



Tuesday, 17 March 2020

Rates: First signs of ST thaw, but waiting on coordinated fiscal response

Asian stock markets and core bonds show first signs of a short term thaw following the rapid escalation in measures to contain the spreading of the coronavirus. The (inefficient) monetary response is behind us, but fiscal initiatives remain ringfenced. It's waiting for a coordinated fiscal response before we start becoming more neutral in general.

Currencies: None of the major currencies is able to claim the safe haven status

The dollar showed no clear trend after a modest setback in the wake of Fed policy action yesterday. None of the major currencies (euro, yen, US dollar) is currently able to convince investors of its safe haven capacity. The major fx cross rates are looking for a new reaction function. Will a credible fiscal response become the discriminatory factor?

Calendar

Headlines

- **WS** suffered its worst one-day rout since Black Monday in 1987. The Dow Jones underperformed (-12.93%). The global sell-off eases in **Asia** as investors pin hopes on stimulus. Australia outperforms (5.83%).
- **New Zealand** pulled out all stops and announced a massive **stimulus package of NZ\$12bn**, amounting to 4% of its GDP, to combat the coronacrisis. **Brazil** followed suit and announced a **\$30 bn injection** into the economy.
- **The US airline industry is stepping up calls for \$50 bn in emergency aid** as governments around the world are boosting efforts to help domestic airlines survive the shutdown of travel amid the widening coronacrisis.
- **The Philippines shut its financial markets until further notice** in response to the crippling impact of the coronacrisis, becoming the first country to do so. The country's stock exchange chief said he plans to reopen the market on Thursday.
- **The largest US banks are tapping the Fed's discount window**, a lending facility largely dominant since the financial crisis, to reactivate the window and encourage its use by smaller banks to weather short-term funding crunches.
- **Eurozone finance ministers are looking to the ESM** – the bloc's bailout fund – to get the European economy through the coronavirus pandemic. The bailout fund is exploring ways to deploy its **€410 bn in unused firepower**.
- **Today's economic calendar** contains February US retail sales and UK employment figures. All eyes will be on the March German ZEW indicator that may reflect the corona bearishness that's been sweeping global markets.

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

First signs of ST thaw, but waiting on fiscal response

	US yield	-1d
2	0.36	-0.13
5	0.53	-0.23
10	0.72	-0.24
30	1.35	-0.25

	DE yield	-1d
2	-0.89	-0.02
5	-0.69	0.05
10	-0.46	0.08
30	-0.16	0.04

The Fed cut its policy rate by 100 bps to the effective zero lower bound, revamped asset purchases (\$500 bn US Treasuries & \$200 bn agency-related debt), reinstalled FX swap lines with other major central banks to address US dollar scarcity off US shores and eased regulation for financial institutions. **Unfortunately, it couldn't help the panic mode on markets. Especially stock markets and corporate/sovereign credit remained in sell-off mode. Investors fear the health and growth crisis might spill over into a credit problem for some.** European stock markets lost around 5%, but ended off the intraday lows. US indices on the contrary took an extra dive in the final trading minutes to close around 12% lower! The malaise in the corporate sector is illustrated by (US) airlines' bailout call, credit drawdown by more companies (Boeing, AB Inbev, Hilton, IAG), the closure of several European car manufacturing plants,... The iTraxx crossover index surged to its highest level since 2012. Peripheral yield spreads vs Germany widened by 15 bps for Spain/Portugal, 30 bps for Italy and 55 bps for Greece.

US yields obviously opened significantly lower after the Fed's easing package, but started an intraday move higher afterwards. The end verdict showed a bull flattening with yields 13.1 bps (2-yr) to 24.8 bps (30-yr) lower. German yields didn't dive in the opening in lockstep with US ones, but did show the same intraday rising pattern. Daily changes varied between -1.2 bps (2-yr) and +8.2 bps (10-yr). Several factors could be at play. First, panic mode made investors sell everything, including core bonds, in a dash for cash. Second, it could be a sign of the times ahead that investors want credit risk compensation even for German/US bonds. Third, it could start becoming interesting to risk a little something on the prospect of coordinated fiscal stimulus. At this stage, initiatives remain ringfenced though, as illustrated by yesterday's statements/announcements by e.g. the G7 or the Eurogroup Ministers of Finance.

Asian stock markets show early signs of stabilization this morning with core bonds near intraday sell-off lows. **From a short term momentum perspective, we might get some breathing space** after this weekend's/yesterday's huge escalation in efforts to contain the coronavirus spreading (e.g. closing borders). **A coordinated fiscal response is still missing at this point.** France points this out this morning by pledging individually to spend €45 bn in supporting the economy (Italy announced a €50 bn package earlier). Today's eco calendar contains German ZEW investor sentiment for March which is the first European indication of the corona hit. Expect a very weak number. Draconic measures taken in Europe and the US indicate that **the negative economic impact could be deeper and might take longer to recover.**



German 10-yr yield: short squeeze extended.

US 10-yr yield: Fed fires bazooka, but all-time lows remain out of sight. Signs of stabilization?

