

Wednesday, 28 October 2020

KBC Sunrise Market Commentary

Markets

- The pandemic remained the key driver for market moves yesterday. US economic data was mixed (durable goods orders, Conference Board consumer confidence) but are against the backdrop of the deteriorating coronacurves outdated. European equities added another percent to the decline at the start of the week. Wall Street finished mixed with the DJI (-0.8%) and S&P500 (-0.30%) losing but the tech-heavy Nasdaq eking out a small 0.64% gain amid big merger news. Core bonds rallied. German yields fell 1.7 bps (2-yr) to more than 3 bps (10-yr and 30-yr), the biggest drop in a month as Europe turned into the Covid-19 epicenter once again. **The 10-yr yield finished 3.5 bps lower at key support near -0.614%** (61.8 Fibonacci retracement from March low-high). The US yield curve also bull flattened with yields changes varying from -0.4 bps in the 2-yr to -4 bps in the 10-yr. **The latter (0.7676%) effectively re-entered the sideways 0.55-0.80% trading range as markets mull the escalation of the virus in the US along with fiscal stimulus not due at least until after the elections.** The dollar traded choppy during European dealings. EUR/USD eventually closed just south of 1.18 (down from 1.181), mainly on the back of a **weaker euro**. USD/JPY turned south in classic risk-off dynamics, ending at 104.42 (from 104.84). The trade-weighted dollar managed a modest comeback north of 93. Sterling held a wait-and-see bias for most of the day as Brexit talks continue, hovering around EUR/GBP 0.907 opening levels. Euro softness eventually send EUR/GBP lower to 0.904.
- Asian-Pacific equities again outperform both Europe and the US with moves ranging from modest losses of -0.5% (India) to nice gains up to +2.7% (South-Korea). European futures are again slumping almost 1.5% (US -0.5%). Markets are **pandemic-based differentiating** as most Asian countries have the virus more or less under control. EUR/USD is slightly extending yesterday's losses at open but has traded stable near 1.1785 since. USD/JPY slips further towards 104.24, coming close to support at 104. Core bonds trade near yesterday's closing highs.
- We can skip today's economic calendar. More pandemic-related restrictions are being announced each day as countries continue to report record tallies in cases while the death toll pace is picking up as well. Belgium announced a closure of all sport and culture infrastructure in the Flemish region. France reportedly mulls a one-month lockdown (see below). Germany shuts bars and restaurants for one month. **We expect the coronavirus to continue to weigh on sentiment. European stocks are prone for further declines also from a technical point of view** (break below September low). Falling below the lower bound of the downward trend channel, as suggested by the futures markets, would raise the alarm. The S&P500 in the US risks giving way to the pre-Covid-19 closing high at 3386. **Core bonds could extend gains in current circumstances. The dollar fails to convince.** EUR/USD could edge lower within the upward trend channel but that's more likely to be euro weakness rather than dollar strength. Supports kicks in at 1.174 followed by 1.1696. UK and EU trade talks are scheduled to end today. Unless material progress is announced, we assume EUR/GBP 0.90 to act as solid support.

News Headlines

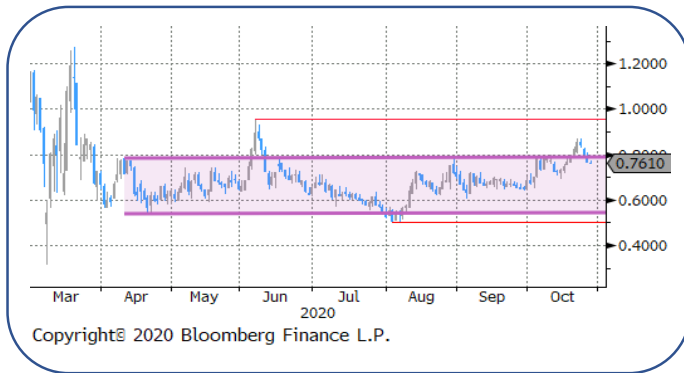
- Australian headline (1.6% Q/Q & 0.7% Y/Y) and core (0.4% Q/Q & 1.2% Y/Y) inflation both rose slightly more than expected in Q3.** They remain below the RBA's 2%-3% inflation target and details showed only a partial recovery from Q2 price declines. **Higher oil prices and the reversal of temporary policy support measures** caused most of the action. Today's CPI print is unlikely to alter the RBA's expected policy easing next week (Nov 3). AUD/USD rises from 0.7110 to 0.7150 this morning, but that has probably more to do with an easing of national lockdown measures.
- BFM reports that French President Macron will introduce a new one-month lockdown** tonight. The country yesterday saw the highest death toll from the coronavirus (+523; totaling 35541) since April 22. French cases are rising exponentially with hospitalizations expected to match the wave one peak within the next two weeks.

