



Wednesday, 01 July 2020

Rates: German 10-yr yield bounces off first support

An improvement in US risk sentiment and technical factors weighed on core bonds yesterday. Today's eco calendar centers around June ADP employment and manufacturing ISM. It will be hard to draw forward looking conclusions given the speed at which the COVID-19 virus currently blazes through the US.

Currencies: EUR/USD going nowhere in the low 1.12 area.

The dollar initially retained the benefit of the doubt yesterday, but at the same time didn't regain important technical levels. USD trading is facing conflicting signals. A cautious sentiment is USD supportive, but the rise in US infections complicates its investment case. Sterling staged a technical rebound, but we don't expect a sustained rebound.

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** inched higher in part thanks to a last-hour rally. The Nasdaq (+1.87%) outperformed. **Asian markets** trade mixed. Japan and South Korea are the region's laggards following poor economic data.
- **Japan's Q2 Tankan index disappointed and showed a significant deterioration** of both current and expected business conditions, across different sectors and company size as the virus struck. All series remain above the GFC lows however.
- **Dr. Fauci of the US coronavirus taskforce warned lawmakers that cases in the US could rise to 100 000 a day** if Americans do not change their behaviour. Cases nearly reached 44 000 as of yesterday.
- **Italy is preparing a new fiscal stimulus plan worth 20 bln euros.** If approved, as is expected later this month, it would push the 2020 budget deficit towards 11.6% of GDP vs. the earlier goal of 10.4%.
- **US crude oil stockpiles declined 8.16m barrels last week**, API reported. If confirmed by the EIA data, it would be **the largest crude draw since December 2019**. Oil prices rise about 1% this morning.
- **The EU urges the UK to set out its plans for its state aid regime** as the end of the transition period nears. Brussels wants reassurances that the UK will not undercut the EU economies unfairly.
- **Today's economic calendar** contains the US ISM manufacturing index and ADP employment change for June. In the EMU, (final) PMIs are due. The Fed publishes its meeting minutes. Portugal issues a new 15 benchmark bond.

Rates

German 10-yr yield bounced off first support

| | US yield | -1d |
|----|----------|------|
| 2 | 0.15 | 0.00 |
| 5 | 0.29 | 0.01 |
| 10 | 0.66 | 0.03 |
| 30 | 1.43 | 0.04 |

| | DE yield | -1d |
|----|----------|------|
| 2 | -0.69 | 0.00 |
| 5 | -0.70 | 0.01 |
| 10 | -0.45 | 0.02 |
| 30 | 0.01 | 0.03 |

Core bonds traded listless in yesterday's European trading session, but ceded ground in US dealings as stock markets staged their umpteenth recovery. Traded volumes were thin though. Technical elements were at play for the Bund with the German 10-yr yield bouncing off -0.485% support after closing the May 26 opening gap. US eco data printed mixed with a softer than expected rebound in the June Chicago PMI and a stronger return of June consumer confidence. **It's hard to draw forward looking conclusions from the US data though as the COVID-19 virus blazes through the US and forces states to slow, pause or reverse the reopening process.** The US and German yield curves both bear steepened in a daily perspective. US yields added up to 3.8 bps (30-yr) with German yields rising by 0.3 bps (2-yr) to 2.6 bps (30-yr). 10-yr yield spread changes vs Germany narrowed by up to 2 bps with Italy (-6 bps) and Greece (-7 bps) outperforming. Germany and the ECB burying the hatchet over the legality of the Public Sector Purchase Programme was marginally supportive.

Risk sentiment is mixed this morning. Japanese stocks underperform (-1.5%) on the back of a stronger yen. Core bonds lose marginal additional ground. Asian PMI's strengthen, but Japanese Tankan sentiment slumps. US news is mixed as well from a market point of view. The US director of the National Institute of Allergy and Infectious Diseases, Fauci, warns that the US daily infections (currently around 44k) might rise to up to 100k. The US Senate voted to extend the Payroll Protection Programme until August 8. The \$659bn programme is due to expire today. US Treasury Secretary Mnuchin suggested bipartisan support to extend the facility which still has some \$130bn left.

