

Friday, 31 July 2020

KBC Sunrise Market Commentary

There will be no KBC Market research reports from Monday August 03 until Monday August 10
We resume our regular publications from Tuesday August 11

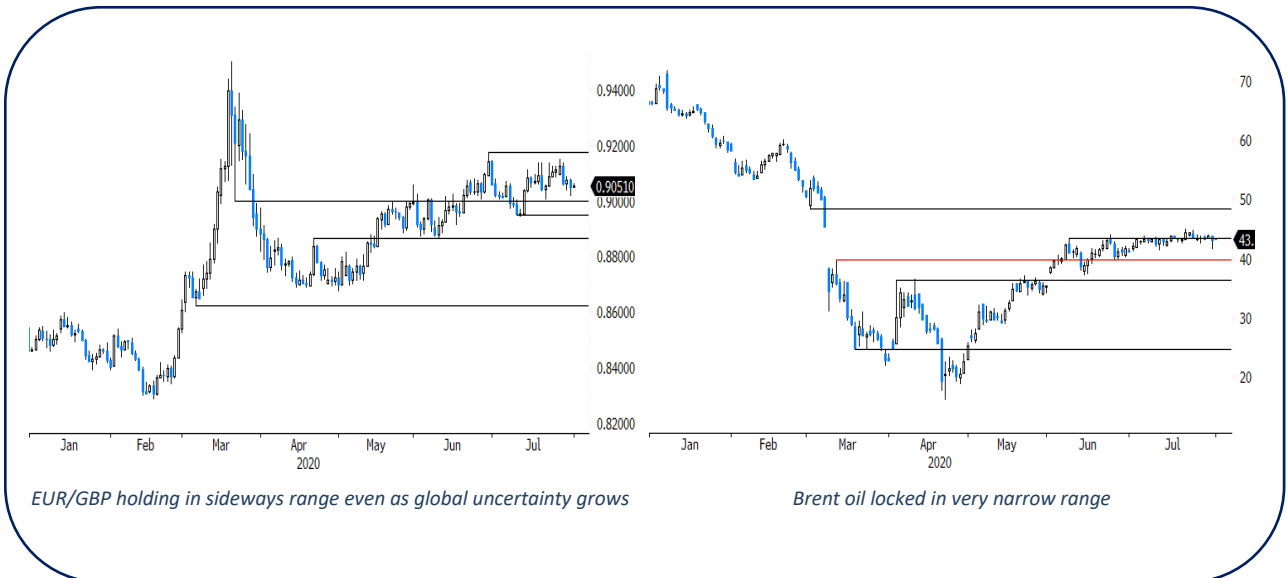
Markets

- Yesterday, global sentiment deteriorated further. High profile data illustrated the devastating impact of corona on the economy. The German economy contracted 10.1% Q/Q in Q2. The US economy contracted an unprecedented **32.9% QoQ, reported on an annualized basis**. Aside from the negative impact on growth, data also suggest a deflationary impact. **The data as such were no surprise**. However, investors apparently ever more realize that the recovery won't be any kind of V-shaped as the number of infections is again rising, not only in the US but also in a growing number of regions in Europe and Asia, slowing the reopening of the economy. **US initial jobless claims** rising for a second week illustrated this risk of a slower recovery. Continuing claims also printed higher than expected. European equities lost up to 3.5%. US indices showed a mixed picture with the Dow losing 0.85% but the Nasdaq gaining 0.43% as investors awaited the results of Alphabet, Facebook, Apple and Amazon. **Uncertainty on the economic outlook was very visible in the bond markets**. Core US and German yields declined further. US yields declined 1.4 (2-y) to 2.9 bp (30-y). The US 10-y yield is breaking below the 0.54% level, the range bottom since April. German yields also nosedived further between -3.2 bp (2-y) and -5 bp (30-y), illustrating the run on safe haven assets. **On the FX markets**, it initially looked that the dollar could get some reprieve. The trade-weighted dollar tried a shy intraday rebound and EUR/USD 'dropped' to the mid 1.17 area. However, a tweet of US president Trump raising the idea of delaying the elections was already enough to revive distrust in the US currency. EUR/USD easily breaking the 1.1822 technical level (62% retracement of the 2018 top to March 2020 low) only added to the USD negative momentum. EUR/USD closed at 1.1847. With no important data or other news, sterling again outperformed in technical trade. EUR/GBP closed at 0.9050.
- After the close of the US markets, the US tech bellwethers reported strong results, lifting US equity futures. Question is whether that is a good barometer for global market sentiment. Part of the rise is also already undone in Asia this morning. Asian equities show a mixed picture with China slightly outperforming after the publication of a solid official PMI. On the other hand, Japanese equities are losing 2%+. **In the meantime, the trends of declining US yields and the slide of the dollar continue**. EUR/USD is nearing the 1.19 big figure. USD/JPY tumbled for the 104.75 area at start of trading to currently trade in the 104.25 area.
- Later today, a first estimate of EMU Q2 GDP (expected -12.1% Q/Q) and EMU inflation will be published. In the US personal income and spending data and the Chicago PMI will be released. **For now, it looks that the market is ever more joining the analysis of the Fed**. Wednesday's **Fed statement** reads : *the path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.* In this respect, the further decline of core/US yields probably tells more on investors' view on the economic outlook rather than the performance of (some) equity indices. Yesterday's break lower in US yields was significant. The slide in US yields, also at the long end of the curve, recently proved a negative for the dollar. Risk-off currently doesn't help the US currency much. The technical picture of the USD deteriorated substantially after both the TW dollar (DXY) and EUR/USD decisively broke important support (DXY 94.65)/resistance (EUR/USD 1.1822). EUR/USD 1.2102 marks the next 76% retracement level of the decline from the 2018 top.

