



Sunrise

Thursday, 30 April 2020

### Rates: ECB to follow Fed's lead

The Fed extended its state of emergency by pledging to continue supporting the suffering US economy. Powell expressed medium term concerns and downside risks, excluding a swift recovery. Markets reacted stoic. It's ECB's Lagarde turn today. We expect a similar statement with the ECB possible upping the scope or size of its asset purchases.

### Currencies: EUR/USD nears 1.09 area. Will ECB support a 'break'?

Yesterday, the dollar lost modest ground as the risk rally continued and Fed's Powell repeated his version of the 'whatever it takes' commitment. Today, global sentiment and the ECB decision will guide FX trading. The euro needs a strong sign of coordinated monetary and fiscal support. The ECB can try to convince markets on its part of that job later today.

### Calendar

## Headlines

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	→

- WS** rallied as hopes for an effective treatment against the coronavirus buoyed sentiment, shrugging of bleak GDP data. The Nasdaq outperformed (3.57%). **Asian markets** follow suit, with Japan (2.95%) leading gains in a catch-up move.
- The Fed left rates unchanged** near zero (0-0.25%) and pledged to do whatever it takes to shore up the economy, warning the **coronacrisis will "weigh heavily" on the near-term outlook and poses "considerable risks" for the medium term.**
- Gilead announced its potential Covid-19 remdesivir produced positive results** in a US study. The New York Times reported **the FDA plans to grant the emergency-use authorization to the drug as early as Wednesday.**
- Norway** joined international efforts **to cut oil supply for the first time in 18 years by 250K barrels/day in June** – more than 13% of total output – **and 134K barrels/day in the second half of the year** in a bid to firm up oil prices.
- The Trump administration reportedly contemplates offering loans to the ailing US oil industry, perhaps in return for a financial stake.** USTS Mnuchin stressed the government considers different strategies but won't bail out the industry.
- China's manufacturing PMI eased to 50.8 from 52 in April** as factories resumed work. Details showed a worsening slump in exports orders (33.5 from 46.4) pointing to a sliding global demand. **The services gauge rose to 53.4 from 53.**
- Today's economic calendar** is jampacked, containing Q1 GDP prints and inflation figures across Europe and jobless claims in the US. All eyes are on the ECB: will Lagarde take further action?

# Rates

## ECB to follow Fed's lead

	US yield	-1d
2	0.20	-0.01
5	0.35	-0.01
10	0.63	0.01
30	1.23	0.05

	DE yield	-1d
2	-0.71	-0.01
5	-0.68	-0.02
10	-0.50	-0.03
30	-0.09	-0.03

The opening paragraph of yesterday's Fed statement was telling for the state of emergency the US central bank is still in: "The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time, thereby promoting the maximum employment and price stability goals". The forward guidance on the implementation of current extraordinary monetary policy (ZIRP, unlimited QE, flood of liquidity) remained unaltered: "until it confident that the economy has weathered events and is in track to achieve its policy goals". Based on Fed Chair Powell's comments later on that could mean quite some time. The US economy isn't out of the woods yet. The economic fallout could last over the "medium term" which Powell described as "the next year or so". Huge uncertainty and downside risks remain.

The market reaction to the Fed meeting was muted. Earlier on the trading day, (stock) markets ignored a weak, but outdated, Q1 US GDP figure and rallied after US government researchers reported that a Gilead drug helped corona-patients recover faster. A separate Chinese study posted negative results for the same drug, but was ignored. The US yield curve steepened with yield changes ranging between -1.1 bp (2-yr) and +4.7 bps (30-yr). German yields dropped by 1.8 bps (2-yr) to 2.6 bps (10-yr). The huge leap in oil prices (Brent crude up from \$20/b to \$25b) supported risk sentiment, but didn't weigh on core bonds. 10-yr yield spread changes vs Germany narrowed by up to 4 bps with Italy (+5 bps) underperforming after a rating cut by Fitch (to BBB-).

Asian risk sentiment is positive this morning with equities rallying up to 2%. South Korea and HK are closed. US equity futures advance after Microsoft, FB and Tesla earnings. Core bonds trade slightly positive. Attention shifts from the US to Europe today with Q1 EMU GDP figures and the ECB meeting. US data still include weekly claims, income/spending numbers and Chicago PMI. We expect the ECB to send a similar signal as the Fed did yesterday. Lagarde and co might decide to broaden the specter of asset purchases or to up the size of the PEPP-programme which risks running dry by September at the current rate of purchases. From a market point of view, it could be cause some intraday narrowing of credit spreads, but we don't think it will leave more traces. The message for core bond yields is the same as in the US: prepare for low rates for an even longer period of time.