Today's eco calendar heats up in the US with June ADP employment and Manufacturing ISM. Consensus expects a catch-up move in ADP data (+2900k) with the headline ISM rebounding further from 43.1 to 49.7. **We'd be guarded with the interpretation both given current developments and given that details like new (export) orders are employment will be stuck at depressed levels. Risk sentiment will continue to set the tone for trading on other markets. We continue to err on the side of caution medium term.**

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 bounced off first support just above -0.50%.



German 10-yr yield bounced off 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

EUR/USD going nowhere in the low 1.12 area.

| | | |
|---------|--------|---------|
| R2 | 1.495 | -1d |
| R1 | 1.1412 | |
| EUR/USD | 1.1234 | -0.0008 |
| S1 | 1.1167 | |
| S2 | 1.0964 | |

| | | |
|---------|--------|---------|
| R2 | 0.9305 | -1d |
| R1 | 0.9212 | |
| EUR/GBP | 0.9059 | -0.0082 |
| S1 | 0.8621 | |
| S2 | 0.8569 | |

The **dollar retained the benefit of the doubt** early in yesterday's trading. Risk sentiment was unconvincing and some end of month repositioning probably was also still in play. The TW dollar (DXY) tested the 97.80 area and EUR/USD tested the 1.12 area. Sentiment improved later. US eco data were mixed. The Chicago PMI disappointed (36.6 vs 45 expected), but US consumer confidence beat expectations. US equities gained further momentum easing the bid for the dollar. A rebound in US yields only supported the risk-rebound of USD/JPY (close 107.93). EUR/USD in the end again showed no clear trend closing at 1.1234 (from 1.1242).

This morning, Asian indices show a mixed picture. Japan underperforms. **The BOJ Q2 Tankan report** confirmed that many parts of the economy are hard hit by to impact of the corona virus. (large manuf. index at -34 from -31 expected). The yen gains a few ticks (USD/JPY 107.65) but this is probably due to an overall less buoyant market sentiment. EUR/USD is losing modest ground (1.1220). Today's calendar contains the final EMU manufacturing PMI's, the US ADP report and the US manufacturing ISM. It will be difficult for (FX) markets to assess the outcome of ADP (rise in private jobs expected of 2.9 mln) after last month's deviation from the payrolls. The ISM is expected to rebound further to 49.6 (from 43.1). This looks reasonable. **However, the USD reaction will probably mainly be driven by global sentiment rather than by the data.** Headlines on the spreading of the pandemic in the US currently are a mixed story for the dollar.

EUR/USD settled in a ST consolidation pattern near 1.12. **The picture recently turned a bit more fragile/unconvincing, but the 1.1160 support area stayed out for reach.** With global sentiment turning more shaky, EUR/USD might hold near current levels, maybe drift still slightly lower, but we see no case for a sustained USD comeback either.

In technical trading, EUR/GBP reversed most of the sharp short-squeeze that pushed the pair for a test of the 0.9180 area on Monday. EUR/GBP closed at 0.9060. BoE's Haldane sounding positive on the recovery maybe helped the reversal. The calendar is thin today. We see yesterday's **rebound of sterling mainly as a correction on oversold conditions.** Close-to-negative interest rates, a fragile global sentiment and more headlines on tough Brexit negotiations might cap sustained further GBP gains. **We see EUR/GBP 0.90 as rather solid support**



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



EUR/GBP correction after steep rally of late.

