



**Tuesday, 30 June 2020**

### Rates: Fed funds futures rise further above par

Core bonds hold positive momentum. The Fed Funds Future curve shifts deeper below zero as US States line up to slow, pause or reverse the economic reopening. The German government dismantled the Karlsruhe timebomb by stating that ECB documents fully meet requirements from the constitutional court.

### Currencies: Dollar hovering up and down with no clear driver

EUR/USD developed a rollercoaster ride with mixed data, swings in sentiment and technical positioning providing conflicting drivers. The dollar remains well bid this morning, but the EUR/USD 1.1160 support isn't under test yet. The combination of high UK funding needs and low UK interest rates is weighing on sterling.

### Calendar

## Headlines

- **US equities** rallied yesterday, undoing a large part of Friday's losses. The DJI (+2.32%) outperformed. **Asian-Pacific stocks** rise in lockstep with gains of 1% to 2% (Australia) across the board.
- **The pandemic is not even close to being over** and countries should start to implement the right "test, trace, isolate and quarantine" policies, warning that "the worst could be yet to come", the WHO chief said.
- **Angela Merkel's bloc with the Greens and Lib Dems agreed on a draft motion to formally accept the ECB's PSPP.** A parliamentary sign-off later will then end a standoff over the bond buying programme that was triggered by the Karlsruhe.
- **Chinese official PMIs** (54.2 composite) **were better than expected** with especially the non-manufacturing gauge well above the neutral 50. New (export) orders rose but employment remained slid deeper into contraction area.
- **Australia's central bank deputy governor Debelle** said the economy will need strong support for quite some time. He **argued against the government withdrawing the fiscal support already in September** as initially flagged.
- **The Chinese government approved the contested national security law for HK** that targets dissenters but might hurt the region's appeal as financial hub. The US suspended some of the preferential rules its applied to HK yesterday.
- **Today's eco calendar** contains US Chicago PMI and Conference Board consumer confidence for June. The EMU releases May inflation figures. Powell and Mnuchin speak before the House financial panel. Italy taps the bond market.

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	↔

# Rates

## Fed Funds futures rise further above par

	US yield	-1d
2	0.15	-0.02
5	0.27	-0.03
10	0.62	-0.02
30	1.38	0.00

	DE yield	-1d
2	-0.69	0.01
5	-0.70	0.01
10	-0.47	0.01
30	-0.02	0.02

**German Bunds underperformed US Treasuries in the first trading session of the week.** A supply announcement by the German Finanzagentur weighed. They tripled their earlier estimate for Q3 bond sales to €146bn (bonds: €74bn). Q4 sales will at most be equivalent to Q3, but too much uncertainty lingers to put forward specific numbers. Germany will sell its first green bond in September (10y) via syndication, with another one coming in Q4 (likely 5y). German yields added 1.1 bp (2-yr) to 2.1 bps (30-yr) in a daily perspective, slightly steepening the curve. 10-yr yield spread changes vs Germany narrowed by up to 3 bps. **US Treasuries kept their positive momentum even as stock markets recovered from last week's beating.** End-of-quarter flows could be at play. Interestingly: the Fed Funds future curve again discounts marginally negative US policy rates next year even as Fed Chair Powell keeps rulings them out. They reduce lending capacity in the financial sector by hurting profitability, there's no academic consensus on their use and the Fed's known tools have proven their worth. Daily US yield changes varied between -2.8 bps (5-yr) and +0.3 bps (30-yr).

