



Thursday, 16 July 2020

## Rates: US eco data more relevant than ECB meeting?!

Chinese GDP rebounded by 11.5% in Q2, but remains down YTD with retail sales pointing to continuing weakness. US eco data could be more important than the ECB meeting today from a market point of view. The ECB's message will be steady compared to June, while US eco data will gradually start showing the impact of the 2<sup>nd</sup> wave of COVID-19 infections.

## Currencies: USD decline to slow as important support is coming closer?

The trade-weighted dollar (DXY) declined close to the 95.72 support yesterday, but no break occurred. EUR/USD tested the mid 1.14 area, but the 1.1495 top was one step too far. A softer sentiment on the Chinese data this morning provides a better bid for the dollar. ST EUR/USD consolidation might be on the cards as investors look out for tomorrow's EU summit.

## 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      | → |

- **US equities** poured out another green session amid vaccine optimism. The S&P (+0.91%) outperformed. **Asian stock markets** trade heavy after an unexpected decline in Chinese retail sales act as a chill reminder of a bumpy recovery.
- **Chinese Q2 growth came in at 11.5% q/q or 3.2% y/y**, topping expectations. Monthly June figures showed industrial production rising (4.8% y/y) but **retail sales unexpectedly contracting** (-1.8% y/y), highlighting the fragile recovery.
- **Australian employment surged with 211k jobs in June** after a 870k job loss in April and May. The unemployment rate ticked up to 7.4% from 7.1% the month before while the participation rate recovered to 64% (vs 62.7% in May).
- **The Bank of Canada kept rates steady at 0.25%** yesterday and is likely to remain this low at least until 2023 when unemployment is expected to fall closer to pre-pandemic levels and inflation to return to the 2%-target.
- **US president Trump indicated he doesn't seek to further escalate tensions with China**, ruling out additional sanctions on top officials at this stage after signing the Hong Kong bill on Tuesday under which the US is allowed to.
- **The Bank of Korea held policy rates at 0.50%**. Governor Lee said uncertainty rises again and the economy will be weaker than expected. Lee considers 0.50% as the ELB and will **use non-rate tools if further easing is needed**.
- **Today's eco calendar** contains US retail sales, Philly Fed business outlook and the weekly update on the labour market. The UK publishes the May labour report. The ECB meets. Spain and France sell bonds.

# Rates

## US eco data more relevant than ECB meeting?!

|    | US yield | -1d  |
|----|----------|------|
| 2  | 0.16     | 0.00 |
| 5  | 0.29     | 0.00 |
| 10 | 0.63     | 0.01 |
| 30 | 1.32     | 0.02 |

|    | DE yield | -1d  |
|----|----------|------|
| 2  | -0.67    | 0.00 |
| 5  | -0.65    | 0.00 |
| 10 | -0.44    | 0.00 |
| 30 | -0.02    | 0.01 |

**Core bonds traded within established ranges yesterday to close broadly unchanged.** Only the very long end of the US yield curve underperformed. Better-than-expected US eco data and positive equity performances in Europe (+2%) and the US (+1%) didn't impact bond trading. **The Fed's Beige Book** pointed to a pick-up in economic activity during economic reopening while the pace slowed towards the cut-off date early July. Employment remains one of the biggest issues with many businesses continuing layoffs while facing difficulties to rehire, ranging from health and safety issues over (expensive) expanded unemployment benefits and child-care needs. The German yield curve steepened with daily changes ranging between -0.6 bps (2-yr) and +0.7 bps (30-yr). Peripheral yield spreads barely budged. Changes on the US yield curve varied between -0.3 bps (2-yr) and +2.1 bps (30-yr).

Asian stock markets correct lower overnight with China underperforming (-2.5%) despite upbeat GDP data. **Chinese Q2 GDP rebounded more than expected (11.5% Q/Q).** The economy still contracted by 1.6% in the first half of the year compared with H1 2019. **Monthly June retail sales, industrial production and investments were all near consensus with the continuing decline in retail sales standing out from a negative point of view.** Core bonds hover sideways this morning, ignoring the risk aversion.

**Today's eco calendar contains the ECB meeting.** 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. Such message should comfort markets. **US eco data could be more interesting from a market point of view** with June US retail sales, July Philly Fed Business Outlook and weekly jobless claims. **We think that eco data will gradually start showing the damage inflicted by the second wave of US COVID-19 infections.** Deteriorating data could be a trigger for some short term correction on stock markets and underpin demand for core bonds. There's room for some further increase within trading ranges. **Q2 corporate earnings results are a wildcard for trading.**

