



Wednesday, 11 March 2020

Rates: Prefer to err on the side of caution

Risk sentiment remains extremely fragile. Main Asian indices overturn a late bearish rally on WS. US President Trump's planned fiscal measures receive a lukewarm response in US Congress. Core bonds shrugged off part of overbought conditions in yesterday's profit taking move, but regain momentum this morning.

Currencies: EUR/GBP rebounds north of 0.88 as BOE cuts policy rate

The dollar staged a (temporary) rebound as the markets pondered the efficacy of fiscal measures to be prepared by the US government. However, doubts return this morning with the US dollar returning part of yesterday's gain. Today, the focus will remain on the fiscal stimulus. Sterling is drifting lower after an intermediate BoE interest rate cut.

Calendar

Headlines

- **Wall Street** rallied with gains up to 4.95% (Nasdaq) at the end of a whiplash trading session. **Asian markets** are mostly in the red amid growing scepticism about Washington's stimulus package. South Korea underperforms (-3.9%).
- **US president Trump failed to announce his planned stimulus package** – which could include a payroll tax cut and paid sick leave – as Democrats pushed back on the plan. Economic advisor Kudlow said talks with Congress will continue.
- **Italian PM Conte is looking to increase Italy's fiscal stimulus program for the fourth time in a month to as much as €16bn** after the EU agreed to stretch the country's budget rules to fight the coronavirus outbreak, Bloomberg reported.
- **Australia is seen moving into a recession by June 2020, growing just 1.2% in 2020 before rebounding, according to S&P.** Nevertheless, the country's sound fiscal position has provided room to manoeuvre at the current AAA rating.
- **Joe Biden romped to victory in another round of primaries.** Biden triumphed in the key state of Michigan while also winning in Missouri, Mississippi and Idaho, widening his lead over Bernie Sanders in the Democratic nomination race.
- **The BoE mimicked the Fed's move and unanimously voted to slash its policy rate by 50 bps to 0.25%** at a special meeting. The central bank also introduced a new Term Funding scheme with additional incentives for SMEs.
- **Today's economic calendar** contains US CPI numbers and UK industrial production data. The UK government announces its budget: will it add firepower to combat the COVID-19 outbreak? Germany and Portugal tap the bond market.

S&P	↑
Eurostoxx 50	↓
Nikkei	↓
Oil	↑
CRB	↑
Gold	↓
2 yr US	↑
10 yr US	↑
2yr DE	↔
10 yr DE	↑
EUR/USD	↓
USD/JPY	↑
EUR/GBP	↔

Rates

Prefer to err on the side of caution

	US yield	-1d
2	0.53	0.15
5	0.54	0.19
10	0.80	0.26
30	1.14	0.28

	DE yield	-1d
2	-0.96	0.05
5	-0.94	0.05
10	-0.79	0.07
30	-0.47	0.02

Volatility across markets remains extremely high. We had a **significant profit taking on core bond markets**, shrugging off some of the overbought conditions. The US yield curve bear steepened with yields rising by 15.4 bps (2-yr) to 28.3 bps (30-yr). Changes on the German yield curve varied between +2.2 bps (30-yr) and +6.4 bps (10-yr). 10-yr yield spread changes vs Germany ended mixed with Italy (-16 bps) and Greece (-27 bps) outperforming. **Oil prices recovered moderately (\$38/barrel currently) as Russian energy minister Novak opened the door to a possible return to the OPEC negotiation table.** US stock markets overturned intraday losses to enjoy a **bullish rally into the US close as US President Trump proposed a payroll tax cut and a short term expansion of sick leave.**

Risk sentiment remains extremely fragile. Main Asian equity indices lose up to 4% (South Korea). The coronavirus causes more havoc with the first major outbreak reported in Seoul and US cases already topping 1000. NY State is sending National Guard troops to establish containment zones. US Congress gives a lukewarm welcome to US President Trump's proposals. **Yesterday's core bond sell-off is partly reversed.** Biden's momentum in democratic primaries barely grabs any attention.

We stick with our view to ignore bullish market rallies at this stage and remain cautious. First, the previous US fiscal stimulus relief rally lasted for only one session. Second, there remains too much misplaced trust in what monetary policy can and fiscal policy is willing to do. Tomorrow's ECB meeting risks being a perfect example. We don't expect the central bank to be lured into a rate cut and fear that liquidity-enhancing measures or additional asset purchases won't take away recession fears. They can help put a floor below the front end of European yield curves though. **An additional risk comes from low oil prices, which could cause problems in the US junk bond market** where energy companies are the biggest representative. Chapter 11s in the sector could put credit spreads in general under pressure. **It's hard to see a lasting improvement in risk sentiment already at this stage.**

Technically: both the German Bund and US Note future remain in heavy overbought conditions. Corrections lower are possible and even likely, but we fear that they'll be temporary in nature. The speed of decline in core bond yields could nevertheless slow and we might get some stabilization at best.



German 10-yr yield sets all-time low.



US 10-yr yield: recession alert.