Asian stock market gain up to 1.5% this morning. Regional data include ugly May industrial production reports from Japan and South Korea, but a small June Chinese PMI beat. US States continue to slow, pause or reverse the exit process from lockdowns as the virus spreads over the country. Core bonds show no direction whatsoever. German FM Scholz confirmed in a letter to the president of the Bundestag, Schäuble, that documents received by the ECB "fully meet the requirements of the constitutional court's May 5 2020 ruling". **The Karlsruhe time bomb, which could have eventually shut the Bundesbank out of the ECB's asset purchase programme, is thereby dismantled.**

Today's eco calendar contains EMU inflation figures, US housing data, Chicago PMI and consumer confidence. **Risks for US figures are tilted to the upside of expectations, but are unlikely to stir trading ahead of ISM, ADP and payrolls releases later this week.** Fed Chair Powell and US Treasury Secretary Mnuchin testify before US Congress, but speeches have been published yesterday and don't contain fresh intel. **Risk sentiment remains key with the end-of-quarter causing some strange technical moves as well in the past sessions. Overall, both the German Bund and US Note future have momentum going.** **Technically,** the US 10-yr yield is drifting to the lower end of the 0.54%-0.78% sideways trading range. Risk aversion, the rising tally of US coronacases and the Fed's implicit yield curve control are at work (open-ended, unlimited QE). The German 10-yr yield is testing first support around -0.50%.



German 10-yr yield: testing 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

## Dollar shows no clear, consistent trading pattern

R2	1.495	-1d
R1	1.1412	
EUR/USD	1.1242	0.0023
S1	1.1167	
S2	1.0964	

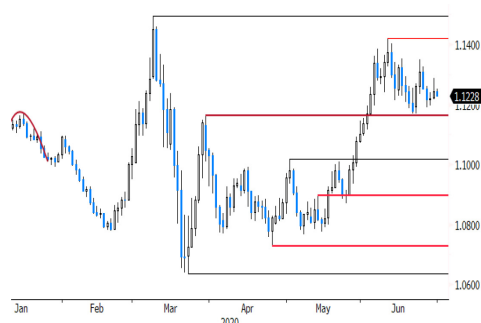
R2	0.9305	-1d
R1	0.9212	
EUR/GBP	0.9141	0.0046
S1	0.8621	
S2	0.8569	

The dollar **had a rollercoaster ride yesterday**. EUR/USD initially jumped higher to the 1.1280+ area. A better global sentiment after Friday's equity correction eased USD demand. EMU data were mixed with EC confidence improving less than expected but German inflation printing higher (0.8% Y/Y). The USD captured a better bid in US trading even as sentiment improved further and as US (ST) yields declined. Very strong pending home sales added to the intraday USD rebound. However, technical (end quarter) positioning was probably also at play. EUR/USD closed modestly higher at 1.1242. USD/JPY also succeeded a nice intraday gain to close at 107.58

**This morning**, Asian indices rising up to 2% even as global corona infections continue to rise. **Regional data are mixed**. Chinese PMI's printed better good, confirming a gradual recovery, but data in South Korean and Japan disappointed. **The USD stays strong despite the risk-on**. EUR/USD hovers in the 1.1250/25 area. USD/JPY gains (107.75 area).

Today, the EMU June preliminary inflation is expected at 0.2% Y/Y (core 0.8%), maybe with a slight upward risk. In the US the Chicago PMI and consumer confidence will be published. Fed Chair Powell and Treasury Secretary Mnuchin will appear before a House Financial Panel. **US data might come out constructive** even as virus infections in the US continue to rise. Fed's Powell probably will repeat is commitment to support the economy as necessary. **Decent US data might provide a rather neutral setup for the dollar but the tentative deterioration of sentiment is USD positive in theory**. Last week, EUR/USD corrected modestly lower, but the 1.1160 support area was left intact. We expect this support to hold and look for the EUR/USD cross rate to start some bottoming out process. EUR/USD 1.1349 remains first topside resistance.

Yesterday, sterling continued fighting an uphill battle. EUR/GBP tested the 0.9175 area. The UK government committing to more fiscal spending didn't help sterling, probably as UK yields declined further. Today, PM **Johnson will propose its 'New deal' for a rebuild of the UK economy post corona**. Most of the government intentions were already aired of late. The combination of a high funding need and extremely low UK yields weighs on sterling. Even so, after recent setback, the pace of the GBP decline might gradually slow, with 0.9184 resistance nearby.