From a technical point of view, the German 10-yr yield is trying to find a fresh equilibrium. For US yields, the Fed's unlimited QE announcement is the de facto start of curve control probably reducing volatility. A trading range between 0.5% and 0.8% opened up.



German 10-yr yield: trying to find fresh equilibrium.



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

# Currencies

R2	1.125	-1d
R1	1.1109	
<b>EUR/USD</b>	<b>1.0873</b>	<b>0.0053</b>
S1	1.0770	
S2	1.0636	

R2	0.9212	-1d
R1	0.9033	
<b>EUR/GBP</b>	<b>0.8723</b>	<b>0.0015</b>
S1	0.8621	
S2	0.8569	

## Will ECB help for a EUR/USD 1.09 test/break?

The global risk rebound continued yesterday. Investors look forward to a restart of the economy as the measures to contain the corona virus might gradually be lifted. However, the equity rally again had only a modest impact on yields and on the big USD cross rates. Data including a 4.8% Q1 contraction of US activity, didn't affect (USD) trading. The dollar traded tentatively lower and lost some further ground as chair Powell reiterated that the Fed will use all available tools to support the economy. EUR/USD closed at 1.0873. USD/JPY finished at 106.68.

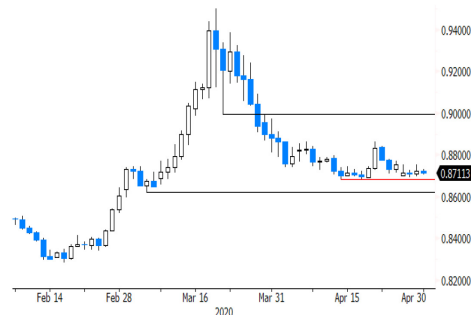
**This morning**, Asian equities join the rally on WS. US futures extend gains on good earnings from the likes of Facebook. China PMI's were mixed as poor export demand is weighing on manufacturing activity. The yuan rebounded (USD/CNY 7.0560) on hopes for further fiscal stimulus. The Aussie dollar is trading near a 7-week high (AUD/USD 0.6560) as the RBA didn't buy bonds under its QE program today. It apparently considers market conditions have substantially improved. The dollar hovers near recent lows (DXY 99.60 area, USD/JPY 106.60). EUR/USD is losing a few ticks (1.0860).

**Today's** calendar contains the EMU Q1 GDP, the EMU CPI, the US jobless claims and the Chicago PMI. The data are interesting but probably have limited impact on (FX) markets. **Global sentiment and the ECB policy meeting will be the main drivers for EUR/USD trading.** The euro probably needs a strong signal policy makers will be able to provide a coordinated fiscal or monetary response. More stimulus (also monetary) is probably more supportive for the euro than a message that the ECB has already done a lot. Even so, the fiscal topic won't be 'solved' today. In this context, it might remain difficult for the euro to fully profit from a (gradual) USD decline. This week, EUR/USD slipped briefly below 1.0770, but the downside test was rejected. More consolidation in the 1.0730/1.10 range might be on the cards. Of late, the 1.09 area already proved to be a quite tough resistance. Will the combination of ECB stimulus and global risk-on finally trigger a (guarded) step higher?

Sterling trade weak at the start of the session, but the global risk-on put a floor for the UK currency. EUR/GBP gradually returned back lower in the 0.87 big figure. There are few UK data today. With no progress in the Brexit talks and the UK potentially lagging the global trend toward reopening the economy, we see more consolidative EUR/GBP price action near the 0.8680/0.87 support.



EUR/USD near 1.09 resistance area. Will ECB stimulus cause a test, or even a break?



EUR/GBP: holding a tight range near the 0.8680/0.87 support.

