



Friday, 14 August 2020

KBC Sunrise Market Commentary

Markets

- Investors lift their feet from the throttle yesterday in a session where both equities and core bonds faced moderate selling pressure. US jobless claims fell more than expected and below 1 million (963k), yet was largely ignored. It adds to our case that markets currently are more vulnerable to negative surprises/news. In this respect, Senate leader McConnell's announcement that **the Senate will go in recess until Sept 7, making a stimulus deal basically impossible before then and raising risks for the economy**. The news added to the risk-off with US equities extending (minor) losses to end up to -0.3% lower. EMU stock declines ranged from 0.5% to 0.9%. Core bonds also fell with USTs underperforming the Bund after a **disappointing record sized 30-yr auction** (\$26 bn). Bonds were awarded at 1.406% vs. 1.382% WI with the lowest bid-to-cover (2.14) and the highest primary dealer award since July 2019. US Treasuries accelerated their decline in the wake of the auction results, the long end in particular. US yields rose 0.2 bps (2-yr) over 1.8 bps (5-yr) to 5.4 bps (30-yr) with the 5y-30y spread ticking the highest in a month. The German yield curve also bear steepened as yields rose up to 3.5 bps (10-yr). Peripheral spreads widened, Portugal (+4 bps) underperformed. The dollar remained in the defensive for most of the European session despite the fragile sentiment but staged a comeback as US investors started joining. EUR/USD reached an intraday high near 1.186 but closed at 1.1816 eventually, up from 1.178. The sudden rise in US yields probably helped the greenback to recover. USD/JPY closed shy of 107 after an attempt to capture the barrier failed. Sterling went nowhere. After Wednesday's hit, the British currency oscillated near opening levels of 0.904.
- Asian markets trade fragile this morning. Chinese equity gains faded after a **disappointing batch of industrial production figures** (4.8% y/y vs. 5.2% expected) **and especially poor retail sales** (-1.1% y/y vs. +0.1% expected). The series remind markets of a bumpy recovery. South Korea (-2%) is the notable underperformer as the country saw its daily coronavirus cases almost double. Core bonds trade listless. RBA governor Lowe said it is possible the policy rate could go lower, even negative – though unlikely – and would like to have the Aussie dollar to be lower to boost job growth. He doesn't think the currency is overvalued at this stage however. AUD/USD overcame initial weakness by Lowe's comments rather quickly. Other dollar pairs, including EUR/USD and USD/JPY, are trading little changed (1.1814 and 106.87 respectively).
- Today's **US retail sales and industrial production figures** (both July readings) will draw attention. Retail sales are expected at 2.1% after a 7.5% rise in June. We don't exclude a negative surprise as the technical recovery continues to stall and US consumers might have started to reign in spending in anticipation of additional jobless benefits and other measures ending. Especially in combination with a possibly disappointing **U. of Michigan consumer confidence** (as stimulus talks remain totally deadlocked) we could see some more profit taking going into the weekend. Core bonds should thus remain well bid. Poor US eco data probably aren't exactly helpful to the greenback. However, the August price action at least suggest some EUR/USD fatigue so we don't expect losses for the USD, if any, to go very far, more so given the shaky risk environment. Sterling, meanwhile, eyes next week's new round of formal Brexit talks. With both parties still at odds over themes including a level playing field and fisheries, we don't see a reason for sterling to rally in anticipation of a quick deal.

News Headlines

- The United Kingdom has placed Malta, the Netherlands and France to its list of countries from which people arriving have to quarantine for 14 days** as concerns rise over new cases in each of those countries. Yesterday morning, government sources indicated new restrictions would not be imposed. However, the latest data convinced ministers to act now.

Graphs & Table



EUR/USD trapped in sideways trading range as recent rally (on soft dollar) is taking a breather.



US30y/5y spread at highest in a month after a disappointing record sized 30y auction.



AUD/USD: Aussie dollar overcomes early morning weakness on governor Lowe's comments.



German Dax 30 failed to take out the 13k barrier yesterday.

