



**Tuesday, 14 July 2020**

### Rates: US stock markets take double hit

A hawkish US stance against Chinese territorial claims and the Californian economic reopening reversal hurt risk sentiment, triggering an outperformance of US Treasuries. Today's eco data are only an amuse-bouche in this week's back-loaded agenda. Risk sentiment remains the needle in the market compass, with Q2 corporate earnings potentially influential.

### Currencies: Dollar hardly profits even as sentiment turns more cautious

EUR/USD maintained most of the intra-day gains yesterday despite a late session correction on WS. The 1.1375/1.1422 resistance stay within reach. EUR/JPY also nears intermediate resistance. EUR/GBP's trip below 0.90 was short-lived, illustrating that sustained sterling gains remain difficult for now.

### Calendar

## Headlines

- **Wall Street** fainted during the last hours of trading amid rising geopolitical tensions and coronavirus cases. The Nasdaq (-2.13%) underperformed. **Asian-Pacific markets** trade heavy in lockstep with China lagging peers (-1.3%).
- **The US rejected China's territorial claims in the South China Sea**, reversing a previous stance not taking sides in territorial disputes in the region. The Defence Department called China's military exercises in the Sea unlawful last week.
- **California closed indoor dining and bars** and some gyms and salons which were on a monitoring list. **Hong Kong also tightened rules** again to contain the virus while **Japan said a state of emergency is possible** if infections rise further.
- **China printed a surprise advance in trade** as most developed countries further reopened the economy in June. Exports rose a modest 0.5% y/y (from -3.3% in May) while imports recovered 2.7% y/y after the -16.7% setback in May.
- **Singapore plunged into a recession as GDP fell -41.2% q/q annualized** during the partial lockdown in Q2. Growth declined -3.3% in Q1. Construction (-95.6%), manufacturing (-23.1%) and services (-37.7%) were all decimated.
- **US advisors to president Trump have ruled out undermining the Hong Kong peg** as a way to punish China over the recently imposed security law. The aides didn't gather enough support and are concerned it would end up hurting the US.
- **Today's economic calendar** contains US June NFIB small business optimism and CPI. Germany publishes ZEW investor confidence for July. A slew of Fed speeches are due. Q2 earnings seasons kicks off. Italy taps the bond market.

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	👇

# Rates

## US stock markets take double hit

	US yield	-1d
2	0.15	0.00
5	0.29	-0.02
10	0.62	-0.03
30	1.31	-0.03

	DE yield	-1d
2	-0.66	0.03
5	-0.62	0.04
10	-0.42	0.05
30	0.01	0.05

Risk sentiment on stock markets remains the dominant driver for other markets, especially in absence of any other eco or event news. A clear blue sky paved the way for additional equity gains, both in Europe and at the start of US dealings. Core bonds ceded ground via the traditional risk paradigm. **US Secretary of State Pompeo's warning against China that claims to offshore resources across most of the South China Sea are completely unlawful sent a first shiver through US stock markets. The rosy picture was later completely shattered by California governor Newsom's decision to roll back the state's reopening and calling an immediate stop to indoor activities.** Main US indices closed flat (Dow) to 2% lower (Nasdaq). The main move occurred after the official European close, explaining the significant intraday outperformance of US Treasuries when looking at the daily scorecards. The US yield curve bull flattened with yields declining by 0.2 bps (2-yr) to 2.9 bps (30-yr). The German yield curve bear steepened with yields rising by 3 bps (2-yr) to 5.3 bps (30-yr). **Apart from risk sentiment, technical factors remained at play with the German 10-yr yield last Friday bouncing off -0.48% support.** Peripheral yield spreads vs Germany narrowed by up to 4 bps.