Currencies

None of FX majors able to claim safe haven status

R2	1.1514	-1d
R1	1.1448	
EUR/USD	1.1183	0.0076
S1	1.1100	
S2	1.0879	

R2	0.9325	-1d
R1	0.907	
EUR/GBP	0.9115	0.0081
S1	0.8786	
S2	0.86	

Yesterday, unprecedented actions of the Fed (and other CBs) during the weekend/yesterday morning didn't change the global trading in any profound way and this also applied to FX trading. Smaller, less liquid currencies mostly remained under heavy pressure. **The dollar initially lost modest ground against the yen and the euro after the Fed policy decision. However, after the 'initial' repositioning, there was no clear directional trend.** Trading in the likes of EUR/USD and USD/JPY remains kind of erratic in nature. None of those major currencies was able to indisputably take up the role of safe haven. USD/JPY closed at 105.83 (107.29 at the open). EUR/USD finished at 1.1183 (open at 1.1067).

Overnight, trading in Asian equity markets remains volatile, but the performance is not too bad, compared to the sell-off on WS yesterday evening. Investors are pondering multiple fiscal actions from governments (admittedly mostly still on a standalone basis) to mitigate the economic impact of the corona crisis. **New Zealand** is taking bold action (4% of GDP) but for now it doesn't inspire the kiwi dollar much. **The Chinese yuan is holding stable** near USD/CNY 7.00. USD/JPY hovers in the mid 106 area, with no clear directional bias, even as the sell-off of risky assets slows. EUR/USD is holding a tight range in the 1.1170 area.

German ZEW confidence and **US retail sales** usually are potential market movers, but in the current environment **they probably won't bring any meaningful/reliable info on the future market or economic impact of the virus. Credible fiscal measures** probably are key to put some floor for the current market sell-off. **The FX market is also looking for a new reaction function.** Among the major countries, no one currently delivered such a more credible solution. In this context, more technical trading among the majors (EUR/USD, USD/JPY) might be on the cards. **If the sell-off of risky assets slows, hard hit smaller currencies with good fundamentals might stage ST technical rebounds.** For EUR/USD, we assume more range trading in the 1.1050/1.1250 range. We are a bit more cautious on sustained USD gains.

Yesterday, the risk-off repositioning kept sterling under pressure. The UK apparently also lags other countries in taking decisive measures to contain the virus. It is unclear how much this weighs on sterling but it doesn't help (risk of prolonged impact & bigger backlash). **North of 0.91, EUR/GBP is moving into overbought territory, but for now we see little reason to expect a sustained sterling comeback.**



EUR/USD: None of the majors able to claim the safe haven status.



EUR/GBP: sterling continues to underperform.

Calendar

Tuesday, 17 March		Consensus	Previous
US			
13:30	Retail Sales Advance MoM (Feb)	0.20%	0.30%
13:30	Retail Sales Ex Auto MoM (Feb)	0.10%	0.30%
13:30	Retail Sales Ex Auto and Gas (Feb)	0.30%	0.40%
13:30	Retail Sales Control Group (Feb)	0.40%	0.00%
14:15	Industrial Production MoM (Feb)	0.40%	-0.30%
14:15	Capacity Utilization (Feb)	77.10%	76.80%
14:15	Manufacturing (SIC) Production (Feb)	0.20%	-0.10%
15:00	Business Inventories (Jan)	-0.10%	0.10%
15:00	JOLTS Job Openings (Jan)	6400	6423
15:00	NAHB Housing Market Index (Mar)	73	74
Japan			
05:30	Tokyo Condominiums for Sale YoY (Feb)	-35.70%A	-34.50%
UK			
10:30	Claimant Count Rate (Feb)	--	3.40%
10:30	Jobless Claims Change (Feb)	--	5.5k
10:30	Average Weekly Earnings 3M/YoY (Jan)	3.00%	2.90%
10:30	Weekly Earnings ex Bonus 3M/YoY (Jan)	3.20%	3.20%
10:30	ILO Unemployment Rate 3Mths (Jan)	3.80%	3.80%
10:30	Employment Change 3M/3M (Jan)	140k	180k
EMU			
11:00	Labour Costs YoY (4Q)	--	2.60%
11:00	ZEW Survey Expectations (Mar)	--	10.4
Germany			
11:00	ZEW Survey Expectations (Mar)	-30	8.7
11:00	ZEW Survey Current Situation (Mar)	-30	-15.7

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	0.72	-0.24		US	0.36	-0.13		DOW	20188.52	-2997.10
DE	-0.46	0.08		DE	-0.89	-0.02		NASDAQ	6904.592	-970.28
BE	0.23	0.14		BE	-0.58	0.00		NIKKEI	17011.53	9.49
UK	0.44	0.03		UK	0.27	-0.02		DAX	8742.25	-489.83
JP	0.02	0.00		JP	-0.18	-0.01		DJ euro-50	2450.37	-135.65
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.36	0.48	0.54	Eonia	-0.4560	0.0000		Libor-1	0.8001	0.0000
5y	-0.25	0.60	0.60	Euribor-1	-0.4880	-0.0080		Libor-3	0.8431	0.0000
10y	-0.07	0.75	0.69	Euribor-3	-0.4100	0.0180		Libor-6	0.8214	0.0000
				Euribor-6	-0.3720	0.0250				
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1183	0.0076		EUR/JPY	118.47	-0.99		CRB	132.71	-8.12
USD/JPY	105.83	-1.79		EUR/GBP	0.9115	0.0081		Gold	1486.50	-30.20
GBP/USD	1.2271	-0.0007		EUR/CHF	1.0586	0.0015		Brent	30.05	-3.80
AUD/USD	0.6117	-0.0086		EUR/SEK	10.9282	0.1486				
USD/CAD	1.4016	0.0210		EUR/NOK	11.4927	0.4156				

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