**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

|                |        |        |
|----------------|--------|--------|
| R2             | 1.495  | -1d    |
| R1             | 1.1412 |        |
| <b>EUR/USD</b> | 1.1412 | 0.0012 |
| S1             | 1.1167 |        |
| S2             | 1.0964 |        |

|                |        |         |
|----------------|--------|---------|
| R2             | 0.9305 | -1d     |
| R1             | 0.9212 |         |
| <b>EUR/GBP</b> | 0.9066 | -0.0015 |
| S1             | 0.8621 |         |
| S2             | 0.8569 |         |

## USD decline shows tentative signs of slowing

An outright risk-on initially triggered further USD selling yesterday. EUR/USD tested the mid 1.14 area. Interestingly, USD/JPY also followed the broader USD downtrend. US data including Empire manufacturing survey and production data were better than expected, but didn't help the dollar. **The TW dollar (DXY) came within reach of the key 95.72 support, but a real test didn't occur.** Later, equities stayed in positive territory, but uncertainty on the next phase in the pandemic prevented an acceleration of the risk-on. EUR/USD closed at 1.1412, off the day top. USD/JPY closed near 107 after filling bids in the 106.70 area earlier.

This morning, Asian equities are falling prey to profit taking. China Q2 GDP printed stronger than expected (3.2% Y/Y), but slightly **weaker than expected June China retail sales dampened optimism.** The TW dollar returned to the 96 area late yesterday and extends its comeback this morning. **EUR/USD struggles not to fall back below 1.14.** Australia labour market data were mixed. However, together with a broader USD rebound, they weren't good enough to keep AUD/USD north of the 0.70.

**Today,** the ECB policy decision is the key for EMU markets. In US the June retail sales, the Philly Fed outlook and jobless claims all are worth monitoring. US data are expected to show the positive impact of the reopening of the economy. Question is whether this is sustainable given the rise in US infections. Even solid US data probably will have little (positive) impact on the USD. We expect ECB's Lagarde to err to the side of caution and keep to door open for more easing. A less dovish stance probably will be negative rather than a positive for the euro. **Of late, the dollar developed a gradual downtrend.** At the same time, the euro was well bid too. There is no obvious trigger to row against this trend, but a pause might be on the cards. The pair recently was captured in buy-on-dips pattern. 1.1422 was extensively tested, but the move is running into resistance. A break toward the 1.1495 top probably needs help from a positive EU summit. EUR/GBP yesterday entered some ST consolidation modus after rather steep sterling losses on Tuesday. The pair settled in the mid 0.90 area. This morning, UK labour data show less job losses than expected/feared, however this real impact still has to become apparent when government support schemes will be scaled back. We see no obvious trigger for sustained sterling gains, especially not if sentiment turns more cautious. **0.90 should be solid support ST.**



EUR/USD: rally taking a breather ahead of key resistance



EUR/GBP sterling sell-off eases, but no swift comeback expected

# Calendar

| Thursday, 16 July |   | Consensus             | Previous            |
|-------------------|---|-----------------------|---------------------|
| <b>US</b>         |   |                       |                     |
| 14:30             | Retail Sales Advance MoM (Jun)  | 5.50%                 | 17.70%              |
| 14:30             | Retail Sales Ex Auto MoM (Jun)  | 5.40%                 | 12.40%              |
| 14:30             | Retail Sales Ex Auto and Gas (Jun)                                    | 5.00%                 | 12.40%              |
| 14:30             | <b>Retail Sales Control Group (Jun)</b>                               | <b>4.00%</b>          | <b>11.00%</b>       |
| 14:30             | <b>Philadelphia Fed Business Outlook (Jul)</b>                        | <b>20</b>             | <b>27.5</b>         |
| 14:30             | <b>Initial Jobless Claims</b>   | <b>1250k</b>          | <b>1314k</b>        |
| 14:30             | <b>Continuing Claims</b>  | <b>17500k</b>         | <b>18062k</b>       |
| 16:00             | Business Inventories (May)  | -2.30%                | -1.30%              |
| 16:00             | NAHB Housing Market Index (Jul)                                       | 61                    | 58                  |
| 22:00             | Net Long-term TIC Flows (May)   | --                    | -\$128.4b           |
| <b>UK</b>         |   |                       |                     |
| 08:00             | Claimant Count Rate (Jun)   | --                    | 7.80%               |
| 08:00             | Jobless Claims Change (Jun)   | --                    | 528.9k              |
| 08:00             | Average Weekly Earnings 3M/YoY (May)                                  | -0.50%                | 1.00%               |
| 08:00             | Weekly Earnings ex Bonus 3M/YoY (May)                                 | 0.50%                 | 1.70%               |
| 08:00             | <b>ILO Unemployment Rate 3Mths (May)</b>                              | <b>4.20%</b>          | <b>3.90%</b>        |
| 08:00             | Employment Change 3M/3M (May)   | -275k                 | 6k                  |
| <b>EMU</b>        |   |                       |                     |
| 08:00             | EU27 New Car Registrations (Jun)                                      | --                    | -52.30%             |
| 13:45             | <b>ECB Deposit Facility Rate</b>                                      | <b>-0.50%</b>         | <b>-0.50%</b>       |
| <b>China</b>      |   |                       |                     |
| 03:30             | New Home Prices MoM (Jun)   | 0.58%A                | 0.49%               |
| 04:00             | <b>GDP QoQ/YoY (2Q)</b>   | <b>11.50%A/-1.6%A</b> | <b>-10%R/-6.80%</b> |
| 04:00             | GDP YTD YoY (2Q)  | -1.60%A               | -6.80%              |
| 04:00             | Industrial Production YoY/YTD YoY (Jun)                               | 4.80%A/-1.30%A        | 4.40%/-2.80%        |
| 04:00             | Retail Sales YoY/YTD YoY (Jun)  | -1.80%A/-11.40%A      | -2.80%-13.50%       |
| 04:00             | Property Investment YTD YoY (Jun)                                     | 1.90%A                | -0.30%              |
| 04:00             | Fixed Assets Ex Rural YTD YoY (Jun)                                   | -3.10%A               | -6.30%              |
| 04:00             | Surveyed Jobless Rate (Jun)   | 5.70%A                | 5.90%               |
| <b>Events</b>     |   |                       |                     |
| Q2 earnings       | Johnson & Johnson, Morgan Stanley (13:15), Netflix (22:00) ...        |                       |                     |
| 10:45             | Spain to Sell Sr Unsecured Bonds                                      |                       |                     |
| 11:50             | France to Sell Bonds  |                       |                     |
| 12:45             | BOE's Haldane Speaks About Financial Services                         |                       |                     |
| 17:00             | Fed's Evans Takes Part in Rocky Mountain Economic Summit              |                       |                     |
| 17:10             | <b>Fed's Williams Speaks to Financial Research Advisory Committee</b> |                       |                     |
| 18:00             | Fed's Bostic Speaks to Economic Club of Florida                       |                       |                     |
| 19:30             | Fed's Evans Takes Part in Rocky Mountain Summit                       |                       |                     |
| 20:00             | Fed's Bostic Discusses Racial Equality and the Federal Reserve        |                       |                     |

