

Friday, 16 October 2020

KBC Sunrise Market Commentary

Markets

- Yesterday started in **outright risk-off modus especially on European markets**. The sharp rise in virus infections made investors ponder the impact of new economic restrictions. It is also unclear how much firepower monetary and fiscal authorities still have to mitigate the impact of a next corona wave. European equity indices showed losses of up to 3%, but the intensity of the risk-off eased going into US dealings. We **didn't see a clear reason for the improving US sentiment**. US data were mixed, with the jobless claims showing an unexpected upswing. US COVID developments aren't comforting. The debate on US stimulus continues to linger, but discord in the Republican party between US president Trump, supporting a big package, and some senators advocating much more modest support, doesn't make things easier. Whatever the driver, **US indices rebounded to close with only modest losses**. The easing of tensions also caused US yields to reverse an initial flattening, even closing marginally higher. European yields maintained a big part of the intraday flattening with yields declining between 2.3 bps (2-y) and 4.1 bps (30-y). The German 10-y yield exactly closed at -0.61% support. 10-y intra-EMU spreads widening by up to 8 bps (Greece).
- The dollar followed the standard risk-off reaction function but the reaction was very orderly**. The US currency gained ground early in the session, but didn't clear any important technical level. At the same time, it later kept most intraday gains, even as the risk-off eased. EUR/USD closed at 1.1708 from 1.1746 at the open. The TW dollar (DXY) finished near 93.80. USD/JPY gained some ground, but this occurred later (when sentiment improved) to close at 105.45. **Sterling lost modest ground against the euro** (EUR/GBP 0.9070) as markets awaited a clear signal from the EU summit and/or any indication that the UK would be prepared to continue talks. **CE currencies** (HUF/PLN) were hit hard and didn't profit (yet?) from the easing of tensions later in US dealings.
- Asian equity markets mostly show modest losses this morning** with China slightly outperforming. The yuan is trading little changed (USD/CNY 6.72 area). For now, the dollar maintains most of yesterday's gain with EUR/USD struggling not to fall back below the 1.17 handle.
- The US eco calendar is well filled with the retails sales, production data and U. of Michigan consumer confidence**. Markets ignored eco data recently. We assume markets to be **more sensitive to bad news than to good news**. Markets will also keep a close eye whether the EU summit will convince UK PM Johnson to continue Brexit talks over the next 2/3 weeks. We expect global sentiment to remain fragile as the US election comes closer. In this context, the dollar probably might retain the benefit of the doubt, but we don't expect a big leap higher (EUR/USD to hold north of 1.1612) We stay cautious on sterling as the tactical/political fight between the EU and the UK might still continue. On the interest rate markets we look out on which side of the -0.61% barrier the German 10-y yield will close.

News Headlines

- A big **study sponsored by the WHO showed discovered that Gilead Sciences' COVID-medicine Remdesivir failed to prevent deaths. It drew conclusions from a trial covering 11k people in 30 countries**. The news arrives after AstraZeneca, J&J and Eli Lilly all had to stop/pause clinical trials in search of a vaccine as well.
- US President Trump threatened Europe over the WTO ruling that allowed the old continent to hit the US with \$4bn of tariffs because of illegal US aid to Boeing**. Trump said: "if they strike back, then we'll strike much harder. They don't want to do anything. I can tell you that". The EU made up a list of products in scope, but wants to wait the outcome of the presidential election. Earlier this year, the WTO ruled that the US could impose \$7.5bn tariffs on EU goods because of similar state support to Airbus.

Graphs & Table



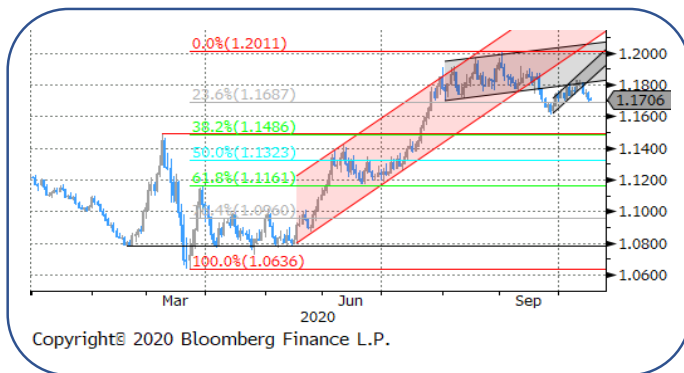
GE 10y yield

German 10-yr yield was stuck between roughly -0.60% and -0.30%. **A sharp risk-off correction yesterday caused an extensive test of the bottom of this range. A weekly close below would be significant from a technical point of view.**