EUR/USD: no clear trend with conflicting factors at work



EUR/GBP nearing 0.9184 resistance

# Calendar

Tuesday, 30 June		Consensus	Previous
<b>US</b>			
15:00	S&P CoreLogic CS 20-City MoM SA / YoY NSA (Apr)	0.50%/4.50%	0.47%/3.92%
15:45	MNI Chicago PMI (Jun)	45.0	32.3
16:00	<b>Conf. Board Consumer Confidence (Jun)</b>	<b>91.4</b>	<b>86.6</b>
16:00	Conf. Board Expectations (Jun)	--	96.9
16:00	Conf. Board Present Situation (Jun)	--	71.1
<b>Japan</b>			
01:30	Jobless Rate (May)	2.90%A	2.60%
01:30	Job-To-Applicant Ratio (May)	1.20A	1.32
01:50	Industrial Production MoM / YoY (May P)	-8.4%A/-25.9%A	-9.80%/-15%
<b>UK</b>			
01:01	GfK Consumer Confidence (Jun F)	-30A	-30
01:01	Lloyds Business Barometer (Jun)	--	-33
08:00	GDP QoQ / YoY (1Q F)	-2.00%/-1.6%	-2.00%/-1.6%
<b>EMU</b>			
11:00	<b>CPI MoM / YoY (Jun P)</b>	<b>0.20%/0.2%</b>	<b>-0.10%/0.1%</b>
11:00	CPI Core YoY (Jun P)	0.80%	0.90%
<b>France</b>			
08:45	CPI EU Harmonized MoM / YoY (Jun P)	0.30%/0.5%	0.20%/0.4%
08:45	Consumer Spending MoM / YoY (May)	30%/-13.5%	-20.2%/-34.1%
<b>Italy</b>			
11:00	CPI EU Harmonized MoM / YoY (Jun P)	0.10%/-0.30%	-0.2%/-0.3%
<b>China</b>			
03:00	<b>Composite PMI (Jun)</b>	<b>54.2A</b>	<b>53.4</b>
03:00	Manufacturing PMI (Jun)	50.9A	50.6
03:00	Non-manufacturing PMI (Jun)	54.4A	53.6
<b>Events</b>			
11:00	Italian BTP auction (1.85% 2025, 1.65% 2030 & 0.95% 2030)		
12:00	BOE Chief Economist Haldane Speaks in Webinar		
13:00	ECB's Schnabel Speaks at IIF event ()		
16:00	BOE's Cunliffe Speaks on Central Banking in the Covid-19 Age		
17:00	Fed's Williams Speaks on Central Banking in the Age of Covid		
18:30	<b>Powell and Mnuchin Speak Before House Financial Panel</b>		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	0.62	-0.02		US	0.15	-0.02		DOW	25595.8	580.25
DE	-0.47	0.01		DE	-0.69	0.01		NASDAQ	9874.153	116.93
BE	-0.14	0.01		BE	-0.58	0.01		NIKKEI	22288.14	293.10
UK	0.16	-0.01		UK	-0.08	-0.01		DAX	12232.12	142.73
JP	0.03	0.01		JP	-0.14	-0.02		DJ euro-50	3232.02	27.85
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.38	0.23	0.20	Eonia	-0.4620	0.0000				
5y	-0.35	0.31	0.23	Euribor-1	-0.5070	-0.0030		Libor-1	0.1783	0.0000
10y	-0.18	0.61	0.35	Euribor-3	-0.4130	-0.0100		Libor-3	0.3079	0.0000
				Euribor-6	-0.2870	-0.0040		Libor-6	0.3614	0.0000
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1242	0.0023		EUR/JPY	120.94	0.66		CRB	137.04	2.62
USD/JPY	107.58	0.36		EUR/GBP	0.9141	0.0046		Gold	1781.20	0.90
GBP/USD	1.2298	-0.0038		EUR/CHF	1.0693	0.0058		Brent	41.71	0.69
AUD/USD	0.6866	0.0001		EUR/SEK	10.4885	0.0139				
USD/CAD	1.3659	-0.0029		EUR/NOK	10.8755	-0.0068				

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