| 10-year    | Close  | -1d     |      | 2-year     | Close   | -1d     |  | Stocks      | Close    | -1d     |
|------------|--------|---------|------|------------|---------|---------|--|-------------|----------|---------|
| US         | 0.63   | 0.01    |      | US         | 0.16    | 0.00    |  | DOW         | 26870.1  | 227.51  |
| DE         | -0.44  | 0.00    |      | DE         | -0.67   | 0.00    |  | NASDAQ      | 10550.49 | 61.91   |
| BE         | -0.16  | 0.00    |      | BE         | -0.57   | -0.01   |  | NIKKEI      | 22770.36 | -175.14 |
| UK         | 0.17   | 0.02    |      | UK         | -0.08   | 0.02    |  | DAX         | 12930.98 | 233.62  |
| JP         | 0.02   | -0.02   |      | JP         | -0.14   | -0.01   |  | DJ euro-50  | 3378.21  | 56.82   |
|            |        |         |      |            |         |         |  |             |          |         |
| IRS        | EUR    | USD     | GBP  | EUR        | -1d     | -2d     |  | USD         | -1d      | -2d     |
| 3y         | -0.38  | 0.23    | 0.14 | Eonia      | -0.4660 | 0.0000  |  |             |          |         |
| 5y         | -0.35  | 0.33    | 0.20 | Euribor-1  | -0.5130 | -0.0050 |  | Libor-1     | 0.1766   | 0.0000  |
| 10y        | -0.19  | 0.61    | 0.35 | Euribor-3  | -0.4430 | -0.0100 |  | Libor-3     | 0.2709   | 0.0000  |
|            |        |         |      | Euribor-6  | -0.3330 | -0.0030 |  | Libor-6     | 0.3414   | 0.0000  |
|            |        |         |      |            |         |         |  |             |          |         |
| Currencies | Close  | -1d     |      | Currencies | Close   | -1d     |  | Commodities | Close    | -1d     |
| EUR/USD    | 1.1412 | 0.0012  |      | EUR/JPY    | 122.04  | -0.21   |  | CRB         | 141.22   | 1.23    |
| USD/JPY    | 106.94 | -0.30   |      | EUR/GBP    | 0.9066  | -0.0015 |  | Gold        | 1813.80  | 0.40    |
| GBP/USD    | 1.2587 | 0.0034  |      | EUR/CHF    | 1.0777  | 0.0062  |  | Brent       | 43.79    | 0.89    |
| AUD/USD    | 0.7008 | 0.0033  |      | EUR/SEK    | 10.3497 | -0.0291 |  |             |          |         |
| USD/CAD    | 1.3509 | -0.0106 |      | EUR/NOK    | 10.5808 | -0.1393 |  |             |          |         |

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