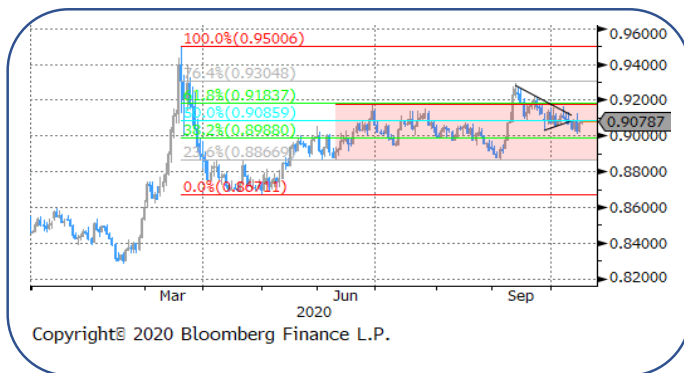
US 10y yield

US 10-yr yield remains rangebound, roughly between 0.5% and 0.8% as the Fed's huge support programmes numb activity. Topside test rejected. US real rates are drifting south again, nearing -1%.



EUR/USD

EUR/USD reversed end September dip, but failed to regain 1.18 barrier. EUR/USD returned to the middle of the 1.1612/1.1830 trading range.



EUR/GBP

EUR/GBP's upside break of the Summer trend channel (0.9176) was undone. Sterling traders still hope for an orderly Brexit outcome. There is some leeway on the **October 15 deadline, but binary risk remains in place.**

Calendar

Friday, 16 October		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (Sep)	0.80%	0.60%
14:30	Retail Sales Ex Auto MoM (Sep)	0.40%	0.70%
14:30	Retail Sales Ex Auto and Gas (Sep)	0.50%	0.70%
14:30	Retail Sales Control Group (Sep)	0.30%	-0.10%
15:15	Industrial Production MoM (Sep)	0.50%	0.40%
15:15	Capacity Utilization (Sep)	71.8%	71.40%
15:15	Manufacturing (SIC) Production (Sep)	0.60%	1.00%
16:00	Business Inventories (Aug)	0.40%	0.10%
16:00	U. of Mich. Sentiment (Oct P)	80.5	80.4
16:00	U. of Mich. Current Conditions (Oct P)	88.5	87.8
16:00	U. of Mich. Expectations (Oct P)	77.0	75.6
16:00	U. of Mich. 1 Yr Inflation (Oct P)	--	2.60%
16:00	U. of Mich. 5-10 Yr Inflation (Oct P)	--	2.70%
22:00	Net Long-term TIC Flows (Aug)	--	\$10.8b
EMU			
08:00	EU27 New Car Registrations (Sep)	--	-18.90%
11:00	Trade Balance SA (Aug)	18.0b	20.3b
11:00	CPI MoM/YoY (Sep F)	0.10%/-0.30%	0.10%/-0.30%
11:00	CPI Core YoY (Sep F)	0.20%	0.20%
Events			
Q3 earnings	Schlumberger (13:00) ...		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0,73	0,01	US	0,14	0,00	DOW	28494,2	-19,80	
DE	-0,61	-0,03	DE	-0,77	-0,02	NASDAQ	11713,87	-54,86	
BE	-0,37	-0,01	BE	-0,72	-0,01	NIKKEI	23410,63	-96,60	
UK	0,18	-0,04	UK	-0,05	0,00	DAX	12703,75	-324,31	
JP	0,02	0,00	JP	-0,13	0,00	DJ euro-50	3192,69	-80,59	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,52	0,27	0,10	Eonia	-0,4710	0,0000	Libor-1	0,1458	0,0000
5y	-0,48	0,39	0,18	Euribor-1	-0,5390	-0,0040	Libor-3	0,2301	0,0000
10y	-0,29	0,77	0,36	Euribor-3	-0,5070	0,0040	Libor-6	0,2533	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1708	-0,0038	EUR/JPY	123,45	-0,08	CRB	151,74	0,23	
USD/JPY	105,45	0,28	EUR/GBP	0,9070	0,0043	Gold	1908,90	1,60	
GBP/USD	1,2909	-0,0103	EUR/CHF	1,0707	-0,0022	Brent	43,16	-0,16	
AUD/USD	0,7094	-0,0068	EUR/SEK	10,3902	0,0275				
USD/CAD	1,3221	0,0075	EUR/NOK	10,9463	0,0912				

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