



Wednesday, 08 July 2020

KBC Sunrise Market Commentary

Markets

- Yesterday, (equity) **markets turned into correction modus** after a stellar, China inspired rally on Monday. European stocks opened lower and soon recorded losses of about 1.5%. There was few eco data or other news but, if anything, it supported profit taking. **German May production** rebounded less than hoped for. **The EC downwardly revised EU 2020 growth** to a 8.7% contraction and warned on divergent developments between EMU members. **OESO saw a difficult recovery for labour markets this and next year**. European equities closed with losses of about 1%. US equities opened in the red. An intraday rebound triggered additional profit taking (close Dow -1.51%; the Nasdaq -0.86%). German Bunds/yields still decoupled from the risk-off closing mixed (5-y +1.5bp; 30-y -1.3bp). **US Treasuries outperformed**. The US curve bull flattened with **a late session rally of the long end of the curve**. 2-y yields were little changed but the 10-y (-3.6 bp) and 30-y (-6.4 bp) performed strongly. Soft comments from Fed governors Clarida and Mester supported the bid for Treasuries. A US 3-year auction (record \$46 bln) met decent investor interest. Auction stopped at a record low yield of 0.19% (WI bid 0.189%) with an average bid cover of 2.44. **The dollar** rebounded early in the session, but the move slowed later. EUR/USD closed at 1.1274 (from 1.1309). Sterling succeeded a technical break. **EUR/GBP tested 0.90 several times of late and finally broke below despite the risk-off (close at 0.8989)**.
- This morning, Asian equities are trading mixed, with **China still outperforming** (mainland +1%). US futures trade slightly in the red. There is little high profile news. Reports suggest that the US might take action to undermine the peg of the Hong Kong dollar to the USD. USD/HKD is trading little changed near 7.75. The yuan maintains most of the gain from earlier this week (USD/CNY 7.02). Australian equities underperform on the new corona outbreak in Victoria, but the **damage for the Aussie dollar remains limited** (AUD/USD 0.6940 area).
- Later today, there are hardly any eco data worth mentioning in Europe or in the US. **Auctions maybe might inspire some intraday jitters in the bond markets**. Germany will sell €5 bln of 2025 bonds. The US will sell \$29 bln of 10-y note. Yesterday, the belly of the German yield curve slightly underperformed. LT US bonds (10-y and even more 30-y) recently performed well as the steepening trend from May/early June is further unwound. US 10-y yields are gradually drifting lower in the established consolidation pattern. Even so, especially if sentiment on risk turns a bit more cautions, the 10-y sale still might go south. **The US 10-y breaking below the 0.62% area might open the way for a return to the 0.54% range bottom**. On the FX markets, **the dollar is in consolidation modus**. EUR/USD failed to break the 1.1350 resistance. Some further correction is possible in a daily perspective. However, the 1.1160/1.1185 area is a tough support. EUR/GBP yesterday dropped below the 0.90 barrier, improving the ST picture for the UK currency. At the start of a new round of Brexit talks, UK PM Johnson told German Chancellor Merkel that the UK is still prepared leave the EU without a deal if the EU does compromise. Later today, **UK Fin Min Sunak will propose new measures to support the UK economic recovery**. The day-to-day momentum in EUR/GBP is easing, but for now, we assume any further sterling gains to stay modest.

News Headlines

- The **Fed discount rate meeting minutes** from the period covering May 18 through June 10 showed that regional Fed directors are still seeing an “exceptionally high” pace of job losses. They also expressed concerns over the construction sector, noting few new projects in the pipeline, and “subdued consumer spending” even as many nonessential business began reopening.
- The **US White House sent a letter that starts the one-year notice period before exiting the WHO** after joining the health organization in 1948. The move comes as US president Trump accuses the institution of helping China to hide the facts about Covid-19. The US is a major contributor to the WHO’s budget, providing more than 16% of the funds.

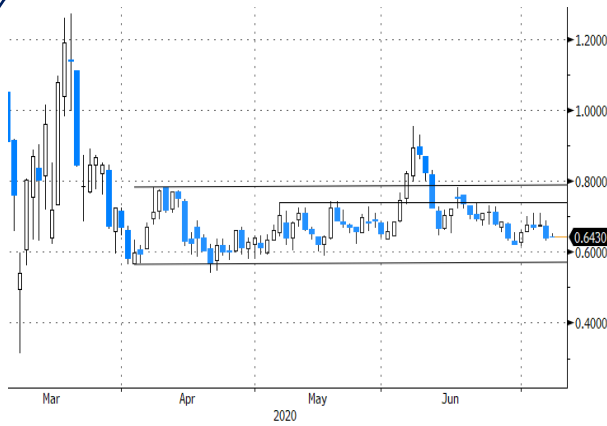
Graphs & Table



EUR/GBP dropped below 0.90 mark, easing the ST momentum.



S&P 500: equity rally taking a breather



US 10-y drifting lower in established range going into 10-y auction.



USD tradeweighted (DXY): holding in consolidation modus, but recent lows still nog that far away.

Source: Bloomberg

Calendar

Wednesday, 8 July		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-1.80%
21:00	Consumer Credit (May)	-\$15.000b	-\$68.779b
Japan			
01:50	BoP Current Account Adjusted (May)	¥821.1bA	¥252.4b
01:50	Trade Balance BoP Basis (May)	-¥556.8bA	-¥966.5b
01:50	Bank Lending Ex-Trusts YoY (Jun)	6.50%A	5.10%
06:30	Bankruptcies YoY (Jun)	6.26%A	-54.82%
07:00	Eco Watchers Survey Current/Outlook SA (Jun)	38.8A/44.0A	15.5/36.5
Events			
08JUL	UK Chancellor Sunak gives details on post-pandemic "Build Build Build" strategy		
11:30	Germany to Sell 5 Billion Euros of 2025 Bonds		
16:00	ECB Vice President Luis de Guindos speaks		
18:15	Fed's Bostic Takes Part in Webinar on Economy		
19:00	US to Sell USD29 Bln 10-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.64	-0.04	US	0.16	0.00	DOW	25890.18	-396.85	
DE	-0.43	0.00	DE	-0.67	0.01	NASDAQ	10343.89	-89.76	
BE	-0.14	0.00	BE	-0.56	0.01	NIKKEI	22438.65	-176.04	
UK	0.18	-0.02	UK	-0.07	0.00	DAX	12616.8	-116.65	
JP	0.02	-0.03	JP	-0.13	-0.01	DJ euro-50	3321.56	-28.47	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.38	0.22	0.19	Eonia	-0.4650	0.0000	Libor-1	0.1659	0.0000
5y	-0.34	0.32	0.24	Euribor-1	-0.5110	-0.0030	Libor-3	0.2765	0.0000
10y	-0.16	0.61	0.37	Euribor-3	-0.4360	0.0050	Libor-6	0.3643	0.0000
				Euribor-6	-0.3130	-0.0050			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1274	-0.0035	EUR/JPY	121.21	-0.18	CRB	141.56	0.66	
USD/JPY	107.52	0.17	EUR/GBP	0.8989	-0.0064	Gold	1809.90	16.40	
GBP/USD	1.2542	0.0050	EUR/CHF	1.0625	-0.0031	Brent	43.08	-0.02	
AUD/USD	0.6947	-0.0026	EUR/SEK	10.4439	-0.0181				
USD/CAD	1.3603	0.0064	EUR/NOK	10.7	0.0723				

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.