Calendar

| Wednesday, 1 July | | Consensus | Previous |
|-------------------|---|--------------|---------------|
| US | | | |
| | Wards Total Vehicle Sales (Jun) | 13.00m | 12.21m |
| 14:15 | ADP Employment Change (Jun) | 2900k | -2760k |
| 15:45 | Markit US Manufacturing PMI (Jun F) | 49.6 | 49.6 |
| 16:00 | Construction Spending MoM (May) | 1.00% | -2.90% |
| 16:00 | ISM Manufacturing (Jun) | 49.6 | 43.1 |
| 16:00 | ISM New Orders (Jun) | 51.9 | 31.8 |
| 16:00 | ISM Prices Paid (Jun) | 44.6 | 40.8 |
| 16:00 | ISM Employment (Jun) | -- | 32.1 |
| 20:00 | FOMC Meeting Minutes | | |
| Japan | | | |
| 01:50 | Tankan Large Mfg Index / Outlook (2Q) | -34A/-27A | -8/-11 |
| 01:50 | Tankan Small Non-Mfg Index / Outlook (2Q) | -26A/-33A | -1/-19 |
| 01:50 | Tankan Small Mfg Index / Outlook (2Q) | -45A/-47A | -15/-29 |
| 01:50 | Tankan Large Non-Mfg Index/Outlook (2Q) | -17A/-14A | 8/-1 |
| 01:50 | Tankan Large All Industry Capex (2Q) | 3.20%A | 1.80% |
| 07:00 | Consumer Confidence Index (Jun) | 28.4A | 24 |
| UK | | | |
| 01:01 | BRC Shop Price Index YoY (Jun) | 1.60%A | -2.40% |
| 10:30 | Markit UK PMI Manufacturing SA (Jun F) | 50.1 | 50.1 |
| EMU | | | |
| 10:00 | Markit Eurozone Manufacturing PMI (Jun F) | 46.9 | 46.9 |
| Germany | | | |
| 08:00 | Retail Sales MoM / NSA YoY (May) | 3.50%/-3.20% | -6.5%R/-6.4%R |
| 09:55 | Markit/BME Germany Manufacturing PMI (Jun F) | 44.6 | 44.6 |
| 09:55 | Unemployment Change (000's) (Jun) | 120.0k | 238.0k |
| 09:55 | Unemployment Claims Rate SA (Jun) | 6.50% | 6.30% |
| Events | | | |
| 01JUL | Portugal likely to issue new 15y Benchmark Bond | | |
| 13:00 | BoE Policy Maker Haskel Speaks on Webinar | | |

| 10-year | Close | -1d | 2-year | Close | -1d | Stocks | Close | -1d | |
|------------|--------|---------|------------|-----------|---------|-------------|----------|---------|--------|
| US | 0.66 | 0.03 | US | 0.15 | 0.00 | DOW | 25812.88 | 217.08 | |
| DE | -0.45 | 0.02 | DE | -0.69 | 0.00 | NASDAQ | 10058.77 | 184.62 | |
| BE | -0.13 | 0.02 | BE | -0.58 | 0.00 | NIKKEI | 22121.73 | -166.41 | |
| UK | 0.17 | 0.01 | UK | -0.08 | 0.00 | DAX | 12310.93 | 78.81 | |
| JP | 0.05 | 0.02 | JP | -0.14 | -0.01 | DJ euro-50 | 3234.07 | 2.05 | |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | -0.39 | 0.23 | 0.19 | Eonia | -0.4600 | 0.0000 | Libor-1 | 0.1710 | 0.0000 |
| 5y | -0.35 | 0.33 | 0.24 | Euribor-1 | -0.5100 | -0.0030 | Libor-3 | 0.2961 | 0.0000 |
| 10y | -0.18 | 0.64 | 0.37 | Euribor-3 | -0.4220 | -0.0090 | Libor-6 | 0.3669 | 0.0000 |
| | | | | Euribor-6 | -0.3080 | -0.0210 | | | |
| | | | | | | | | | |
| Currencies | Close | -1d | Currencies | Close | -1d | Commodities | Close | -1d | |
| EUR/USD | 1.1234 | -0.0008 | EUR/JPY | 121.24 | 0.30 | CRB | 137.97 | 0.93 | |
| USD/JPY | 107.93 | 0.35 | EUR/GBP | 0.9059 | -0.0082 | Gold | 1800.50 | 19.30 | |
| GBP/USD | 1.2401 | 0.0103 | EUR/CHF | 1.0642 | -0.0051 | Brent | 41.27 | -0.58 | |
| AUD/USD | 0.6903 | 0.0037 | EUR/SEK | 10.4706 | -0.0179 | | | | |
| USD/CAD | 1.3576 | -0.0083 | EUR/NOK | 10.8118 | -0.0637 | | | | |

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