



Tuesday, 16 June 2020

Rates: Fed to start with individual corporate bond buying

Risk sentiment made an intraday U-turn in the US trading session, pulling core bonds back to opening levels. The Fed lifted spirits by extending the scope of its corporate bond buying programme. Asian markets join the risk rebound this morning, but rising COVID-19 crisis and the risk of a second hit to the economy herald cautiousness going forward.

Currencies: (hope) on additional stimulus eases USD bid

The dollar profited only modestly from the risk-off yesterday. Later, the USD decline even resumed as the Fed reinforced its commitment to support the economy as it announced to buy individual corporate bonds. EUR/USD is again drifting higher in the 1.12/1.1425 range. Sterling looks better protected as the tone on the UK-EU talks turns more constructive.

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	→

- **Wall Street** gradually recovered from a 3% lower opening, boosted by the Fed's announcement to buy individual corporate bonds. The Nasdaq (+1.43%) outperformed. **Asian stocks** rebound with Japan (+5%) outperforming.
- **The Federal Reserve will begin buying individual corporate bonds** in addition to ETFs under its Secondary Market Corporate Credit Facility. In a separate statement, the Fed also **kicked off its Main Street Lending Programme**.
- **UK PM Johnson said the prospects for a brexit accord are "very good" after his call yesterday with EU leaders**, echoing comments from the bloc's top officials. Both sides are willing to soften their position. Formal talks resume June 29.
- **The Bank of Japan** left its key policy rates and asset purchases unchanged this morning. It did **increase lending support to companies struggling from the virus**, estimating the size of the package now at 110tn yen, up from 75tn yen.
- **The US is preparing a \$1 tn infrastructure proposal for roads, bridges but also 5G**, people familiar said. The expiry of an existing \$305 bn infrastructure funding law by Sept 30 could be used as vehicle to push through the broader package.
- Varadkar's **Fine Gael** and Martin's **Fianna Fáil will form a ruling coalition for the first time in Ireland's history**, 4 months after inconclusive elections. The party leaders will rotate as PM. The Greens will join the coalition to secure a majority.
- **Today's economic calendar** contains US retail sales and industrial production figures for the month May. The UK publishes its April labour report. The ZEW indicator is due in Germany. Powell appears before the Senate.

Rates

	US yield	-1d
2	0.19	0.00
5	0.34	0.01
10	0.72	0.02
30	1.52	0.00

	DE yield	-1d
2	-0.66	0.01
5	-0.65	0.01
10	-0.45	-0.01
30	0.04	-0.01

Fed extends scope of corporate credit facility

Core bonds started strong, but an intraday U-turn erased most gains. Soured risk sentiment in Asia and at the start of European trading provided the initial boost on growing fears that the rising number of COVID-19 cases will trigger new lockdown protocols in several countries including the US. A Fed announcement started the intraday turnaround. **The US central bank will extend the scope of its Secondary Market Corporate Credit Facility (SMCCF) to include individual corporate bonds.** To date, it only purchased ETF's tracking the corporate bond markets under the programme. The Fed built an internal index made up of all the bonds on the secondary market that have been issued by US companies that satisfy the facility's minimum rating, maximum maturity and other criteria. It will target the index in deploying a buying strategy. **Main US stock market indices overturned 2.5% opening losses into gains.** Daily changes on the US yield curve ranged between -0.3 bps (2-yr) and +1.7 bps (10-yr). German yield changes were limited between -1 bp and +1 bps across the curve. Peripheral yield spreads vs Germany ranged between -3 bps and +2 bps.

Asian stock markets join the rebound this morning with Japan outperforming after **the BoJ strengthened its determination to support the economy (see below).** **US President Trump is supposedly preparing a proposal for a \$1 tn infrastructure plan.** Core bonds trade below yesterday's softest intraday levels.

Today's eco calendar contains May US retail sales and industrial production. The slow reopening of economies suggests a rebound after April's historic falls in both activity gauges. Consensus expects a 8.4% m/m advance for retail sales and 3% m/m for industrial production. **We remain cautious, especially for consumer spending given depressed consumer confidence figures. Fed Chair Powell starts his Humphrey-Hawkins testimony in US Congress where he'll defend last week's Fed story line.** Any market impact should therefore remain limited. European stock markets are set to opened on a positive footing as well. A constructive video call by EU leaders and UK PM Johnson on Brexit could give an additional push in the back. **We fear that rising coronacases and the risk of 2nd economic hit will return to the fore as main trading theme though in coming days/weeks.**

Technically, the US 10-yr yield returned in the April-May trading range. Adverse risk conditions could force a test of the lower bound around 0.56%. The German 10-yr yield turned south as well after failing to break sustainably above the -0.31%/-0.29% resistance area. First support stands around -0.50%.



German 10-yr yield: test of -0.31%/-0.29% resistance failed



US 10-yr yield returns into longstanding trend channel on dovish Fed and risk aversion

Currencies

Fed put weighs on the dollar

R2	1.495	-1d
R1	1.1412	
EUR/USD	1.1323	0.0067
S1	1.1167	
S2	1.0964	

R2	0.9212	-1d
R1	0.9033	
EUR/GBP	0.8983	0.0007
S1	0.8621	
S2	0.8569	

Markets started the week in **outright risk of modus**. Investors feared that a second wave of corona infections could complicate the recovery. However, the risk-off was mainly visible in equity markets. **Gains in the dollar were modest**. EUR/USD already turned north early in US dealings. Equities rebounded further and the USD decline accelerated as the Fed announced it will start buying corporate bonds under its SMCCF. The Fed put was again firmly in place. EUR/USD closed at 1.1323. USD/JPY held a rather tight sideways trading pattern as the risk rebound weighed on the yen too, counterbalancing the broader USD decline. The pair closed at 107.33.

