



Wednesday, 16 September 2020

## KBC Sunrise Market Commentary

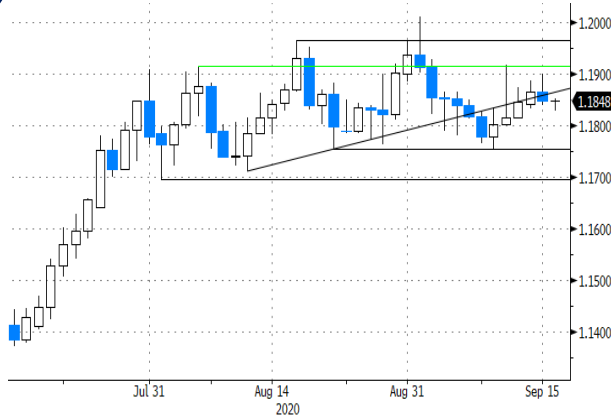
### Markets

- Better-than-expected Chinese figures set the stage for yesterday's dealings. Markets held a cautious optimistic bias, which was further supported by Germany's ZEW beating consensus and the US NY manufacturing index jumping to 17 (from 3.7) compared to a more moderate 6.9 anticipated by markets. **A bipartisan \$1.5 bn stimulus proposal aimed at breaking the impasse in talks was rebuffed outright by House leaders** and caused some intraday profit-taking on US markets. WS ended up to 1.21% in the green nevertheless. Core bonds lost marginal ground, USTs underperforming. The US yield curve bear steepened with yields up to 2 bps (30-yr) higher. German yields closed unchanged. EUR/USD failed to capture 1.19 twice after which a technical dollar rebound, which coincided with the NY Empire Manufacturing release, took place. The pair closed near 1.185 eventually (down from 1.1866). Sterling profited from a continued rebound of short-term interest rates. Yesterday's trigger was a consensus-beating labour report. EUR/GBP declined from 0.923 to 0.919, just north of support at the 61.8 fibo retracement.
- **Asian stocks trade mixed this morning.** News is scarce. Suga's election as new Japanese prime minister this morning was nothing more than a formality. USD/JPY (105.35) is losing marginal territory. **China's yuan continues to strengthen** against the USD. USD/CNY is trading at 6.77 vs. yesterday's close at 6.78. EUR/USD is oscillating around the 1.185 pivot. Core bonds returned from early morning weakness in the run-up to a soft expected Fed.
- Today's US retail sales (expected at 1% m/m vs. 1.2% m/m in July) are overshadowed by the Fed policy meeting tonight. **Powell will definitely strike a dovish tone but we see room for some investor disappointment.** Markets have been discounting the possibility of the Fed issuing explicit forward guidance in the wake of the policy review. That could entail i.a. an employment target. **We do not expect Powell to announce this already now.** Firstly because the new growth projections might hold an upward revision, creating an awkward timing for stronger guidance. Second, with rates already rock-bottom, volatility muted and market-based inflation expectations steady at 2% there are few reasons from a market point of view to use up this last ammo already. It makes sense to see the economic recovery developing first. (US) stock markets are prone to a (mild) risk-off correction which could in turn **support the USD in a daily perspective.** We don't expect the lower bound of the EUR/USD 1.175/195 trading range to break though. In the case where Powell does introduce specific targets we could see the dollar weakening and EUR/USD pushing through 1.19 after failing to do so twice yesterday. But as this has been priced in to some extent already, the move probably won't go beyond first resistance at 1.195. The impact on US bond yields will probably remain very limited either way as the Fed's new **dot plot will probably still signal no rate hikes in the coming years.** Sterling has its eyes set on the **Bank of England meeting tomorrow.** Officials are expected to set the stage for more easing by the end of the year (increasing QE). We assume technical range trading in EUR/GBP in the run-up to the BoE.

### News Headlines

- **A WTO panel ruled that the US had not abided by international rules when it slapped more than \$400bn tariffs solely on Chinese exports in 2018**, discriminating the country against others. They didn't play by WTO rules when it passed by the WTO's dispute settlement body. Bloomberg reports that the Trump administration can appeal the ruling over the next 60 days. Doing so would effectively nullify the WTO's ruling, as the administration previously gutted the organization's appellate body.
- **The US removed last month's 10% tariff on non-alloyed, unwrought Canadian aluminum** citing a surge of imports coming from the country. The move is also believed to have a political side, with US President Trump trailing Joe Biden in some key states in North America.

