



Monday, 27 July 2020

## KBC Sunrise Market Commentary

### Markets

- On Friday, EMU PMI's rebounded sharply with the composite EMU measure rising from 48.5 to 54.8, signaling a solid rebound in activity at the start of Q3. In particular services sector growth (55.1) reaccelerated as lockdowns were eased. The impact of the PMI's on markets was modest. European equities opened in negative territory. There was a temporary rebound after the PMI's, but the move never gained traction. European indices closed with losses of up to 2%. **The US Markit (composite) PMI printed exactly at the 50 boom-or-bust level, another indication (after Thursday's jobless claims) that the spreading in the corona virus might slow the reopening of the economy.** US equity indices also lost further ground. (Dow, -0.68%, The Nasdaq underperformed -0.94%). Uncertainty on a new US stimulus package and US-China tensions were additional sources of investor caution. Divergent data between the US and Europe this time resulted into a different performance of bond markets. German yields rose up to 3.4/3.0 bp for 5y to 30y maturities. US bonds outperformed with 30-y yield declining 0.2 bp. The 10-y yield rose a modest 1.1 bp.

**The risk-off again didn't help the dollar.** On the contrary. The trade-weighted dollar (DXY) closed at 94.43, below the 94.65 key support. Initially, the strong EMU PMI's had little impact on EUR/USD, but USD selling again intensified in US trading. EUR/USD closed at 1.1656 (1.1596 on Thursday). USD/JPY also joined the broader USD decline closing at 106.14. UK data (composite PMI at 57.1, June retail sales up 13.5% M/M) were much stronger than expected but sterling didn't profit much even as UK yields rebounded intraday. EUR/GBP closed at 0.9110 (0.9102 on Thursday).
- This morning, Asian equities are trading mixed. China June industrial profits rising 11.5% Y/Y (from 6.0% Y/Y) are a mild positive. The USD downtrend simply continues with the TW USD (DXY) at risk of falling below the 94 big figure. **USD/JPY is trading in the 105.65 area, breaking below a sideways consolidation pattern in place since early April.** Gains in the yuan (USD/CNY 7.00 area) remain modest given the broad USD decline. EUR/USD filled offers north of 1.17. **The USD-decline also pushed gold (\$ 1931 p/ounce ) to a new record.**
- Later today, **German IFO Business confidence** is expected to improve further from 86.2 to 89.3. **US June durable goods orders** also are expected to extend the May rebound. We assume markets to react rather guarded on any positive data news given rising worries on the impact of a second wave of the corona virus, both inside and outside the US. Belgium will sell 2025 and 2029 bonds today. The US Treasury will auction 2-y and 5-y bonds. Later this week, several countries including the US (Thursday) and EMU (Friday) will publish **Q2 GDP data**. Markets will also keep a close eye at timely confidence data, including US consumer confidence (Tuesday). **The Fed will announce the outcome of a regular policy meeting on Wednesday.** No change in policy is expected, but investors will closely monitor the Fed's assessment on recent developments regarding the corona virus and its impact on the economy. The Fed will probably reiterate its commitment to keep policy as supportive as necessary. The negotiations on a new US fiscal package remain a wildcard.

German and US 10-y yields are holding near important support levels respectively at -0.5% and 0.54%. Especially, for US yields the room for a meaningful rebound is probably limited going into the Fed meeting. **The going decline in US LT yields/flattening of the US yield curve of late was an additional negative for the dollar.** The technical picture of the dollar deteriorated significantly after the break of DXY below 94.65. For now, we see no trigger to change the established USD downtrend. EUR/USD 1.1825 area is next important reference on the charts. There are no data in the UK today. More order driven trading in EUR/GBP might be on the cards, with 0.90 a strong support.

### News Headlines

- US White House officials and the Senate Republicans are reported to have agreed on a \$1 trillion stimulus package that will be the starting point for negotiations with the Democrats. According to US Treasury Secretary Mnuchin, the package will contain extended unemployment benefits aiming to replace 70% of previous wages of laid-off workers.

# Graphs & Table



Source: Bloomberg

# Calendar

Monday, 27 July		Consensus	Previous
<b>US</b>			
·14:30	<b>Durable Goods Orders (Jun-P)</b>	<b>7.0%</b>	<b>15.7%</b>
·14:30	Durables-Ex-Transportation (Jun-P)	3.5%	3.7%
·14:30	Cap-Goods-Orders-Nondef-Ex-Air (Jun-P)	2.4%	1.6%
·14:30	Cap-Goods-Ship-Nondef-Ex-Air (Jun-P)	2.8%	1.5%
·16:30	Dallas-Fed-Manf.-Activity (Jul)	-4.9	-6.1
<b>EMU</b>			
·10:00	<b>M3-Money-Supply-YoY (Jun)</b>	<b>9.3%</b>	<b>8.9%</b>
<b>Germany</b>			
·10:00	IFO-Business-Climate (Jul)	89.3	86.2
·10:00	<b>IFO-Expectations (Jul)</b>	<b>93.4</b>	<b>91.4</b>
·10:00	IFO-Current-Assessment (Jul)	85.0	81.3
<b>France</b>			
·12:00	Total-Jobseekers (2Q)	--	3333.8k
<b>China</b>			
·03:30	Industrial-Profits-YoY (Jun)	A11.5%	6.0%
<b>Events</b>			
·11:30	Belgium-to-Sell-0.8%-2025,-0.9%-2029-Bonds		
·17:30	US-to-Sell-2-yr-Notes		
·19:00	US-to-Sell-5-yr-Notes		

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>		<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
<b>US</b>	0,59	0,01		<b>US</b>	0,15	0,00		<b>DOW</b>	26469,89	-182,44
<b>DE</b>	-0,45	0,03		<b>DE</b>	-0,65	0,02		<b>NASDAQ</b>	10363,18	-98,24
<b>BE</b>	-0,17	0,03		<b>BE</b>	-0,57	0,01		<b>NIKKEI</b>	22715,85	-35,76
<b>UK</b>	0,14	0,02		<b>UK</b>	-0,09	0,01		<b>DAX</b>	12838,06	-265,33
<b>JP</b>	0,02	0,00		<b>JP</b>	-0,13	-0,01		<b>DJ euro-50</b>	3310,89	-60,85
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>		<b>USD</b>	<u>-1d</u>	<u>-2d</u>
<b>3y</b>	-0,40	0,22	0,12	<b>Eonia</b>	-0,4650	0,0000				
<b>5y</b>	-0,36	0,31	0,18	<b>Euribor-1</b>	-0,5130	0,0020		<b>Libor-1</b>	0,1726	0,0010
<b>10y</b>	-0,19	0,58	0,33	<b>Euribor-3</b>	-0,4480	0,0050		<b>Libor-3</b>	0,2468	0,0023
				<b>Euribor-6</b>	-0,3730	0,0000		<b>Libor-6</b>	0,3185	-0,0066
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
<b>EUR/USD</b>	1,1656	0,0060		<b>EUR/JPY</b>	123,7	-0,23		<b>CRB</b>	143,05	0,11
<b>USD/JPY</b>	106,14	-0,72		<b>EUR/GBP</b>	0,9110	0,0009		<b>Gold</b>	1925,20	7,80
<b>GBP/USD</b>	1,2794	0,0053		<b>EUR/CHF</b>	1,0731	0,0000		<b>Brent</b>	43,34	0,03
<b>AUD/USD</b>	0,7105	0,0007		<b>EUR/SEK</b>	10,2968	0,0198				
<b>USD/CAD</b>	1,3415	0,0005		<b>EUR/NOK</b>	10,6679	-0,0318				

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