



Thursday, 26 March 2020

Rates: Resilience of risk rebound will be tested soon

With US monetary and fiscal stimulus now maxed out and in place, it's over to the economy. Monday's risk rebound already faltered into the US close. Its resilience will be tested today with weekly jobless claims probably rising to astronomic proportions. The de facto yield curve control by the Fed suggests that US Treasuries are less vulnerable in case of new stress.

Currencies: EUR/USD testing 1.09 area. US jobless claims a potential USD negative?

The dollar initially held strong yesterday but momentum faded later in the session. Today we look for more news on the fiscal response of the EU to the crisis. Further implementing the ESM/OMT construction might be OK for the euro. Of late, the dollar often profited from a risk-off context, but will this also be the case if it is triggered by awful US labour data?

Calendar

Headlines

- **WS** posted its first back-to-back gain (DJI, +2.39%) since the start of the coronacrisis as the \$2tn rescue package appeared to (and did) get through Senate. The risk-on on **Asian markets** stalls with Japan underperforming (-4.5%).
- **ECB policymakers are said to be broadly in favour of unlocking the central bank's hugely powerful OMT programme** that allows the ECB to buy an unlimited amount of eurozone country's sovereign debt.
- **The World Bank and the IMF called on creditors to offer immediate debt relief to the world's poorest countries** in the wake of the coronavirus pandemic as their health systems and public finances are already under mounting pressure.
- **German FM Olaf Scholz** said the country pledges to use all its firepower to launch a **"timely, targeted and temporary" stimulus bill to kick-start economic growth** once the coronavirus pandemic subsides, Bloomberg reported.
- **The South Korean (BOK) and South African (SARB) central banks waded into the territory of QE** in an unprecedented intervention to stabilize financial markets and boost liquidity to financial institutions strained by the coronacrisis.
- **Ford was cut to junk by S&P and Moody's**. BMW was also downgraded by Moody's with many other auto carmakers (GM, VW,...) on the watchlist as the coronacrisis creates an unprecedented and extensive shock to the industry.
- In **today's economic calendar** the US braces for a jump in jobless claims amid the fallout from the coronavirus. The BoE may take stock & EU leaders will hold a 2-day conference to discuss an action plan. Italy & US 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

Resilience of risk rebound will be tested soon

	US yield	-1d
2	0.33	-0.04
5	0.50	0.00
10	0.87	0.02
30	1.36	0.05

	DE yield	-1d
2	-0.60	0.03
5	-0.45	0.05
10	-0.26	0.06
30	0.16	0.11

After Monday's significant risk rebound, it was back to normal yesterday.

European stock markets managed a good start, but risk sentiment dwindled afterwards. **The US fiscal shot is approved and discounted, but now it's over to the economy.** US stock markets tried to cling to Monday's momentum as well, but returned most of the intraday gains in the final stages of trading. (LT) US bond yields rose in lockstep with this intraday equity decline, causing a steepening of the US yield curve. Daily changes in the US ranged between -4.3 bps (2-yr) and +5 bps (30-yr). The German yield curve bear steepened with yields rising 3.5 bps (2-yr) to 11.1 bps (30-yr). 10-yr yield spread changes vs Germany narrowed by 3 to 8 bps with Greece (-17 bps) outperforming. The Eurogroup on Tuesday reached **broad consensus to use the ESM's firepower to grant credit lines to EMU countries in need. The ECB is also said to couple its unlimited buying programme OMT to those credit lines.** Yesterday, nine EMU governments even made a statement, **calling for joint debt issuance** to finance the fight against the virus. Countries like Germany or the Netherlands are strongly opposed. **EU Leaders will today normally hold a Summit** via teleconference to decide on the issue.

Asian stock markets are mixed this morning with Japan underperforming (-4%). **European and US equity futures trade with losses as well.** Core bonds are slightly upwardly oriented. Today's eco calendar is rather thin apart from the EU Summit. **US weekly jobless claims will rise to astronomic levels and could be a wake-up call for those who believe we already turned the corner.** With US monetary and fiscal stimulus now announced/in place, **we'll see how strong the resilience of the stock market bounce is.** We continue to **prefer to err on the side of caution.** The length and severity of quarantine measures put in place will grind economies to a halt and probably longer than anticipated. For the corporate sector, this risks turning liquidity problems into solvency issues. **The fall-out on the corporate sector is illustrated by the junking of Ford** by Moody's and S&P. Several other BBB-rates companies await a similar faith, throwing a huge amount of debt into junk.

From a technical point of view, the German 10-yr yield tested the upper band of the trading band since last Summer. The **US 10-yr yield** trades volatile, but **still below the previous all-time low (2016),** which is first resistance. **For US yields, the Fed's unlimited QE announcement is the de facto start of curve control.** **That implies that the mid-March Treasury sell-off in times of stress is less likely to see a repeat.**



German 10-yr yield tests -0.15% resistance.



US 10-yr yield: unlimited QE by the Fed de facto start of curve control?

Currencies

How will USD react to huge rise in jobless claims?

