

Thursday, 30 July 2020

KBC Sunrise Market Commentary

Markets

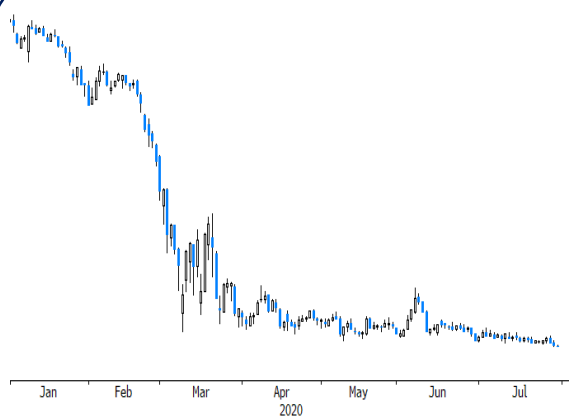
- Yesterday, the focus for global trading was on **the Fed policy decision**. The Fed as expected kept its policy unchanged leaving the target range for the Fed Funds rate at 0.0% to 0.25%. The Fed acknowledged **that the path of the economy will depend significantly on the course of the virus**. In this respect the recent rise in virus cases is weighing on the economy. In this context the Fed reiterated that **it will do what it can for as long as it takes**. Fed's Powell said the Fed can further support the economy by adjusting forward guidance or asset purchases. At the same time, **the Fed President clearly signaled that the economy needs joined support from both monetary and fiscal policy**. There are issues that monetary policy can't address, a clear signal to the politicians on Capitol Hill who are trying to find a compromise on a new stimulus package.

From a market point of view, the **Fed's action was more or less as expected**. At the same time, **the market got the 'whatever it takes commitment' it was hoping for**. US yields at the short end of the curve declined slightly further. **The 5-y outperforming** (-1.2 bp) and setting a record low yield is an indication that the market is convinced that interest rates will stay very low for very long. The long end of the curve steepened slightly (+1.9 bp). US equities extended their rebound after the Fed communication with the S&P and the Nasdaq gaining more than 1%. **The TW dollar (DXY) touched the lowest level in more than 2-year (93.18) during the press conference**. EUR/USD tested the 1.18 big figure. USD/JPY retested the 104.80 area. Earlier, German yields finished the session marginally higher (2-y +0.6bp; 30-y +1.7 bp).
- This morning**, Asian equity indices are trading mixed, despite the positive lead from WS yesterday as regional bellwethers reported results. The yuan is holding remarkably stable in the USD/CNY 7.00 area. The dollar is trading slightly better compared to yesterday evening's correction low levels (EUR/USD 1.1770 area, USD/JPY 105.15 area).
- Later today**, the **eco calendar is extremely busy**. Several countries including Germany will publish a first estimate of Q2 GDP. The Germany economy is expected to have contracted 9.0% Q/Q. The country will also publish inflation and unemployment data. The EC will publish **EMU confidence data**. The US also will release Q2 GDP data. **The US economy is expected to have contracted at an unprecedented pace of about 35 % (QoQ annualized)!** The report will of course get ample media attention. However, from a market point of view, this is history. In this respect, the **weekly initial jobless claims** might be at least as important. Initial claims are expected to rise again from 1.42mln to 1.45 mln. Last week, the rise in jobless claims triggered an, albeit temporary risk-off reaction. **Core bond yields showed a very gradual but protracted downtrend of late**. There is no reason to expect a big countermove anytime soon. Short-term US yields probably are cemented at current low levels. The US 10-y yield is within reach but still holding north of the 0.54% support. For the very long end, there is maybe some more room of maneuver as markets have to ponder the impact of rising supply. In Europe, **the German 10-y yield is extensively testing the -0.5% support**, but a clean break hasn't occurred yet. On the FX markets, several USD cross rates touched new correction low levels during the Fed press conference. There is no reason to expect a U-turn anytime soon. However, this morning the pressure is slightly easing. EUR/USD 1.1822 is a high profile resistance on the charts (62% Retracement LT). Maybe the pair nearing this key level might (temporary) slow EUR/USD ascent.

News Headlines

- Japan retail sales rose much sharper than expected** in June rising by 13.1% M/M. Only a more modest rise of 8.0% was expected. The June rise was the second in a row. Even after the good June performance, Japan retail sales are still 1.2% below the level of June last year.

