32	
USD/JPY	106.87	-0.25	EUR/GBP	0.8966	0.0043	Gold	1739.80	19.10	
GBP/USD	1.2602	-0.0145	EUR/CHF	1.0668	-0.0066	Brent	38.55	-3.18	
AUD/USD	0.6855	-0.0143	EUR/SEK	10.533	0.0907				
USD/CAD	1.3629	0.0217	EUR/NOK	10.8618	0.2811				

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