News Headlines

- The China government PMI's for July indicated that the recovery in the country remains on track. The composite PMI printed little changed at 54.1. The manufacturing PMI rose to 51.1. The services PMI eased slightly from 54.5 to 54.2, but holds at a lofty level.

Graphs & Table



Source: Bloomberg

Calendar

Friday, 31 July		Consensus	Previous
US			
14:30	Personal Income (Jun)	-0.6%	-4.2%
14:30	Personal Spending (Jun)	5.2%	8.2%
14:30	Real Personal Spending (Jun)	5.0%	8.1%
14:30	PCE Deflator MoM / YoY (Jun)	0.4%/0.9%	0.1%/0.5%
14:30	PCE Core Deflator MoM / YoY (Jun)	0.2%/1.0%	0.1%/1.0%
14:30	Employment Cost Index (2Q)	0.6%	0.8%
15:45	MNI Chicago PMI (Jul)	44.5	36.6
16:00	U. of Mich. Sentiment (Jul F)	72.9	73.2
Japan			
01:30	Jobless Rate (Jun)	A 2.8%	2.9%
01:30	Job-To-ApPLICANT Ratio (Jun)	A 1.11	1.20
01:50	Industrial Production MoM / YoY (Jun P)	A2.7/-17.7%	-8.9%/-26.3%
UK			
01:01	GfK Consumer Confidence (Jul F)	--	-27
EMU			
11:00	GDP SA QoQ / YoY (2Q A)	-12.1/-14.5%	-3.6%/-3.1%
11:00	CPI MoM / YoY (Jul P)	-0.5%/0.2%	0.3%/0.3%
11:00	CPI Core YoY (Jul P)	0.8%	0.8%
France			
07:30	GDP QoQ / YoY (2Q P)	-15.2%/-20%	-5.3%/-5%
08:45	CPI EU Harmonized MoM / YoY (Jul P)	-0.1%/0.4%	0.1%/0.2%
08:45	Consumer Spending MoM / YoY (Jun)	6.8%/-2.5%	36.6%/-8.3%
Italy			
10:00	GDP WDA QoQ / YoY (2Q P)	-15.5%/-17.3%	-5.3%/-5.4%
11:00	CPI EU Harmonized MoM / YoY (Jul P)	-1.5%/-0.2%	0.0%/-0.4%
12:00	Retail Sales MoM / YoY (Jun)	--/--	24.3%/-10.5%
China			
03:00	Composite PMI (Jul)	A 54.1	54.2
03:00	Manufacturing PMI (Jul)	A 51.1	50.9
03:00	Non-manufacturing PMI (Jul)	A 54.2	54.4
Norway			
10:00	Unemployment Rate (Jul)	4.4%	4.8%
Spain			
09:00	GDP QoQ / YoY (2Q P)	-16.6/-19.7%	-5.2%/-4.1%

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>		Stocks	<u>Close</u>	<u>-1d</u>
US	0.66	0.02		US	0.16	0.00		DOW	26067.28	177.10
DE	-0.44	-0.01		DE	-0.67	0.00		NASDAQ	10492.5	148.61
BE	-0.14	-0.01		BE	-0.56	0.01		NIKKEI	22529.29	90.64
UK	0.18	0.00		UK	-0.07	0.00		DAX	12494.81	-121.99
JP	0.02	-0.01		JP	-0.14	-0.01		DJ euro-50	3286.09	-35.47
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	-0.38	0.23	0.19	Eonia	-0.4650	0.0000				
5y	-0.34	0.33	0.24	Euribor-1	-0.5070	0.0040		Libor-1	0.1825	0.0000
10y	-0.17	0.64	0.38	Euribor-3	-0.4330	0.0030		Libor-3	0.2684	0.0000
				Euribor-6	-0.3220	-0.0090		Libor-6	0.3603	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	1.1330	0.0056		EUR/JPY	121.52	0.31		CRB	141.96	0.40
USD/JPY	107.26	-0.26		EUR/GBP	0.8985	-0.0004		Gold	1820.60	10.70
GBP/USD	1.261	0.0068		EUR/CHF	1.0632	0.0007		Brent	43.29	0.21
AUD/USD	0.6982	0.0035		EUR/SEK	10.4242	-0.0197				
USD/CAD	1.3512	-0.0091		EUR/NOK	10.6347	-0.0653				

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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	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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