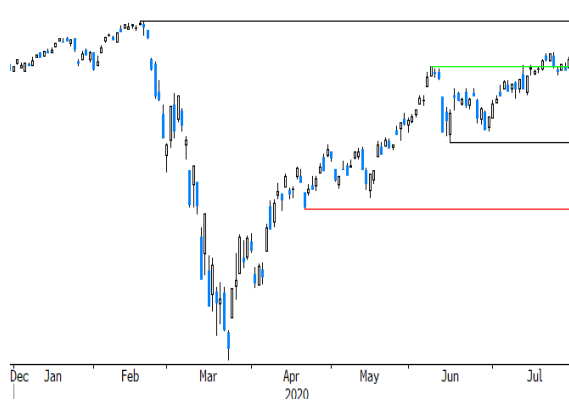
Graphs & Table



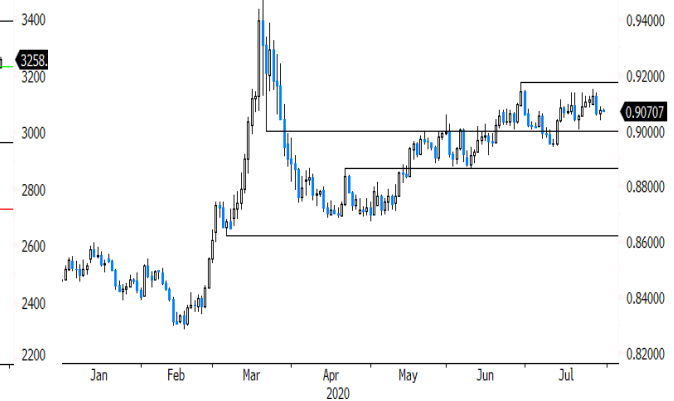
US 5-y yield set all time low as Fed will keep rates very low for very long



EUR/USD nearing key MT resistance area near 1.1822



S&P 500 extends rebound as Fed commits to do 'whatever it takes'.



EUR/GBP to develop technical trading as there are no important data in the UK today.

Source: Bloomberg

Calendar

Thursday, 30 July		Consensus	Previous
US			
14:30	GDP Annualized QoQ (2Q A)	-34.5%	-5.0%
14:30	Personal Consumption (2Q A)	-34.5%	-6.8%
14:30	GDP Price Index (2Q A)	0.0%	1.4%
14:30	Core PCE QoQ (2Q A)	-0.9%	1.7%
14:30	Initial Jobless Claims	1445k	1416k
14:30	Continuing Claims	16200k	16197k
Japan			
01:50	Retail Sales MoM / YoY (Jun)	A13.1%/-1.2	2.1%/-12.3%
EMU			
11:00	Economic Confidence (Jul)	81.4	75.7
11:00	Industrial Confidence (Jul)	-17.0	-21.7
11:00	Services Confidence (Jul)	-24.5	-35.6
11:00	Consumer Confidence (Jul F)	--	-15.0
11:00	Unemployment Rate (Jun)	7.7%	7.4%
Germany			
	CPI Baden Wuerttemberg MoM / YoY (Jul)	--	0.5%/0.8%
09:00	CPI Saxony MoM / YoY (Jul)	--	0.6%/1.0%
09:55	Unemployment Change (000's) (Jul)	41.0k	69.0k
09:55	Unemployment Claims Rate SA (Jul)	6.5%	6.4%
10:00	CPI Brandenburg MoM / YoY (Jul)	--	0.7%/1.0%
10:00	CPI Hesse MoM / YoY (Jul)	--	0.6%/0.8%
10:00	CPI Bavaria MoM / YoY (Jul)	--	0.6%/0.8%
10:00	GDP SA QoQ / WDA YoY (2Q P)	-9.0%/-11.5%	-2.2%/-2.3%
10:30	CPI North Rhine Westphalia MoM / YoY (Jul)	--	0.6%/0.9%
14:00	CPI EU Harmonized MoM / YoY (Jul P)	-0.2%/0.3%	0.7%/0.8%
14:00	CPI MoM / YoY (Jul P)	-0.3%/0.1%	0.6%/0.9%
Italy			
10:00	Unemployment Rate (Jun P)	8.6%	7.8%
Belgium			
	CPI MoM / YoY (Jul)	--	0.06%/0.6%
11:00	GDP SA QoQ / YoY (2Q P)	--	-3.6%/-2.5%
11:00	Unemployment Rate (Jun)	--	5.4%
Spain			
09:00	CPI EU Harmonised MoM / YoY (Jul P)	-1.0%/0.0%	0.4%/-0.3%
Events			
10:00	ECB Publishes Economic Bulletin		
11:00	Italian BTP auction		
14:30	Revisions: US GDP		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>		Stocks	<u>Close</u>	<u>-1d</u>
US	0,57	0,00		US	0,13	-0,01		DOW	26539,57	160,29
DE	-0,50	0,01		DE	-0,68	0,01		NASDAQ	10542,94	140,85
BE	-0,20	0,01		BE	-0,60	0,00		NIKKEI	22339,23	-57,88
UK	0,12	0,01		UK	-0,08	0,02		DAX	12822,26	-13,02
JP	0,02	0,00		JP	-0,13	-0,02		DJ euro-50	3300,16	-3,40
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	-0,41	0,21	0,12	Eonia	-0,4660	0,0000				
5y	-0,38	0,29	0,17	Euribor-1	-0,5230	-0,0080		Libor-1	0,1669	0,0000
10y	-0,22	0,57	0,31	Euribor-3	-0,4580	-0,0040		Libor-3	0,2683	0,0000
				Euribor-6	-0,3890	-0,0100		Libor-6	0,3175	0,0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>		Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1792	0,0076		EUR/JPY	123,71	0,58		CRB	144,34	0,86
USD/JPY	104,92	-0,17		EUR/GBP	0,9073	0,0013		Gold	1976,70	12,80
GBP/USD	1,2997	0,0065		EUR/CHF	1,0761	0,0006		Brent	43,75	0,53
AUD/USD	0,7188	0,0030		EUR/SEK	10,2832	0,0033				
USD/CAD	1,334	-0,0040		EUR/NOK	10,6453	-0,0386				

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