Most Asian stock markets trade with losses this morning. China underperforms (-2%). The German Bund made a catch-up move in after-hour dealings, but is just like the US Note future off best levels. **Today's eco calendar contains US NFIB Small Business Optimism, US CPI inflation and German ZEW investor sentiment. We don't expect them to be detrimental for trading ahead of bigger (US) numbers and (EMU) events later this week.** US eco data include July business surveys (Empire manufacturing, Philadelphia Fed) and June hard data (industrial production and retail sales). European focus turns to the ECB meeting and EU Summit at the end of the week. The ECB is unlikely to alter its policy stance again, but will continue to strike a cautious tone on the economic recovery while standing ready to add stimulus if needed to counter downside risks. European leaders will try to broker a deal on the recovery fund with the "frugal four" still objecting the proposed structure (too large amount of grants). **Risk sentiment will thus remain the needle in the market compass with yesterday's developments short term supportive for core bonds.**

**Technically,** the US 10-yr yield is drifting to the lower end of the 0.54%-0.78% sideways trading range. The Fed's implicit yield curve control remains at work (open-ended, unlimited QE). The German 10-yr yield bounced off first support just above -0.50%.



German 10-yr yield bounced off first support around -0.5%



US 10-yr yield returns into longstanding trend channel. Implicit Fed yield curve control at play by open-ended QE

# Currencies

## EUR/USD stays strong despite risk-off correction

R2	1.495	-1d
R1	1.1412	
<b>EUR/USD</b>	<b>1.1344</b>	<b>0.0044</b>
S1	1.1167	
S2	1.0964	

R2	0.9305	-1d
R1	0.9212	
<b>EUR/GBP</b>	<b>0.9036</b>	<b>0.0083</b>
S1	0.8621	
S2	0.8569	

**Yesterday's** sentiment on risk was constructive for most of the day, but a flaring up of geopolitical tensions between the US and China and negative headlines on corona from the likes of California finally caused US equities to return most gains (Dow) or close in the red (S&P; Nasdaq). The TW dollar followed the swings in sentiment intraday, **but in the end the dollar didn't profit while the euro held up well**. EUR/USD jumped from the 1.13 area to test 1.1375 intraday and preserved part of its gain despite the late session risk-off (close 1.1340). USD/JPY even maintained gains to close at 107.29. The USD/JPY performance probably was also supported by a solid bid in EUR/JPY which tested the 121.95 resistance.

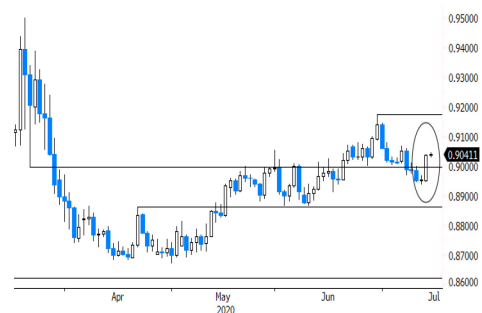
**This morning**, Asian markets joined the correction on WS late yesterday. **The dollar again hardly profits** (TW DXY stable near 96.55). The yuan is losing modest ground (USD/CNY 7.01 area) even as China June trade data (imports and exports) printed better than expected. EUR/USD (1.1345 area) and USD/JPY (107.25) are also little affected by risk-off.

**Today**, the calendar is better filled compared to previous days including **German ZEW confidence** and EMU May production. In the US NFIB small business confidence is expected to rise only modestly. US June headline inflation is expected to rise to 0.6% Y/Y but core is expected only at 1.10%. Global sentiment remains the driver for overall USD moves. That said, it looks that 'usual' USD gains due to the risk-off is a bit hindered by negative US corona developments. EUR/USD (and also EUR/JPY) are nearing intermediate resistance, suggesting a constructive sentiment on the euro. We saw EUR/USD developing a buy-on-dips pattern, with the 1.1255 area providing good support. **A break above 1.1375/1.1422 would further improve the ST picture**. A constructive message from the EU summit later this week might reinforce the euro bid.

Sterling returned a big part of last week's gain against the euro yesterday with EUR/GBP returning north of 0.90. Euro strength played a role but we didn't see any UK specific news. **This morning, May UK GDP and production data were weaker than expected**, confirming that the road of the UK recovery will be (very) long. Sterling is losing a few ticks. The UK currency recently decoupled a bit from the usual risk-on/risk-off pattern. Even so, yesterday's poor performance suggests that a sustained return below EUR/GBP 0.90 won't be that easy, especially if sentiment on risk turns more cautious.