Source: Bloomberg

Calendar

Friday, 14 August		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (Jul)	2.10%	7.50%
14:30	Retail Sales Ex Auto MoM (Jul)	1.30%	7.30%
14:30	Retail Sales Ex Auto and Gas (Jul)	1.00%	6.70%
14:30	Retail Sales Control Group (Jul)	0.80%	5.60%
14:30	Nonfarm Productivity (2Q P)	1.50%	-0.90%
14:30	Unit Labor Costs (2Q P)	6.90%	5.10%
15:15	Industrial Production MoM (Jul)	3.00%	5.40%
15:15	Capacity Utilization (Jul)	70.30%	68.60%
15:15	Manufacturing (SIC) Production (Jul)	3.00%	7.20%
16:00	Business Inventories (Jun)	-1.10%	-2.30%
16:00	U. of Mich. Sentiment (Aug P)	72.0	72.5
16:00	U. of Mich. Current Conditions (Aug P)	82.3	82.8
16:00	U. of Mich. Expectations (Aug P)	65.5	65.9
16:00	U. of Mich. 1 Yr Inflation (Aug P)	2.90%	3.00%
16:00	U. of Mich. 5-10 Yr Inflation (Aug P)	--	2.60%
Japan			
06:30	Tertiary Industry Index MoM (Jun)	6.40%	-2.10%
EMU			
11:00	Trade Balance SA (Jun)	14.5b	8.0b
11:00	Employment QoQ (2Q P)	--	-0.20%
11:00	Employment YoY (2Q P)	--	0.40%
11:00	GDP SA QoQ/YoY (2Q P)	-12.10%/-15.00%	-12.10%/-15.00%
China			
03:30	New Home Prices MoM (Jul)	0.47%A	0.58%
04:00	Industrial Production YoY (Jul)	4.80%A	4.80%
04:00	Industrial Production YTD YoY (Jul)	-0.40%A	-1.30%
04:00	Retail Sales YoY (Jul)	-1.10%A	-1.80%
04:00	Retail Sales YTD YoY (Jul)	-9.90%A	-11.40%
04:00	Fixed Assets Ex Rural YTD YoY (Jul)	-1.60%A	-3.10%
04:00	Property Investment YTD YoY (Jul)	3.40%A	1.90%
04:00	Surveyed Jobless Rate (Jul)	5.70%A	5.70%
Hungary			
09:00	GDP SA QoQ/YoY (2Q P)	-11.00%/-10.40%	-0.40%/2.20%
Events			
16:00	Fed's Kaplan Takes Part in a Moderated Q&A		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	0.72	0.05		US	0.16	0.00	DOW	27896.72	-80.12
DE	-0.41	0.04		DE	-0.64	0.02	NASDAQ	11042.5	30.26
BE	-0.15	0.05		BE	-0.61	0.03	NIKKEI	23287.59	37.98
UK	0.24	0.01		UK	-0.01	-0.02	DAX	12993.71	-64.92
JP	0.05	0.01		JP	-0.12	-0.01	DJ euro-50	3342.85	-20.33
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	-0.39	0.26	0.16	Eonia	-0.4670	0.0000			
5y	-0.34	0.36	0.23	Euribor-1	-0.5190	-0.0080	Libor-1	0.1580	0.0000
10y	-0.15	0.70	0.41	Euribor-3	-0.4810	0.0050	Libor-3	0.2648	0.0000
				Euribor-6	-0.4330	-0.0050	Libor-6	0.3368	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	1.1814	0.0030		EUR/JPY	126.32	0.34	CRB	148.94	0.58
USD/JPY	106.93	0.02		EUR/GBP	0.9041	-0.0001	Gold	1970.40	21.40
GBP/USD	1.3067	0.0033		EUR/CHF	1.0747	-0.0001	Brent	44.96	-0.47
AUD/USD	0.7149	-0.0013		EUR/SEK	10.2648	0.0199			
USD/CAD	1.3223	-0.0024		EUR/NOK	10.4944	-0.0456			

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