R2	1.1	-1d
R1	1.0879	
EUR/USD	1.0882	0.0094
S1	1.0570	
S2	1.0494	

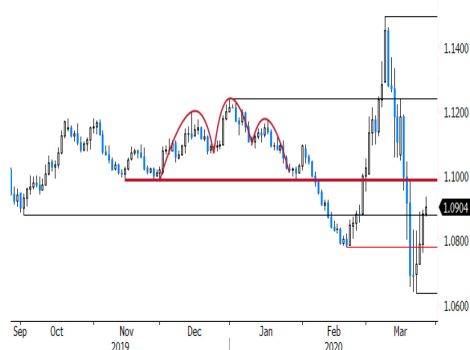
R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.9163	-0.0015
S1	0.8786	
S2	0.86	

Yesterday, the dollar made a 'remarkable' intraday reversal. At first, USD strength coincided with an ongoing positive risk sentiment, supported by the massive fiscal and monetary efforts put in place in the US (and elsewhere). Currently it is not easy to understand intermarket links, but **later in the session, the rebound in EUR/USD / correction of the USD at least coincided with a steepening of the US yield curve** and interest rate differentials narrowing against the dollar. EUR/USD closed the session at 1.0882. USD/JPY closed the session little changed at 111.21.

This morning, risk sentiment is again more fragile. There are now several fiscal and monetary lifelines in place, but it is often unclear how efficient they will be in addressing the disruption of the crisis. This also applies to the US. Whatever the driver, **the yen this morning again looks like attracting some safe haven flows**. USD/JPY is changing hands in the 110.65 area. EUR/USD hovers around 1.09.

With the Fed measures and the US fiscal package approved, **FX markets today will look for other drivers**. We look out for the US jobless claims and for the political/fiscal response of the EU leaders. In Europe, the political debate is focused on whether any help should come via combined ESM/OMT support lines or whether the EU response should be financed via corona-bonds. It is important that a decision will be taken. The ESM/OMT option, should be rather ok for the euro as it will be an efficient backstop for peripheral bond markets. In the US, we are very keen to **see the reaction of global and US markets (including the dollar) on the US jobless claims**. Of late, a risk-off market supported the USD. The jury is still out, but we are bit more cautious to simply expect this pattern to repeat if it is triggered by bad news on the US labour market and maybe investors doubting the viability of the US institutional framework to address this issue. **Recently, we saw the 1.0880/1.09 area as a first topside EUR/USD resistance**. The pair holding above that level due to negative news from the US would be significant/interesting.

Yesterday, sterling was initially supported by a better risk sentiment, with EUR/GBP even temporarily moving below 0.91. Receding optimism and the EUR/USD rebound caused EUR/GBP to close at 0.9166. Today, the BoE will probably leave its policy unchanged. Investors might look for hints on further BoE actions if they were necessary in the future. With sentiment turning more risk-off, EUR/GBP might again drift higher in the established range.



EUR/USD testing the 1.09 area. Jobless claims to be a USD negative?



EUR/GBP hovers in 0.90/0.95 range, to the tune of risk sentiment.

Calendar

Thursday, 26 March		Consensus	Previous
US			
13:30	Advance Goods Trade Balance (Feb)	-\$63.4b	-\$65.5b
13:30	Wholesale Inventories MoM (Feb P)	-0.20%	-0.40%
13:30	Retail Inventories MoM (Feb)	-0.10%	0.00%
13:30	GDP Annualized QoQ (4Q T)	2.10%	2.10%
13:30	Initial Jobless Claims	1640k	281k
13:30	Continuing Claims	1791k	1701k
16:00	Kansas City Fed Manf. Activity (Mar)	-10	5
Japan			
00:50	PPI Services YoY (Feb)	2.10%A	2.30%
UK			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Feb)	-0.20%/1.10%	1.60%/1.20%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Feb)	0.20%/0.70%	0.90%/0.80%
13:00	Bank of England Bank Rate	0.10%	0.10%
EMU			
10:00	M3 Money Supply YoY (Feb)	5.20%	5.20%
Germany			
08:00	GfK Consumer Confidence (Apr)	7.5	9.8
France			
08:45	Business Confidence (Mar)	97	105
08:45	Manufacturing Confidence (Mar)	93	102
08:45	Production Outlook Indicator (Mar)	--	0
08:45	Own-Company Production Outlook (Mar)	--	8
Events			
26MAR	(tentative) EU leaders may hold two-day summit		
10:00	ECB Publishes Economic Bulletin		
11:00	Italy to Sell Bonds		
18:00	US to Sell USD32 Bln 7-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	0.87	0.02		US	0.33	-0.04	DOW	21200.55	495.64
DE	-0.26	0.06		DE	-0.60	0.03	NASDAQ	7384.295	-33.56
BE	0.27	0.03		BE	-0.43	-0.02	NIKKEI	18664.6	-882.03
UK	0.45	-0.03		UK	0.11	-0.02	DAX	9874.26	173.69
JP	0.00	-0.05		JP	-0.22	0.01	DJ euro-50	2800.14	85.03
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	-0.23	0.52	0.49	Eonia	-0.4420	0.0000			
5y	-0.11	0.62	0.53	Euribor-1	-0.4580	-0.0010	Libor-1	0.9249	0.0000
10y	0.12	0.81	0.60	Euribor-3	-0.3690	0.0040	Libor-3	1.2324	0.0000
				Euribor-6	-0.2980	0.0080	Libor-6	0.9821	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	1.0882	0.0094		EUR/JPY	121.02	1.03	CRB	129.60	1.44
USD/JPY	111.21	-0.02		EUR/GBP	0.9163	-0.0015	Gold	1634.30	-29.00
GBP/USD	1.1878	0.0116		EUR/CHF	1.0632	0.0044	Brent	27.39	0.24
AUD/USD	0.5959	0.0001		EUR/SEK	11.0063	0.0697			
USD/CAD	1.4191	-0.0271		EUR/NOK	11.6744	-0.3079			

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