# Graphs & Table



*EUR/USD: Fed refraining from more guidance could support dollar short term.*



*EUR/GBP: sterling recovers from recent whack but moves remain technically insignificant for now.*



*Brent oil (\$/b) shows signals of bottoming out.*



*US10y yield steady in the run-up to Fed meeting later today.*

Source: Bloomberg

# Calendar

Wed., 16 September		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (Aug)	1.00%	1.20%
14:30	Retail Sales Ex Auto MoM (Aug)	1.00%	1.90%
14:30	Retail Sales Ex Auto and Gas (Aug)	0.90%	1.50%
14:30	Retail Sales Control Group (Aug)	0.30%	1.40%
16:00	Business Inventories (Jul)	0.1%	-1.10%
16:00	NAHB Housing Market Index (Sep)	78	78
20:00	FOMC Rate Decision (Upper Bound)	0.25%	0.25%
20:00	FOMC Rate Decision (Lower Bound)	0.00%	0.00%
20:00	Interest Rate on Excess Reserves	0.10%	0.10%
<b>Canada</b>			
14:30	CPI NSA MoM / YoY (Aug)	0.10%/0.40%	0.00%/0.1%
14:30	CPI Core- Median YoY% (Aug)	1.90%	1.90%
14:30	CPI Core- Common YoY% (Aug)	1.40%	1.30%
14:30	CPI Core- Trim YoY% (Aug)	1.80%	1.70%
<b>Japan</b>			
01:50	Exports YoY (Aug)	-14.8%A	-19.20%
01:50	Imports YoY (Aug)	-20.8%A	-22.30%
<b>UK</b>			
08:00	CPI MoM / YoY (Aug)	-0.6%/0%	0.40%/1%
08:00	CPI Core YoY (Aug)	0.50%	1.80%
08:00	PPI Input NSA MoM / YoY (Aug)	0.20%/-5.3%	1.80%/-5.7%
08:00	PPI Output NSA MoM / YoY (Aug)	0.2%/-0.7%	0.30%/-0.9%
08:00	PPI Output Core NSA MoM / YoY (Aug)	0.10%/0%	-0.10%/0.1%
10:30	House Price Index YoY (Jul)	--	2.90%
<b>EMU</b>			
11:00	Trade Balance SA (Jul)	19.3b	17.1b
<b>Events</b>			
16SEP	OECD Publishes Interim Economic Forecasts		
11:30	Germany to Sell EUR 1.5bn 1.25% 2048 Bonds		
13:00	ECB Chief Economist Lane Speaks in Webinar		
17:00	ECB's Holzmann Speaks at Virtual Roundtable		
20:30	Powell Holds Post-FOMC Meeting Press Conference		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	0.68	0.01		US	0.14	0.00		DOW	27995.6	2.27
DE	-0.48	0.00		DE	-0.69	0.01		NASDAQ	11190.32	133.67
BE	-0.24	-0.01		BE	-0.64	0.00		NIKKEI	23475.53	20.64
UK	0.22	0.02		UK	-0.07	0.03		DAX	13217.67	24.01
JP	0.02	0.00		JP	-0.14	-0.01		DJ euro-50	3332.26	15.47
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.46	0.24	0.10	Eonia	-0.4700	0.0000				
5y	-0.41	0.33	0.18	Euribor-1	-0.5230	0.0030		Libor-1	0.1521	0.0000
10y	-0.21	0.69	0.38	Euribor-3	-0.4850	-0.0010		Libor-3	0.2373	0.0000
				Euribor-6	-0.4580	0.0020		Libor-6	0.2745	0.0000
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1847	-0.0019		EUR/JPY	124.91	-0.53		CRB	147.76	1.26
USD/JPY	105.44	-0.29		EUR/GBP	0.9191	-0.0044		Gold	1966.20	2.50
GBP/USD	1.2889	0.0043		EUR/CHF	1.0758	-0.0019		Brent	40.53	0.92
AUD/USD	0.7302	0.0014		EUR/SEK	10.4168	0.0108				
USD/CAD	1.3186	0.0010		EUR/NOK	10.6984	-0.0233				

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