



Friday, 18 September 2020

## KBC Sunrise Market Commentary

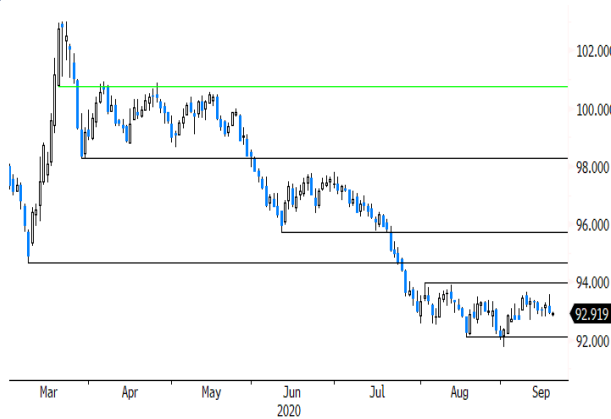
### Markets

- Sentiment in the wake of the Fed policy meeting remained fragile. **The lack of immediate monetary stimulus was accompanied by the ever present stalemate in Congress over a fourth fiscal package.** President Trump is pushing Republicans to support a \$1.5tn compromise. US data (jobless claims, housing) came in below consensus but had no direct impact on markets. WS ended up to 1.27% lower (Nasdaq). Core bonds initially thrived but returned from intraday highs as US investors started joining. The US yield curve bull flattened, undoing the bear steepening a day earlier. Yields declined 2bps at the long end. German yields traded similarly, eventually losing just 1 bp at the front. **The dollar comeback on Wednesday proved very short-lived.** Its attempt to extend gains yesterday failed soon. EUR/USD hit support near 1.175 before retracing all losses – and more. The pair managed a close at Wednesday's open (pre-Fed) at 1.1848. DXY ended below 93. The Bank of England left policy parameters unchanged yesterday. The economy did a bit better than anticipated in August but the BoE sees several downside risks building: from the flare-up of Covid-19 over the labour market to Brexit. **It keeps the door open for more easing, including negative interest rates.** It will investigate the latter's operationality together with regulators. It triggered sterling selling as short-term UK gilt yields plummeted. EUR/GBP rose from 0.91 towards 0.915. An FT article in which EC president Von der Leyen suggested a deal is still possible only temporarily relieved downward pound pressures.
- There's no dominating trade story this morning, putting overall risk sentiment in the driver's seat. Asian stocks shrug off WS's red close and march higher this morning with China leading the way. US futures trade more or less flat. The trade-weighted dollar tested this week's low at around 92.8 but is now trading a tad higher in the 92.9 area. EUR/USD is going nowhere near 1.185. The yen trades slightly lower after inflation continued to decline but USD/JPY remains below 105 (104.82). Core bonds eke out small gains.
- Today's eco calendar contains several Fed and ECB speeches and the US Michigan consumer confidence (Sep). Economists expect a marginal rise from 74.1 to 75. We see risks tilted to the downside as many supportive government schemes have ended by now while prospects for a renewal or alternative are grim. Risk sentiment remains the key driver of markets though. **We could see some easing of selling pressures with calm returning after the previous two days.** Yesterday's intraday 'rebound' on WS supports this thought as well as this morning's trading session. Core bonds could slightly lose, the Bund underperforming. The USD will probably remain in the defensive after failing to push through EUR/USD support at 1.175 yesterday. The couple might edge higher within the sideways trading range. We remain cautious on sterling. We think the strong rebound at the start of the week wasn't justified given the lack of process in negotiations and after the Bank of England yesterday. EUR/GBP 0.918 is a first reference.

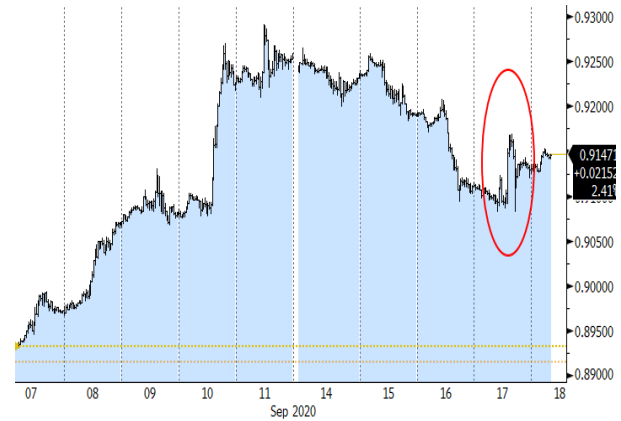
### News Headlines

- Japan August inflation data declined further.** Headline inflation eased from 0.3% Y/Y to 0.2%. Core inflation (ex food) even declined from 0% Y/Y in July to a negative -0.4%, the lowest since Nov '16. **The decline in core inflation was mainly due to a decline in accommodation and hotel prices due the government subsidies** to support ailing tourism. The index excluding both food and energy prices also dropped in negative territory (-0.1% Y/Y), the first negative reading since March 2017.
- The Fed is starting a second round of bank stress tests** due to continued uncertainty on the impact of the pandemic. The Fed will announce the outcome of the new test by the end of the year. After a first stress test in June, the Fed prohibited banks from buying back stock and imposed caps on dividend payments in the third quarter. **Yesterday, the Fed said it will decide whether or not to continue those measures by the end of the September.**

