



Thursday, 17 September 2020

## KBC Sunrise Market Commentary

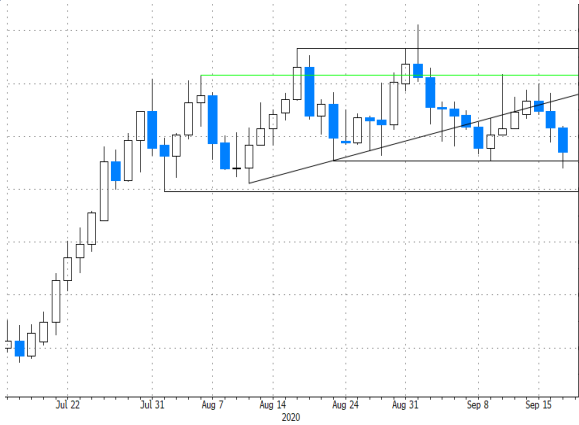
### Markets

- The Fed kept rates unchanged at 0/0.25% yesterday. **The new dot plot signaled they would remain their at least until 2023.** Growth forecasts were upgraded. The Fed anticipates a **shallower decline this year** (-3.7% vs. -6.5%) **but a slower rebound in the next** (4%) **and 2022** (3%). The new 2023 projection reveals 2.5% growth. **PCE inflation isn't expected to overshoot the 2% target across the policy horizon** (2% in 2023). That is however what the Fed is aiming for according to the new FOMC statement: *it will be appropriate to maintain this target range until labour market conditions have reached levels consistent with the **Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.*** Fed chair Powell considers this a "very strong, very powerful" guidance. From a market point of view this doesn't say a lot more though. There was **no additional 'guidance' on employment.** Unemployment was revised downwardly. **The bond buying programme's language has been tweaked so it doesn't only support market functioning but also helps foster accommodative financial conditions. Its size was left unchanged at \$120bn/m** (\$80bn in Treasuries). Some hoped the Fed would increase the pace, especially against the backdrop of Congressional stimulus talks at an impasse and Powell saying government support is crucial to keep the recovery running. Stronger even: the Fed's own projections are based on the assumption of more fiscal stimulus. **The classic risk-off reaction is testament to market's disappointment.** WS erased intraday gains of about 1% and finished in red. Longer-term USTs sold off as the Fed refrained from stepping up bond buying. Yields rose up to 2.7 bps (30-yr). The greenback rallied. EUR/USD fell from the 1.185 area to 1.1816 although part of the move took place earlier. The trade-weighted DXY advanced beyond 93. USD/JPY (close at 104.95) was one of the outliers with the yen fulfilling its safe haven role again.
- The **USD continues to strengthen** during Asian dealings amid broad risk-off (South-Korea underperforms). EUR/USD (1.1767) tested support at 1.175, the lower bound of the trading range. USD/JPY flirts with 105 after the BoJ held rates steady but beefed up economic language. The Aussie dollar (AUD/USD 0.727) only temporarily profits from a strong labour report. Core bonds trade with an upward bias. USTs erase most of yesterday's steepening.
- Today's calendar (jobless claims, housing data) is probably secondary to overall market sentiment. Disappointment post-Fed will dominate, especially on equity markets. Core bonds might thrive. The USD trades solid but we still do not expect EUR/USD support at 1.175 to break as things haven't changed fundamentally for the greenback since the Fed. Failure to break this technical reference this morning strengthens our view. Sterling's incredible surge yesterday towards 0.91 (from 0.92), even as inflation continued to decline and Brexit chaos is everywhere, might come to a halt today. **The Bank of England will probably lay the groundwork for more easing later this year.** We think there is room for the pound to retrace at least part of yesterday's gains.

### News Headlines

- The Australian August labour market report beat consensus** in an encouraging sign given that the Victoria region remains in lockdown. **Employment change increased by 111k (vs -35k expected) following 119.2k in July.** The bulk of the jobs was created in part time (+74.8k) professions rather than full time (+36.2k). More than half of the jobs lost during the pandemic are now recovered. **The unemployment rate dropped from 7.5% to 6.8%** and this occurred while the participation rate increased from 64.7% to 64.8%.
- The Bank of Japan kept its aggressive policy unchanged this morning.** The central bank **upgraded its economic assessment** for the first time since the start of the coronacrisis, saying the economy started to pick up with activity resuming gradually. Consumption was also gradually improving. The BoJ notes that it stands ready to act to counter uncertainties over the impact from the virus. USD/JPY hovers broadly unchanged near 105.

