



Friday, 30 October 2020

KBC Sunrise Market Commentary

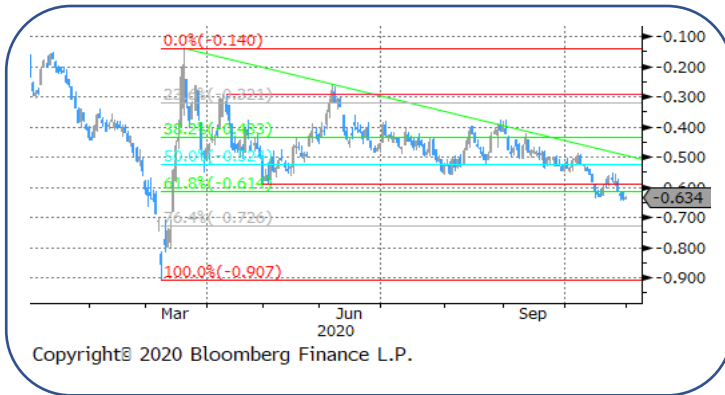
Markets

- Economic data, including US Q3 growth, jobless claims and economic confidence in the euro zone were a bright spot for markets. Wall Street eked out gains of 0.5-1.6% after the deepest rout in four months. Europe ended a choppy session still in the red, profiting only temporarily from the data and a dovish ECB. Lagarde paved the way for more stimulus in December, when new growth and inflation projections are due. She worried about the escalation of the virus and said the economy is losing faster momentum than expected. **The ECB is looking at all policy tools to deliver the additional support.** PEPP is the obvious choice but money markets also **increased bets on a deposit rate cut**, triggering a bull steepening of the German yield curve. Yields dropped 2 bps at the short end. The 10-yr yield (-1 bp) closed at crucial -0.64% support. Peripheral spreads tanked up to 11 bps (Greece) in anticipation of more ECB bond buying. USTs underperformed. US yields rose up to 5.1 bps (10-yr) amid a better bid in (US) risky assets. The euro stayed in the defensive all day with the down move extending after the **ECB explicitly stated it will monitor its development in its policy assessment and as increased speculation on a deposit rate cut weighed.** EUR/USD finished below important support at 1.1696 at 1.1674. Sterling trading was volatile amid a fragile risk context and headlines suggesting a deal is possible by early November. EUR/GBP closed slightly lower in the 0.903 area.
- US big tech earnings lead to a violent after-market sell-off in the US yesterday and pummels current sentiment as well.** After resisting sell-pressure in Europe and US the past few days, Asian stocks tumble up to 2.5% with losses building going into the final trading hours. Core bonds are upwardly oriented with the **German Bund nearing the previous contract high at 176.4.** The dollar trades mixed. The likes of the CAD, AUD and NZD lose marginally while the euro and especially the yen advance to the dollar. USD/JPY once again is close to support at 104.
- Today's economic calendar contains **euro zone inflation and Q3 growth.** The former is expected to remain negative for a third month straight (headline -0.3% y/y). The ECB president said we could see a positive surprise for Q3 growth. Markets expect a rebound of 9.6% q/q after a -11.8% contraction in Q2. However, she added that due to the rapid escalation of the virus, the current quarter would disappoint. **We think markets will indeed focus on the current dynamics rather than historical growth, even if it surprised to the upside.** The non-existent market reaction to the French surprise (18.2% q/q growth vs. 15% expected) supports our take. **Along with today's grim mood - futures point to a deep negative European open - we expect the risk-off positioning to resume after a technical US rebound yesterday.** The technical picture in stock indices, including EuroStoxx50, is pointing into the same direction. The German 10-yr yield is at the verge of falling below -0.64% support. We hold a more nuanced approach towards the dollar. The poor performance this morning suggests the downside of EUR/USD might be better protected than one could expect. EUR/USD 1.1612 is the next reference to the downside and has to hold going into the weekend.