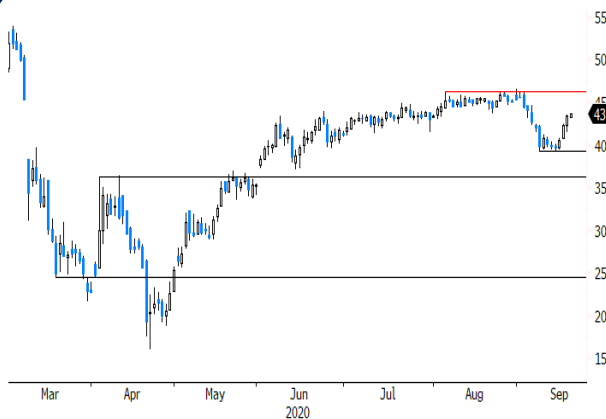
## Graphs & Table



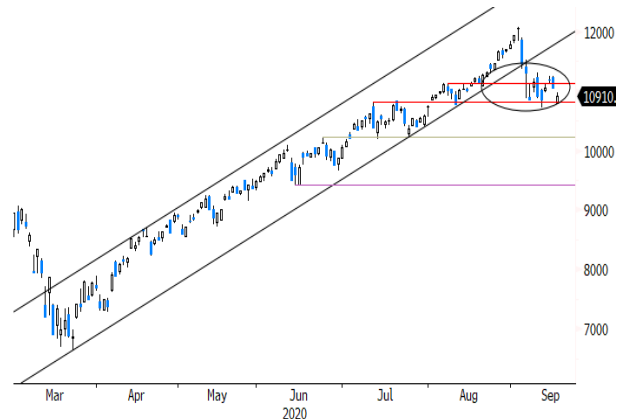
*DXY: trade-weighted USD tests this week's low. USD might remain in defensive position.*



*EUR/GBP: sterling received only temporary support from Von der Leyen as BoE keeps negative rates on the table.*



*Brent oil (\$/b): swift rebound after hitting important support near \$40.*



*Technical charts help Nasdaq to cut losses intraday.*

Source: Bloomberg

# Calendar

Friday, 18 September		Consensus	Previous
<b>US</b>			
14:30	Current Account Balance (2Q)	-\$160b	-\$104.2b
16:00	<b>U. of Mich. Sentiment (Sep P)</b>	<b>75.0</b>	<b>74.1</b>
16:00	U. of Mich. Current Conditions (Sep P)	83.1	82.9
16:00	U. of Mich. Expectations (Sep P)	67.2	68.5
16:00	U. of Mich. 1 Yr Inflation (Sep P)	3.0%	3.10%
16:00	U. of Mich. 5-10 Yr Inflation (Sep P)	--	2.70%
<b>Japan</b>			
01:30	Natl CPI YoY (Aug)	0.20%A	0.30%
01:30	Natl CPI Ex Fresh Food YoY (Aug)	-0.40%A	0.00%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Aug)	-0.10%A	0.40%
<b>UK</b>			
08:00	Retail Sales Ex Auto Fuel MoM / YoY (Aug)	0.40%/4.2%	2.00%/3.1%
08:00	Retail Sales Inc Auto Fuel MoM / YoY (Aug)	0.80%/2.7%	3.60%/1.4%
<b>EMU</b>			
10:00	ECB Current Account SA (Jul)	--	20.7b
<b>Germany</b>			
08:00	PPI MoM / YoY (Aug)	0.00%/--	0.20%/-1.7%
<b>Events</b>			
11:15	ECB's Pablo Hernandez de Cos Speaks		
11:15	ECB Vice President de Guindos Speaks in Online Event		
16:00	<b>ECB Executive Board's Schnabel Speaks in Online Event</b>		
16:00	<b>Fed's Bullard Discusses the Covid Recovery Challenge</b>		
18:00	Fed's Bostic Discusses Racial Justice		
21:00	Fed's Kashkari Discusses Too Big to Fail		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.69	-0.01		US	0.14	0.00	DOW	27901.98	-130.40
DE	-0.49	-0.01		DE	-0.70	-0.01	NASDAQ	10910.28	-140.19
BE	-0.27	-0.01		BE	-0.65	-0.01	NIKKEI	23360.3	40.93
UK	0.19	-0.03		UK	-0.11	-0.05	DAX	13208.12	-47.25
JP	0.02	0.00		JP	-0.14	-0.01	DJ euro-50	3316.57	-22.27
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.48	0.23	0.05	Eonia	-0.4710	0.0000			
5y	-0.43	0.34	0.13	Euribor-1	-0.5290	-0.0030	Libor-1	0.1500	0.0000
10y	-0.23	0.69	0.35	Euribor-3	-0.5010	-0.0140	Libor-3	0.2333	0.0000
				Euribor-6	-0.4630	-0.0010	Libor-6	0.2704	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1848	0.0032		EUR/JPY	124.1	0.10	CRB	150.78	1.05
USD/JPY	104.74	-0.21		EUR/GBP	0.9132	0.0020	Gold	1949.90	-20.60
GBP/USD	1.2973	0.0006		EUR/CHF	1.0762	0.0016	Brent	43.30	1.08
AUD/USD	0.7313	0.0007		EUR/SEK	10.3955	-0.0093			
USD/CAD	1.3167	-0.0011		EUR/NOK	10.7208	0.0590			

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