Graphs



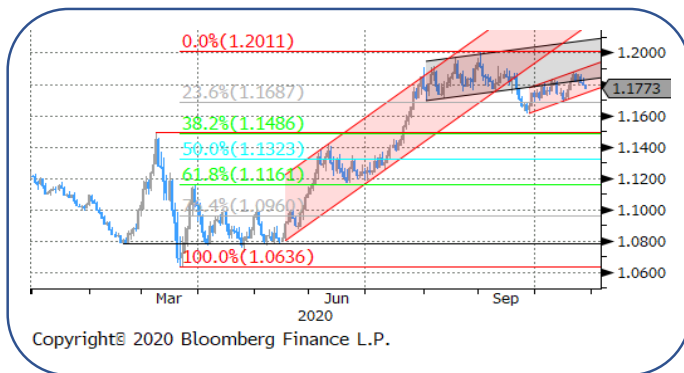
GE 10y yield

German 10-yr yield falls below the sideways -0.60%-0.30% trading range. Key support at -0.614% is being tested amid rapidly deteriorating coronavirus curves and economic prospects. Next support kicks in at -0.678% before the March lows pop up.



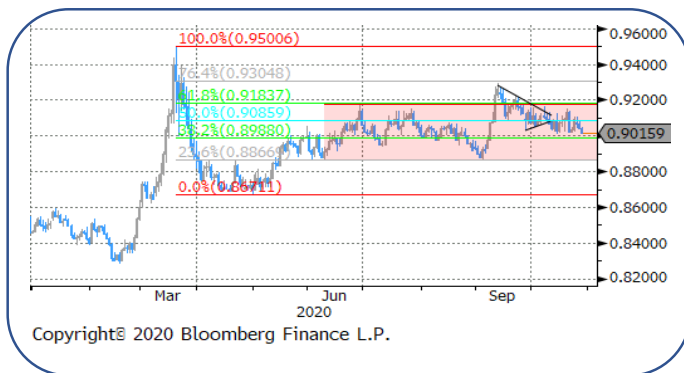
US 10y yield

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 capped by the virus turning Europe again into the epicentre.** EUR/USD nears the lower bound of the upward trend channel. An unconvincing dollar will cap losses for EUR/USD in case of a break lower however.



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

Wednesday, 28 October		Consensus	Previous
US			
12:00	MBA Mortgage Applications	--	-0.60%
13:30	Advance Goods Trade Balance (Sep)	-\$84.5b	-\$83.1bR
13:30	Wholesale Inventories MoM (Sep P)	0.40%	0.40%
13:30	Retail Inventories MoM (Sep)	-0.50%	0.80%
Canada			
15:00	Bank of Canada Rate Decision	0.25%	0.25%
UK			
01:01	BRC Shop Price Index YoY (Oct)	-1.20%A	-1.60%
France			
08:45	Consumer Confidence (Oct)	93	95
Events			
Q3 earnings	Beyond Meat, CME (bef-mkt), Mastercard (bef-mkt), Boeing (bef-mkt), Ford (21:05), Visa (aft-mkt) ...		
19:00	US to Sell USD55 Bln 5-Year Notes		
23:00	Fed's Kaplan Moderates a Panel Discussion with Mark Carney		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.77	-0.03	US	0.15	0.00	DOW	27463.19	-222.19	
DE	-0.62	-0.04	DE	-0.77	-0.02	NASDAQ	11431.35	72.41	
BE	-0.37	-0.03	BE	-0.74	-0.02	NIKKEI	23418.51	-67.29	
UK	0.23	-0.04	UK	-0.05	-0.02	DAX	12063.57	-113.61	
JP	0.02	-0.01	JP	-0.12	0.01	DJ euro-50	3070.6	-34.65	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.53	0.26	0.11	Eonia	-0.4670	0.0000	Libor-1	0.1515	0.0000
5y	-0.48	0.40	0.20	Euribor-1	-0.5430	-0.0040	Libor-3	0.2223	0.0000
10y	-0.28	0.80	0.41	Euribor-3	-0.5100	-0.0010	Libor-6	0.2463	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1796	-0.0014	EUR/JPY	123.16	-0.65	CRB	150.71	1.32	
USD/JPY	104.42	-0.42	EUR/GBP	0.9042	-0.0025	Gold	1911.90	6.20	
GBP/USD	1.3044	0.0020	EUR/CHF	1.0718	-0.0003	Brent	41.20	0.74	
AUD/USD	0.7129	0.0006	EUR/SEK	10.2901	-0.0373				
USD/CAD	1.3185	-0.0027	EUR/NOK	10.8232	-0.0941				

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