

Monday, 19 August 2019

KBC Sunrise Market Commentary

Markets

- Friday's trading session was **all about European stimulus hopes** following the recession scare from earlier in the week on negative quarterly German GDP figures. The first stimulus headline was **monetary related after the WSJ ran an article titled "ECB has bazooka primed for September"**, citing ECB board member Rehn. He suggested that it's important to come up with a significant and impactful policy package at the September 12 meeting. *"When you're working with financial markets, its often **better to overshoot than to undershoot**"*, he added. The measures should include substantial and sufficient bond purchases as well as cuts to the key interest rates. The headlines gave stock markets a push in the back and pulled EUR/USD from the 1.11 area to an intraday low at 1.1066. German Bunds seemed to suffer from acrophobia and didn't add gains given record high absolute levels. **The second stimulus headline was fiscally related.** German magazine Der Spiegel reported that Chancellor Merkel and Finance Minister Scholz are **ready to run a budget deficit if the economy falls into recession.** The latter this weekend for the first put a number on potential stimulus package: **€50bn.** The fiscal headline **boosted European stocks to 1.5% intraday gains, weighed on Bunds and caused a reverse in EUR/USD towards the 1.11 area.** The pair eventually closed at 1.1090. The sell-off in EUR/GBP was bigger with the pair failing nearly one big figure from 0.9188 to 0.9090. **Apart from euro weakness there was some sterling reprieve as the no-deal Brexit opposition grows.** USD/JPY slightly extended recent gains in Friday's risk rebound, closing at 106.38 from 106.12. The German yield curve bear steepened with yield rising up to 5.5 bps. The US yield curve steepened as well with daily changes varying between -2.1 bps (2-yr) and +6.2 bps (30-yr). 10-yr yield spread changes vs Germany widened by up to 3 bps with Greece (-8 bps) outperforming.
- Asian stock markets join Friday's European/US rally and record up to 2% gains. The US yield curve steepens further on headlines from potential long-dated supply.** EUR/USD treads water just south of the 1.11 handle. Today's eco calendar is empty apart from final EMU CPI's. Later this week, trading will be guided by Minutes from previous Fed (Wednesday) and ECB (Thursday) Minutes. **They'll help shape future monetary policy together with EMU PMI's (Thursday) and especially Friday's keynote speech by Fed Chair Powell at the Jackson Hole conference.** This year's topic of the symposium is "Challenges for monetary policy". His speech should lay ground for a new rate cut in September and a definitive shift from policy normalization mode to accommodating mode. **Positive risk sentiment can extend core bonds' correction lower today, but the downside remains probably limited against this central bank easing background. EUR/USD is set to hold well known territory.**

News Headlines

- The head of the ECB's working group overseeing the **transition from Eonia to €STR** warned in an interview with the FT over **complacency among market participants**, especially as regards the change in timing of the publication of Eonia, which takes place on October 2 and creates very significant operational challenges. The working group will publish an extended paper today.
- The Czech minority government is coming closer to a split-up after PM Babis refused to back the appointment of a ministerial candidate from his junior coalition partner, the Social Democrats.** The latter earlier indicated that future government support would depend on the appointment. If Social Democrats stick to this view, President Zeman can ask PM Babis to form a new government with support from other parties.
- The US Treasury department said it wants to refresh its understanding of market appetite with regards to selling ultra-long dated bonds**, stretching beyond the current 30-yr maximum. In a similar exercise in 2017, with yields as well near all-time lows, they concluded that demand wasn't sufficient for bonds with 50-yr or 100-yr maturities.

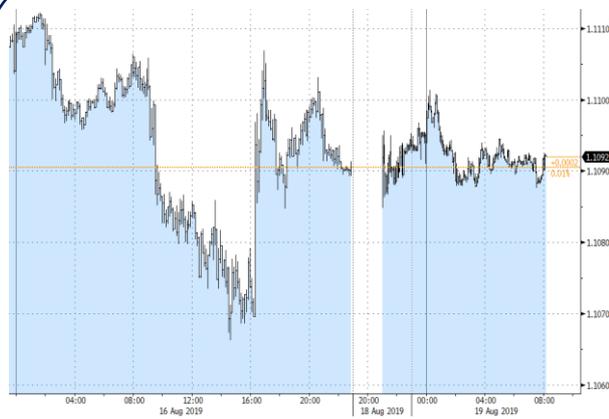
Graphs & Table



German 10-yr yield rebounds off all-time long on fiscal stimulus hopes



German Dax: first test of 11300 support failed, but technical picture remains very fragile



EUR/USD (intraday, two days): stalemate as ECB easing headlines and German fiscal stimulus rumours cancel each other out



EUR/GBP tests 0.9099 as no deal brexit opposition strengthens. Easy part of the recovery over?

Source: Bloomberg

Calendar

Monday, 19 August		Consensus	Previous
Japan			
01:50	Trade Balance Adjusted (Jul)	A: -¥126.8b	-¥14.4b
01:50	Exports YoY (Jul)	A: -1.6%	R: -6.6%
01:50	Imports YoY (Jul)	A: -1.2%	-5.2%
UK			
01:01	Rightmove House Prices MoM / YoY (Aug)	A: -1%/1.2%	-0.2%/-0.2%
EMU			
10:00	ECB Current Account SA (Jun)	--	29.7b
11:00	CPI Core YoY (Jul F)	0.9%	0.9%
11:00	CPI MoM / YoY (Jul)	-0.4%/1.1%	0.2%/1.3%

	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.55	0.02	US	1.67	0.08	DOW	25886.01	306.62	
DE	-0.61	-0.08	DE	-0.91	0.00	NASDAQ	7895.994	129.38	
BE	-0.26	-0.10	BE	-0.79	0.01	NIKKEI	20563.16	107.72	
UK	0.47	0.00	UK	0.52	0.07	DAX	11750.13	70.45	
JP	-0.23	0.00	JP	-0.28	-0.01	DJ euro-50	3357.16	30.61	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.57	1.57	0.64	Eonia	-0.3590	0.0010	Libor-1	2.1953	0.0000
5y	-0.55	1.53	0.63	Euribor-1	-0.4130	-0.0080	Libor-3	2.1753	0.0000
10y	-0.33	1.60	0.70	Euribor-3	-0.4020	-0.0020	Libor-6	2.0576	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1171	-0.0043		EUR/JPY	119.24	1.16	CRB	173.09	2.46
USD/JPY	106.38	0.26		EUR/GBP	0.9264	-0.0022	Gold	1514.10	-3.10
GBP/USD	1.2149	0.0061		EUR/CHF	1.0910	0.0041	Brent	61.30	2.73
AUD/USD	0.6799	0.0047		EUR/SEK	10.6586	-0.0643			
USD/CAD	1.3223	-0.0016		EUR/NOK	9.916	-0.0831			

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