



Thursday, 13 August 2020

KBC Sunrise Market Commentary

Markets

- Risk-on dominated yesterday.** Markets continue to bank on the coronavirus to have run its course and/or on medical breakthroughs to counter the infectious disease. And even if their expectations are proven wrong, there's still the hoped-for stimulus package in the US and other parts of the world should things go south again. Eco data (US CPI, EMU industrial production) had no significant impact. Equities rose about 1% in the EMU. US stocks rose up to more than 2%, overcoming a brief moment of weakness after House Speaker Pelosi rebuffed Mnuchin's renewed push for the \$1tn relief package. The S&P500 inched closer to the pre-pandemic record high. **Core bonds slipped.** USTs slightly underperformed Bunds despite a solid record sized 10-yr auction, drawing a yield lower than WI. The US yield curve bear steepened with yields advancing 2.3 bps (2-yr) to 4.5 bps (10, 30-yr). German yields rose 2-4 bps across the curve. **FX markets staged the classic risk patterns with respect to the dollar.** EUR/USD rose from 1.174 towards the 1.18 barrier but finished just below. In a similar move higher, USD/JPY sought to claim 107 but closed at 106.91 eventually. Sterling failed to profit from the constructive environment though. UK chancellor Sunak sounded downbeat in a reaction to the historical Q2 GDP drop, tackling the pound. EUR/GBP jumped to 0.904.
- Asian markets simply build on WS's performance yesterday. Most indices trade in positive territory with Japan (+2%) outperforming. Australia (-0.9%) is the exception to the rule – despite a stronger-than-anticipated labour market report (cf. infra). The Aussie dollar initially strengthened but is forfeiting gains at the time of writing. The kiwi dollar eventually put aside a (very) dovish RBNZ yesterday but is trading heavy again this morning. **The central bank's chief economist said the RBNZ would like to have a weaker FX rate and lower bond yields.** NZD/USD trades around 0.656. The US dollar trades unconvincing. **The current mood (higher stocks) but declining core bond yields** isn't really helping the currency. EUR/USD is trying to settle above 1.18 while USD/JPY is drifting lower to the 106.7 area.
- We'll be keeping a close eye on US jobless claims today. With 1186k last week, the timely labour market indicator fell to a pandemic low. Consensus expects a further decline to 1100k. Markets would probably notice a (significant) negative surprise but we deem the odds of it rather low. Continuous claims are expected at a still extremely elevated 15800k. The 30-yr auction in the US is definitely worth following but shouldn't be a huge problem given successful auctions earlier this week. Futures markets point at some minor equity profit taking but we doubt it'll go very far and/or last long. **Core bonds are being picked up** after hitting technical support. **The dollar might thus remain in the defensive in a daily perspective.** EUR/USD 1.1823 resistance looks vulnerable. A series of US eco data (incl. retail sales) tomorrow might be important for the USD going forward. EUR/GBP is going nowhere, facing a technical driven trading day ahead near the 0.90 pivot.

News Headlines

- Fed officials in a slew of speeches voiced concerns over the virus and its impact on the economy.** Boston's Rosengren said states shunning expert advice will likely prolong the downturn, adding that the recovery may be losing steam. His warning was later echoed by Fed's Kaplan. SF Fed Mary Daly foresees a second whammy, expecting a W-shaped recovery instead of a V.
- Australia's July labour market report came in stronger than expected. **Australian job creation rose a strong 114.7k,** beating estimates (30k) and following an upwardly revised June (228.4k). **Full time employment (+43.5k) recovered for the first month since the pandemic.** The unemployment rate ticked higher to 7.5% (up from 7.4%) but less than expected even as the participation rate (64.7%, up from 64.1%) rose (more than consensus).

Graphs & Table



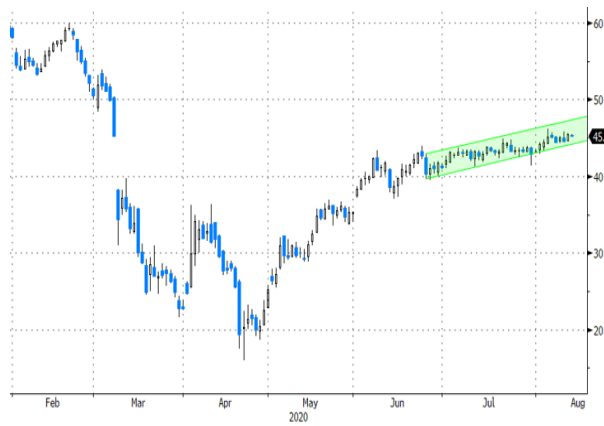
EUR/USD tries to settle above 1.18. Resistance at 1.1823 looks vulnerable.



US T-Note future bounces off support at 50DMA.



S&P500 within striking distance of pre-pandemic record high. Will vertigo trigger some minor profit taking?



Oil (\$/ounce): slowly but steadily. March gap closed but follow-through gains do not materialise for now.

Source: Bloomberg

Calendar

Thursday, 13 August		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Jul)	0.60%/-3.10%	1.40%/-3.80%
14:30	Import Price Index ex Petroleum MoM (Jul)	0.10%	0.30%
14:30	Export Price Index MoM/YoY (Jul)	0.40%/--	1.40%/-4.40%
14:30	Initial Jobless Claims	1100k	1186k
14:30	Continuing Claims	15800k	16107k
UK			
01:01	RICS House Price Balance (Jul)	12%A	-15%
France			
07:30	ILO Unemployment Rate (2Q)	8.30%	7.80%
07:30	ILO Mainland Unemployment Rate (2Q)	8.30%	7.60%
Events			
11:00	Italy to Sell Bonds		
17:00	Fed's Bostic Discusses Fair Solutions for the Future of Cities		
19:00	US to Sell 30-Year Bonds		
21:00	Fed's Brainard Speaks at Fintech Event		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.67	0.03	US	0.16	0.01	DOW	27976.84	289.93	
DE	-0.45	0.03	DE	-0.66	0.02	NASDAQ	11012.24	229.42	
BE	-0.20	0.03	BE	-0.64	0.01	NIKKEI	23249.61	405.65	
UK	0.24	0.04	UK	0.01	0.01	DAX	13058.63	111.74	
JP	0.04	-0.01	JP	-0.12	-0.01	DJ euro-50	3363.18	31.06	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.40	0.25	0.16	Eonia	-0.4670	0.0000	Libor-1	0.1641	0.0000
5y	-0.37	0.35	0.23	Euribor-1	-0.5110	0.0030	Libor-3	0.2535	0.0000
10y	-0.19	0.67	0.40	Euribor-3	-0.4860	-0.0040	Libor-6	0.3369	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1784	0.0044	EUR/JPY	125.98	0.96	CRB	148.36	1.50	
USD/JPY	106.91	0.42	EUR/GBP	0.9042	0.0044	Gold	1949.00	2.70	
GBP/USD	1.3034	-0.0014	EUR/CHF	1.0749	-0.0015	Brent	45.43	0.93	
AUD/USD	0.7162	0.0019	EUR/SEK	10.2449	-0.0386				
USD/CAD	1.3247	-0.0054	EUR/NOK	10.54	-0.0502				

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