News Headlines

- German Finance Minister Scholz and Economy Minister Altmaier provided details on the €10bn government assistance to mitigate the impact of the November partial shutdown. Under the program, **businesses that have to shut down activity will receive 70% of revenue from the same month in 2019.** This amount can be raised to 75% for companies with 50 employees or fewer. Scholz indicated that the government could do more if necessary.
- A statement after a four-day meeting of the Communist Party Central Committee said that China aims to achieve 'medium-to-high growth'. Quality of growth rather than the pace will matter, with the focus on supporting domestic demand and further opening the economy over the next five years. Longer-term, China aims to be a global leader in innovation with maximum self-reliance in key technological areas.

Graphs



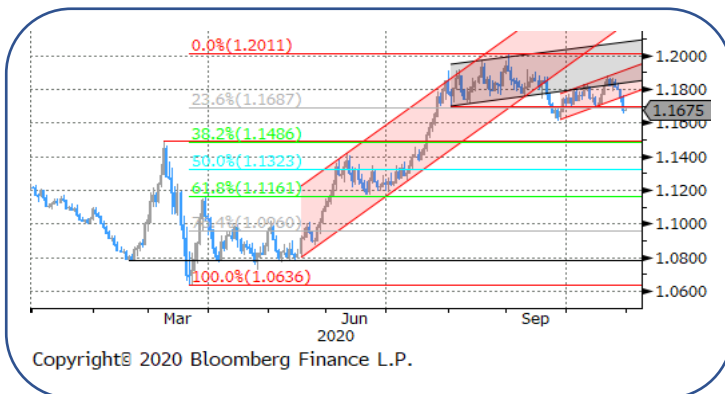
GE 10y yield

German 10-yr yield falls below the sideways -0.60%-0.30% trading range. Key support at -0.64% is under heavy testing pressure. Breaking below would pave the way towards the March gap.



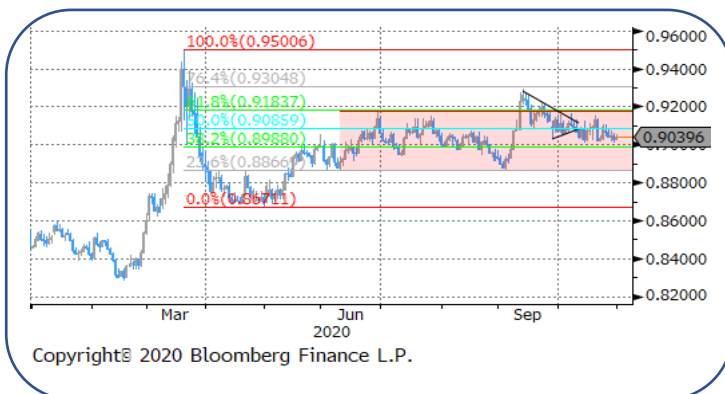
US 10y yield

US 10-yr yield effectively re-entered the sideways trading 0.55%-0.80% range after a possible false topside break-out. Democratic sweep bets fade while election and Covid-19 uncertainty looms large.



EUR/USD

EUR/USD reversed end September dip but follow-through gains are nipped in the bud by the virus. EUR/USD fell below the lower bound of the upward trend channel. The further decline below EUR/USD 1.1696 August low is not boding well but an unconvincing dollar should keep the next reference at 1.1612 intact.



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. Next high-profile deadline is end of October. Binary risk and likewise sterling trading remains in place.