EUR/USD: 1.1375/1.1422 resistance stay within reach



EUR/GBP: trip below 0.90 short-lived

# Calendar

Tuesday, 14 July		Consensus	Previous
<b>US</b>			
<b>12:00</b>	<b>NFIB Small Business Optimism (Jun)</b>	<b>97.8</b>	<b>94.4</b>
14:30	Real Avg Hourly/Weekly Earnings YoY (Jun)	--/--	6.50%/7.40%
14:30	CPI MoM/YoY (Jun)	0.50%/0.60%	-0.10%/0.10%
<b>14:30</b>	<b>CPI Ex Food and Energy MoM/YoY (Jun)</b>	<b>0.10%/1.10%</b>	<b>-0.10%/1.20%</b>
<b>Japan</b>			
06:30	Capacity Utilization MoM (May)	-11.60%A	-13.30%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Jun)	--	7.90%
08:00	Monthly GDP MoM/3M-3M (May)	5.30%/-17.40%	-20.4%/-10.4%
08:00	Industrial Production MoM/YoY (May)	5.80%/-20.00%	-20.3%/-24.4%
08:00	Manufacturing Production MoM/YoY (May)	7.50%/-23.90%	-24.3%/-28.5%
08:00	Construction Output MoM/YoY (May)	9.20%/-39.20%	-40.1%/44%
08:00	Index of Services MoM/3M-3M (May)	4.80%/-17.00%	-19.0%/-9.9%
<b>EMU</b>			
11:00	Industrial Production SA MoM/WDA YoY (May)	15%/-18.90%	-17.1%/-28.0%
11:00	ZEW Survey Expectations (Jul)	--	58.6
<b>Germany</b>			
<b>11:00</b>	<b>ZEW Survey Expectations (Jul)</b>	<b>60</b>	<b>63.4</b>
11:00	ZEW Survey Current Situation (Jul)	-65	-83.1
<b>China</b>			
14JUL	Exports/Imports YoY (Jun)	0.50%A/2.70%A	-3.30%/-16.7%
<b>Sweden</b>			
09:30	CPI MoM/YoY (Jun)	0.40%/0.50%	0.60%/0.00%
09:30	CPIF MoM/YoY (Jun)	0.40%/0.50%	0.60%/0.00%
09:30	CPIF Excl. Energy MoM (Jun)	0.10%/1.10%	0.60%/1.20%
<b>Events</b>			
Q2 earnings	JPMorgan Chase (12:45), Citigroup (14:00), Wells Fargo (14:00), Delta Air Lines (bef-mkt) ...		
11:00	Italy to Sell Bonds		
<b>20:00</b>	<b>Fed's Brainard Discusses Economy and Monetary policy</b>		
20:00	Fed's Bostic Discusses Affordable Housing		
<b>20:30</b>	<b>Fed's Bullard Discusses Economy and Monetary Policy</b>		
<b>21:30</b>	<b>Fed's Harker Discusses Virus Impact on Small Businesses</b>		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	0.62	-0.03		US	0.15	0.00		DOW	26085.8	10.50
DE	-0.42	0.05		DE	-0.66	0.03		NASDAQ	10390.84	-226.60
BE	-0.12	0.03		BE	-0.54	0.02		NIKKEI	22587.01	-197.73
UK	0.19	0.03		UK	-0.10	0.01		DAX	12799.97	166.26
JP	0.02	-0.02		JP	-0.14	-0.02		DJ euro-50	3350	53.78
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.37	0.23	0.17	Eonia	-0.4640	0.0000		Libor-1	0.1754	0.0000
5y	-0.33	0.32	0.22	Euribor-1	-0.5030	0.0000		Libor-3	0.2681	0.0000
10y	-0.15	0.60	0.36	Euribor-3	-0.4350	0.0050		Libor-6	0.3454	0.0000
				Euribor-6	-0.3320	-0.0020				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1344	0.0044		EUR/JPY	121.71	0.85		CRB	140.68	-0.84
USD/JPY	107.29	0.36		EUR/GBP	0.9036	0.0083		Gold	1814.10	12.20
GBP/USD	1.2555	-0.0067		EUR/CHF	1.0682	0.0046		Brent	42.72	-0.52
AUD/USD	0.694	-0.0010		EUR/SEK	10.4344	0.0384				
USD/CAD	1.3609	0.0017		EUR/NOK	10.7261	0.0711				

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