This morning, Asian markets join the risk rebound on WS. The BoJ left its policy rate and the target for 10-y government bond yield unchanged but expects the amount of lending under crisis program to rise to 110 trillion from 75 trillion. Sentiment was also supported by a **Bloomberg article that US president Trump is preparing infrastructure package** of about \$1 trillion to support the recovery. The TW dollar (DXY) declines further 96.50 area. EUR/USD is holding strong in the 1.1340 area.

Today, ZEW investor confidence in Germany is expected to rebound further to 60 from 51 (expectations). In the US, May retail sales are expected to rise 8.4% M/M after a 16.4 decline in April. Constructive data might support global sentiment and weigh on the dollar. However, future path/pace of the recovery remains highly uncertain. Powell will hold his semi-annual testimony before the Senate. He will probably reiterate the Fed's commitment to support the economy as necessary.

Last week, the three week-long **EUR/USD rally fell prey to profit taking**. However USD rebound stayed modest even as sentiment turned risk off. Yesterday's EUR/USD price action should be considered as constructive. Some further drift north in the 1.12/1.1425 range might be on the cards.

EUR/GBP spiked temporarily north of 0.90 given the global risk-off move. However, as was the case for most other small currencies, **GBP selling eased soon**. Headlines from the call between UK PM Johnson and EU leaders were positive and suggest that both sides are prepared to work on a practical compromise. This better tone on the UK-EU talks and a better global **sentiment might help to put a floor for sterling**, at least short-term. Some consolidation in the 0.9050/0.8865 range is possible.



EUR/USD: hope on additional stimulus eases USD bid.



EUR/GBP: topside better protected as better sentiment on UK-EU talks eases sterling selling

Calendar

Tuesday, 16 June		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (May)	8.40%	-16.40%
14:30	Retail Sales Ex Auto MoM (May)	5.50%	-17.20%
14:30	Retail Sales Ex Auto and Gas (May)	5.10%	-16.20%
14:30	Retail Sales Control Group (May)	5.20%	-15.30%
15:15	Industrial Production MoM (May)	3.00%	-11.20%
15:15	Capacity Utilization (May)	66.90%	64.90%
15:15	Manufacturing (SIC) Production (May)	5.00%	-13.70%
16:00	Business Inventories (Apr)	-1.00%	-0.20%
16:00	NAHB Housing Market Index (Jun)	45	37
Japan			
	BOJ Policy Balance Rate	-0.10%A	-0.10%
	BOJ 10-Yr Yield Target	0.00%A	0.00%
UK			
08:00	Claimant Count Rate (May)	--	5.80%
08:00	Jobless Claims Change (May)	--	856.5k
08:00	Average Weekly Earnings 3M/YoY (Apr)	1.30%	2.40%
08:00	Weekly Earnings ex Bonus 3M/YoY (Apr)	1.90%	2.70%
08:00	ILO Unemployment Rate 3Mths (Apr)	4.70%	3.90%
08:00	Employment Change 3M/3M (Apr)	-110k	210k
EMU			
11:00	Labour Costs YoY (1Q)	--	2.40%
11:00	ZEW Survey Expectations (Jun)	--	46
Germany			
11:00	ZEW Survey Expectations (Jun)	60	51
11:00	ZEW Survey Current Situation (Jun)	-80	-93.5
Events			
16:00	Powell Delivers Semi-Annual Policy Report to Senate Panel		
22:00	Fed Vice Chair Clarida Discusses Economic and Policy Outlook		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.72	0.02		US	0.19	0.00	DOW	25763.16	157.62
DE	-0.45	-0.01		DE	-0.66	0.01	NASDAQ	9726.022	137.21
BE	-0.04	0.00		BE	-0.52	0.01	NIKKEI	22582.21	1051.26
UK	0.21	0.00		UK	-0.04	0.00	DAX	11911.35	-37.93
JP	0.02	0.01		JP	-0.16	0.01	DJ euro-50	3136.4	-17.34
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.34	0.28	0.25	Eonia	-0.4610	0.0000	Libor-1	0.1951	0.0000
5y	-0.30	0.39	0.30	Euribor-1	-0.4840	-0.0020	Libor-3	0.3209	0.0000
10y	-0.13	0.71	0.41	Euribor-3	-0.3550	0.0110	Libor-6	0.4320	0.0000
				Euribor-6	-0.2060	-0.0070			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1323	0.0067		EUR/JPY	121.53	0.64	CRB	134.78	0.46
USD/JPY	107.33	-0.05		EUR/GBP	0.8983	0.0007	Gold	1727.20	-10.10
GBP/USD	1.2605	0.0065		EUR/CHF	1.0747	0.0027	Brent	39.72	0.99
AUD/USD	0.6919	0.0053		EUR/SEK	10.5104	0.0061			
USD/CAD	1.3572	-0.0017		EUR/NOK	10.7996	-0.0538			

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