Calendar & Table

Friday, 30 October		Consensus	Previous
US			
13:30	Personal Income/Spending (Sep)	0.40%/1.00%	-2.70%/1.00%
13:30	PCE Deflator MoM/YoY (Sep)	0.20%/1.50%	0.30%/1.40%
13:30	PCE Core Deflator MoM/YoY (Sep)	0.20%/1.70%	0.30%/1.60%
14:45	MNI Chicago PMI (Oct)	58.5	62.4
15:00	U. of Mich. Sentiment (Oct F)	81.2	81.2
Japan			
00:30	Tokyo CPI YoY (Oct)	-0.30%A	0.20%
00:30	Tokyo CPI Ex-Fresh Food YoY (Oct)	-0.50%A	-0.20%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Oct)	-0.20%A	0.00%
00:30	Jobless Rate (Sep)	3.00%A	3.00%
00:30	Job-To-Applclicant Ratio (Sep)	1.03A	1.04
00:50	Industrial Production MoM/YoY (Sep P)	4.00%/-9.00%A	1.00%/-13.80%
UK			
01:01	Lloyds Business Barometer (Oct)	-18A	-11
EMU			
11:00	Unemployment Rate (Sep)	8.20%	8.10%
11:00	GDP SA QoQ/YoY (3Q A)	9.60%/-7.0%	-11.8%/-14.7%
11:00	CPI MoM/YoY (Oct P)	0.10%/-0.30%	0.10%/-0.30%
11:00	CPI Core YoY (Oct P)	0.20%	0.20%
Germany			
08:00	Retail Sales MoM/YoY (Sep)	-0.60%/6.50%	3.10%/3.70%
08:00	GDP SA QoQ/WDA YoY (3Q P)	7.30%/-5.20%	-9.7%/-11.30%
France			
07:30	Consumer Spending MoM/YoY (Sep)	-1.4%/2.2%	2.30%/2.40%
07:30	GDP QoQ/YoY (3Q P)	15.0%/-7.30%	-13.8%/-18.9%
08:45	CPI EU Harmonized MoM/YoY (Oct P)	0%/0.10%	-0.60%/0.00%
Italy			
	CPI EU Harmonized MoM/YoY (Oct P)	0.30%/-0.80%	1.00%/-1.00%
12:00	GDP WDA QoQ/YoY (3Q P)	11.1%/-8.4%	-12.8%/-17.7%
Belgium			
11:00	Unemployment Rate (Sep)	--	5.10%
Czech Republic			
09:00	GDP QoQ/YoY (3Q A)	5.00%/-6.70 %	-8.7%/-10.90%
Spain			
09:00	GDP QoQ/YoY (3Q P)	13.50%/-11.8%	-17.8%/-21.5%
Events			
Q3 earnings	Under Armour (11:55), Exxon Mobil (bef-mkt), Chevron (bef-mkt), Altria (12:00) ...		
10:00	ECB's Mersch Speaks at Online Event		
10:00	ECB Survey of Professional Forecasters		
15:30	ECB's Weidmann Speaks at Townhall Event		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.82	0.05		US	0.15	0.00	DOW	26659.11	139.16
DE	-0.64	-0.01		DE	-0.81	-0.02	NASDAQ	11185.59	180.72
BE	-0.40	-0.03		BE	-0.75	-0.02	NIKKEI	22977.13	-354.81
UK	0.22	0.01		UK	-0.06	0.01	DAX	11598.07	37.56
JP	0.04	0.01		JP	-0.12	0.00	DJ euro-50	2960.03	-3.51
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.53	0.28	0.10	Eonia	-0.4700	0.0000			
5y	-0.48	0.43	0.20	Euribor-1	-0.5500	-0.0050	Libor-1	0.1478	0.0000
10y	-0.27	0.85	0.41	Euribor-3	-0.5150	-0.0030	Libor-3	0.2144	0.0000
				Euribor-6	-0.5150	-0.0100	Libor-6	0.2441	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1674	-0.0072		EUR/JPY	122.12	-0.42	CRB	144.81	-1.85
USD/JPY	104.61	0.29		EUR/GBP	0.9029	-0.0018	Gold	1868.00	-11.20
GBP/USD	1.293	-0.0053		EUR/CHF	1.0686	-0.0009	Brent	37.65	-1.47
AUD/USD	0.7029	-0.0016		EUR/SEK	10.425	0.0318			
USD/CAD	1.3325	0.0002		EUR/NOK	11.1433	0.1359			

If you no longer wish to receive this mail, please contact us: "kbcmarketresearch@kbc.be" to unsubscribe

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
Dublin Research		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