Currencies

EUR/GBP jumps north of 0.88 on BOE rate cut

R2	1.1514	-1d
R1	1.1448	
EUR/USD	1.1281	-0.0169
S1	1.1239	
S2	1.1199	

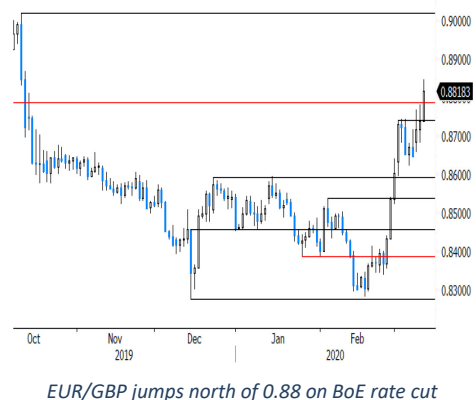
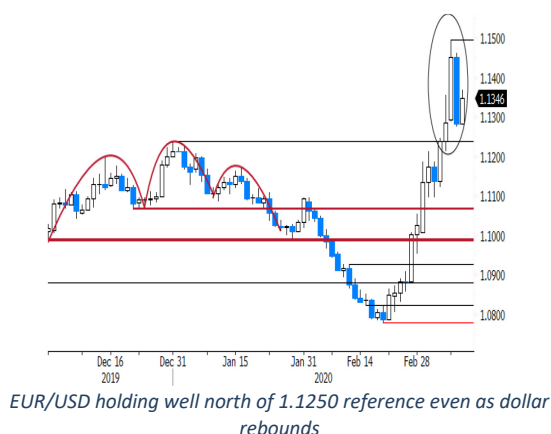
R2	0.88981	-1d
R1	0.8786	
EUR/GBP	0.8740	0.0022
S1	0.8600	
S2	0.8275	

A countermove to the corona & oil risk-off trade kicked in yesterday. The trigger wasn't that obvious, and it developed in an uneven way during the day and across markets. Several governments, including the US, preparing fiscal measures maybe gave investors temporary comfort. Equities, core yields and the dollar staged a comeback with the move accelerating during the US trading session. The trade-weighted dollar (DXY) rallied from the mid 95 to the mid 96 area. USD/JPY came within reach of the 106 big figure and closed at 105.64. EUR/USD finished the day at 1.1281, near the intraday low.

This morning, the glass is again rather half empty than half full. Markets apparently grow more uncertain on the timing, the content and the efficacy of the (US) fiscal measures. Equities in Australia and South Korea are losing up to 3.0%. Losses in other regional markets are smaller. A new slide in US yields blocked the USD-rebound. USD/JPY slipped back to the 104.50 area. EUR/USD has currently returned to the 1.1350 area. The yuan shows no clear trend (USD/CNY 6.9475 area).

Later today, the US CPI data will be published. However, data are no big issue for FX markets. If anything, timely activity data might get some attention, probably not price data. The focus turns to the **fiscal response to the corona crisis** (inside and outside the US). Several governments announced or are preparing measures. However, we doubt that the amounts and the nature of the measures will be sufficient to boost confidence in a sustained way. **If this leads to a new wave in the risk-off trade, the dollar might face more headwinds than the euro, even as the EU fiscal response is limited, too.** Yesterday, we assumed the dollar to be captured in a **sell-on upticks pattern. We hold on to that view.** 1.1250/1.1620 might be a new trading range, with intermediate resistance at 1.15. We don't anticipate a sustained USD rebound yet.

Yesterday, EUR/GBP showed some nervous intraday swings. At the end of the day, sterling traded at the weakest level against the euro since October. The risk rebound didn't help sterling much. **At the time of writing, the BOE cuts its policy rate by 50 bp. to 0.25%.** EUR/GBP rallies north of 0.88. Later, the focus turns to the UK Budget. Question is whether enough spending will be directed to the short-term-term impact of corona, rather than to LT topics (infrastructure etc). If not, sterling might stay in the defensive.



Calendar

Wednesday, 11 March		Consensus	Previous
US			
13:30	CPI MoM / YoY (Feb)	0.00%/2.2%	0.10%/2.5%
13:30	CPI Ex Food and Energy MoM / YoY (Feb)	0.20%/2.3%	0.20%/2.3%
13:30	Real Avg Hourly/Weekly Earning YoY (Feb)	--/--	0.50%R/0%
UK			
10:30	Industrial Production MoM / YoY (Jan)	0.30%/-2.6%	0.10%/-1.8%
10:30	Manufacturing Production MoM / YoY (Jan)	0.30%/-3.5%	0.30%/-2.5%
10:30	Construction Output MoM / YoY (Jan)	0.10%/2.4%	0.40%/5%
Sweden			
06:00	PES Unemployment Rate (Feb)	4%	4.10%
Events			
11:30	Germany to Sell €4bn of 0% 2030 Bonds		
11:30	Portugal to Sell 2.875% 2025 and 0.475% 2030 Bonds		
12:30	U.K. Government Announces 2020 Budget		
18:00	US to Sell \$24bn 10-Year Notes		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	0.80	0.26		US	0.53	0.15	DOW	25018.16	1167.14
DE	-0.79	0.07		DE	-0.96	0.05	NASDAQ	8344.253	393.58
BE	-0.24	0.08		BE	-0.70	0.02	NIKKEI	19416.06	-451.06
UK	0.24	0.08		UK	0.17	0.08	DAX	10475.49	-149.53
JP	-0.07	-0.02		JP	-0.22	0.02	DJ euro-50	2910.02	-49.05
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.47	0.62	0.50	Eonia	-0.4540	0.0000			
5y	-0.40	0.71	0.51	Euribor-1	-0.5130	-0.0170	Libor-1	0.7249	0.0000
10y	-0.25	0.83	0.54	Euribor-3	-0.4820	-0.0140	Libor-3	0.7681	0.0000
				Euribor-6	-0.4380	-0.0170	Libor-6	0.7354	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1281	-0.0169		EUR/JPY	119.19	2.06	CRB	150.66	5.85
USD/JPY	105.64	3.28		EUR/GBP	0.8740	0.0022	Gold	1660.30	-15.40
GBP/USD	1.2911	-0.0206		EUR/CHF	1.0605	0.0017	Brent	37.22	2.86
AUD/USD	0.6505	-0.0082		EUR/SEK	10.7411	-0.0599			
USD/CAD	1.3727	0.0025		EUR/NOK	10.8225	-0.1260			

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