# Calendar

Thursday, 30 April		Consensus	Previous
<b>US</b>			
14:30	Personal Income/Spending (Mar)	-1.5%/-5.0%	0.60%/0.20%
14:30	PCE Deflator MoM/YoY (Mar)	-0.30%/1.30%	0.10%/1.80%
14:30	PCE Core Deflator MoM/YoY (Mar)	-0.10%/1.60%	0.20%/1.80%
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>3500k</b>	<b>4427k</b>
14:30	Continuing Claims	19476k	15976k
14:30	Employment Cost Index (1Q)	0.60%	0.70%
15:45	MNI Chicago PMI (Apr)	37.7	47.8
<b>Japan</b>			
01:50	Retail Sales MoM/YoY (Mar)	-4.5%A/-4.6%A	0.5%R/1.6%
01:50	Dept. Store, Supermarket Sales YoY (Mar)	-10.1%A	0.20%
01:50	Industrial Production MoM/YoY (Mar P)	-3.7%A/-5.2%A	-0.30%/-5.7%
07:00	Consumer Confidence Index (Apr)	21.6	30.9
<b>EMU</b>			
11:00	Unemployment Rate (Mar)	7.80%	7.30%
<b>11:00</b>	<b>GDP SA QoQ/YoY (1Q A)</b>	<b>-3.80%/-3.40%</b>	<b>0.10%/1.00%</b>
11:00	CPI MoM/YoY (Apr P)	0.10%/0.10%	0.50%/0.70%
11:00	CPI Core YoY (Apr P)	0.70%	1.00%
13:45	ECB Main Refinancing Rate	0.00%	0.00%
13:45	ECB Marginal Lending Facility	0.25%	0.25%
<b>13:45</b>	<b>ECB Deposit Facility Rate</b>	<b>-0.50%</b>	<b>-0.50%</b>
<b>Germany</b>			
08:00	Retail Sales MoM/NSA YoY (Mar)	-8%/-4.8%	0.8%R/6.5%
09:55	Unemployment Change (000's) (Apr)	74.5k	1.0k
09:55	Unemployment Claims Rate SA (Apr)	5.20%	5.00%
<b>France</b>			
<b>07:30</b>	<b>GDP QoQ/YoY (1Q P)</b>	<b>-4.0%/-3.6%</b>	<b>-0.10%/0.90%</b>
08:45	CPI EU Harmonized MoM (Apr P)	-0.3%/0.1%	0.10%/0.80%
08:45	Consumer Spending MoM/YoY (Mar)	-5.8%/-6%	-0.10%/-0.6%
<b>Italy</b>			
10:00	Unemployment Rate (Mar P)	10.50%	9.70%
11:00	CPI EU Harmonized MoM/YoY (Apr P)	0.10%/-0.30%	2.20%/0.10%
<b>12:00</b>	<b>GDP WDA QoQ/YoY (1Q P)</b>	<b>-5.4%/-5.40%</b>	<b>-0.30%/0.10%</b>
<b>Belgium</b>			
11:00	Unemployment Rate (Mar)	--	5.20%
<b>China</b>			
03:00	Composite PMI (Apr)	53.4A	53
<b>03:00</b>	<b>Manufacturing PMI (Apr)</b>	<b>50.8A</b>	<b>52</b>
<b>03:00</b>	<b>Non-manufacturing PMI (Apr)</b>	<b>53.2A</b>	<b>52.3</b>
<b>Norway</b>			
14:00	Unemployment Rate (Apr)	--	10.70%
<b>Spain</b>			
09:00	CPI EU Harmonised MoM/YoY (Apr P)	-0.2%/-0.80%	0.60%/0.10%
<b>09:00</b>	<b>GDP QoQ/YoY (1Q P)</b>	<b>-4.3%/-3.2%</b>	<b>0.40%/1.80%</b>
<b>Events</b>			
Q1 earnings	Altria, Twitter (13:00), McDonalds (bef-mkt), Kraft Heinz (bef-mkt), Amazon, Visa (aft-mkt) ...		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.63	0.01	US	0.20	-0.01	DOW	24633.86	532.31	
DE	-0.50	-0.03	DE	-0.71	-0.01	NASDAQ	8914.71	306.98	
BE	0.05	-0.04	BE	-0.49	-0.03	NIKKEI	20193.69	422.50	
UK	0.29	0.00	UK	0.05	0.00	DAX	11107.74	312.11	
JP	-0.03	0.00	JP	-0.18	0.00	DJ euro-50	2996.08	64.02	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.31	0.34	0.42	Eonia	-0.4560	0.0000	Libor-1	0.4036	0.0000
5y	-0.27	0.42	0.45	Euribor-1	-0.4650	-0.0330	Libor-3	0.7601	0.0000
10y	-0.09	0.64	0.52	Euribor-3	-0.2610	-0.0290	Libor-6	0.8619	0.0000
				Euribor-6	-0.1690	-0.0060			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0873	0.0053	EUR/JPY	116.01	0.38	CRB	111.87	3.66	
USD/JPY	106.68	-0.19	EUR/GBP	0.8723	0.0015	Gold	1713.40	-8.80	
GBP/USD	1.2469	0.0043	EUR/CHF	1.0593	0.0044	Brent	22.54	2.08	
AUD/USD	0.6557	0.0066	EUR/SEK	10.7062	-0.0054				
USD/CAD	1.3881	-0.0117	EUR/NOK	11.2234	-0.0363				

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