# Graphs & Table



*EUR/USD: dollar strengthens in the wake of the Fed but doesn't clear any technical references so far.*



*EUR/GBP: sterling rally to halt as BoE lays groundwork for more easing?*



*AUD/USD: Aussie dollar only temporarily profits from a strong labour report.*



*USD/JPY: Japanese yen fulfills role as safe haven again despite overall dollar strength post-Fed.*

Source: Bloomberg

# Calendar

| Thursday, 17 September |  | Consensus      | Previous      |
|------------------------|--|----------------|---------------|
| <b>US</b>              |  |                |               |
| 14:30                  | Building Permits / MoM (Aug)                           | 1512k/2%       | 1495k/18.8%   |
| 14:30                  | Housing Starts / MoM (Aug)                             | 1483k/-0.9%    | 1483kR/17.9%R |
| 14:30                  | Philadelphia Fed Business Outlook (Sep)                | 15             | 17.2          |
| 14:30                  | <b>Initial Jobless Claims</b>                          | <b>850k</b>    | <b>884k</b>   |
| 14:30                  | <b>Continuing Claims</b>                               | <b>13000k</b>  | <b>13385k</b> |
| <b>Japan</b>           |  |                |               |
|                        | <b>BOJ Policy Balance Rate</b>                         | <b>-0.10%A</b> | <b>-0.10%</b> |
|                        | BOJ 10-Yr Yield Target                                 | 0.00%A         | 0.00%         |
| <b>UK</b>              |  |                |               |
| 13:00                  | <b>Bank of England Bank Rate</b>                       | <b>0.10%</b>   | <b>0.10%</b>  |
| 13:00                  | BOE Asset Purchase Program Total                       | 745b           | 745b          |
| <b>EMU</b>             |  |                |               |
| 08:00                  | EU27 New Car Registrations (Aug)                       | --             | -22.30%       |
| 11:00                  | Construction Output MoM / YoY (Jul)                    | --/--          | 4.00%/-5.9%   |
| 11:00                  | CPI MoM / YoY (Aug F)                                  | -0.40%/-0.2%   | -0.40%/-0.2%  |
| 11:00                  | CPI Core YoY (Aug F)                                   | 0.40%          | 0.40%         |
| <b>Events</b>          |  |                |               |
| 10:00                  | Governor Olli Rehn Speaks at Bank of Finland Briefing  |                |               |
| 10:45                  | Spain to Sell Bonds                                    |                |               |
| 10:50                  | France to Sell 0% 2023, 0.5% 2026 and 0.75% 2028 Bonds |                |               |
| 15:00                  | ECB's Muller Speaks on Monetary Policy in Tallinn      |                |               |

| 10-year    | Close  | -1d     | 2-year     | Close     | -1d     | Stocks      | Close    | -1d     |        |
|------------|--------|---------|------------|-----------|---------|-------------|----------|---------|--------|
| US         | 0.70   | 0.02    | US         | 0.14      | 0.00    | DOW         | 28032.38 | 36.78   |        |
| DE         | -0.48  | -0.01   | DE         | -0.69     | 0.00    | NASDAQ      | 11050.47 | -139.85 |        |
| BE         | -0.25  | -0.01   | BE         | -0.65     | 0.00    | NIKKEI      | 23319.37 | -156.16 |        |
| UK         | 0.21   | -0.01   | UK         | -0.06     | 0.00    | DAX         | 13255.37 | 37.70   |        |
| JP         | 0.02   | -0.01   | JP         | -0.14     | 0.00    | DJ euro-50  | 3338.84  | 6.58    |        |
|            |        |         |            |           |         |             |          |         |        |
| IRS        | EUR    | USD     | GBP        | EUR       | -1d     | -2d         | USD      | -1d     | -2d    |
| 3y         | -0.47  | 0.23    | 0.10       | Eonia     | -0.4660 | 0.0000      | Libor-1  | 0.1505  | 0.0000 |
| 5y         | -0.41  | 0.34    | 0.18       | Euribor-1 | -0.5260 | -0.0030     | Libor-3  | 0.2461  | 0.0000 |
| 10y        | -0.22  | 0.70    | 0.38       | Euribor-3 | -0.4870 | -0.0020     | Libor-6  | 0.2733  | 0.0000 |
|            |        |         |            | Euribor-6 | -0.4620 | -0.0040     |          |         |        |
|            |        |         |            |           |         |             |          |         |        |
| Currencies | Close  | -1d     | Currencies | Close     | -1d     | Commodities | Close    | -1d     |        |
| EUR/USD    | 1.1816 | -0.0031 | EUR/JPY    | 124       | -0.91   | CRB         | 149.74   | 1.98    |        |
| USD/JPY    | 104.95 | -0.49   | EUR/GBP    | 0.9112    | -0.0079 | Gold        | 1970.50  | 4.30    |        |
| GBP/USD    | 1.2967 | 0.0078  | EUR/CHF    | 1.0746    | -0.0012 | Brent       | 42.22    | 1.69    |        |
| AUD/USD    | 0.7306 | 0.0004  | EUR/SEK    | 10.4048   | -0.0120 |             |          |         |        |
| USD/CAD    | 1.3178 | -0.0008 | EUR/NOK    | 10.6618   | -0.0366 |             |          |         |        |

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