



Tuesday, 31 March 2020

Rates: US investors cling to positive news, but eco data loom...

Core bonds made an intraday U-turn yesterday as investors grasped to positive news on coronavirus testing, the potential development of a vaccine and a wave of corporate bonds supply. The reality check will probably follow from today on in the form of US eco data. March numbers risk being dreadful.

Currencies: USD correction meets first support.

Last week's USD correction slowed amid a mixed global context. Investors remain cautious to release the dollars they piled up earlier this month. Today's eco data probably won't change the global USD positioning. Have the US labour data later this week a bigger role to play?

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** climbed as fresh hopes on coronavirus testing and a vaccine boosted optimism. The Nasdaq outperformed (+3.62%). **Asian markets** broadly edge up, following better-than-expected Chinese data. South Korea outperforms (+2.8%).
- **The French government will reportedly unveil measures to back small and medium-sized exporters** through loan guarantees and insurance. It also considers **doubling the ceiling on the tax-free bonus** for workers to €2000.
- **The G20 trade chiefs pledged to keep markets open and tackle supply chain disruptions caused by the coronacrisis.** The top ministers in addition agreed to guard against profiteering and unjustified price increases.
- **Japan's ruling party, LDP, is mulling a massive stimulus package of more than 10% of GDP** including over ¥10tn in handouts to households in the form of cash, vouchers and subsidies. LDP also considers corporate and fixed-assets tax cuts.
- **US president Trump and Russian president Putin agreed to hold talks to stabilize energy prices** as Trump blasted the Saudi Arabia-Russia oil war – a battle begun just as the spread of the coronavirus squashed oil demand – crazy.
- **China's manufacturing sector unexpectedly rebounded to expand in March (53)**, official PMIs showed, after collapsing in February (28.9) as work came to a halt in most of the country. The services gauge climbed to 52.3 from 29.6.
- Today's **economic calendar** contains eurozone inflation figures with headline gauges expected to slow due to falling energy prices. US consumer confidence will likely tumble amid a widespread coronacrisis. Italy taps the bond market.

Rates

	US yield	-1d
2	0.23	-0.01
5	0.38	0.02
10	0.73	0.05
30	1.30	0.07

	DE yield	-1d
2	-0.68	0.00
5	-0.66	-0.02
10	-0.49	-0.02
30	-0.01	0.02

US markets cling to positive news, but eco data loom...

Core bonds traded with two faces yesterday. They started off with an **upward bias as mild risk aversion dominated Asian and European dealings.** A tightening of global lockdown measures and pressure on the oil price (new multiyear low around \$21.5/b) outweighed fiscal stimulus packages in Australia and South Korea. **Risk sentiment made a turn for the better in US dealings** after the release of a five-minute coronavirus test and following the possible vaccine announcement by J&J. Further boosting risk sentiment was **the large wave of corporate supply** which included the first US HY company in over a month. Investors met the corporate supply with great demand. **Core bonds made an intraday turnaround with US Treasuries underperforming German Bunds.** The US yield curve bear steepened with yield changes ranging between -1.5 bps (2-yr) and +7.2 bps (30-yr). Changes on the German curve varied between -1.8 bps (5-yr) and +1.6 bps (30-yr) with the belly of the curve slightly outperforming the wings. 10-yr yield spread changes vs Germany widened by up to 4 bps with Greece (+6 bps), Portugal, Spain (+9 bps) and Italy (+17 bps) underperforming. Rising anti-EU sentiment, deteriorating public finances and difficulties in containing the virus outbreak weigh on Southern European countries' debt. However, **we don't expect any widening to go very far with the ECB de facto in control of credit spreads via PEPP and potentially via OMT.**

Risk sentiment is again more guarded in Asia this morning. Most stock market indices trade with shy gains with Japan and Australian underperforming. **Chinese PMIs show a spectacular rebound in March but probably need to be taken with a pinch of salt.** The statistics bureau dedicated the single month increase to businesses returning to production, but it doesn't mean the economy returned to a normal level. Core bonds have a small upward bias. Today's eco calendar contains March US Chicago PMI and consumer confidence. Both are expected to show sharp drops. US Treasuries could outperform German Bunds. **Yesterday's intraday market reactions showed willingness to set aside negative news and cling on to positive vibes. We wonder whether that will remain the case.** Several other key US eco numbers (ADP, ISMs, payrolls) will probably paint a bleak picture as well later this week. On top, we don't think that we've already turned a corner in the global bidding process of quarantine measures. Turning them around risks being a very lengthy and difficult process, with all due consequences to the economy. **From a technical point of view, the German 10-yr yield lost intermediate support at -0.43% last Friday, implying a return to the lower half of the trading band. 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: return to lower half of sideways trading band.



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

Currencies

Dollar decline slows, awaiting labour data?

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.1048	-0.0093
S1	1.1000	
S2	1.0879	

R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.8898	-0.0040
S1	0.8786	
S2	0.86	

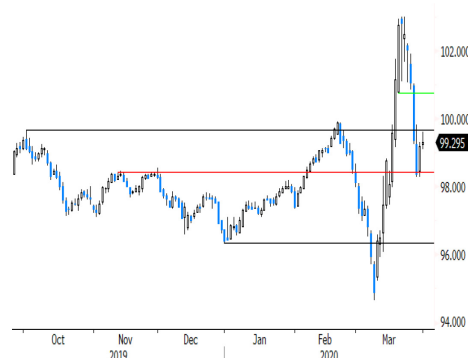
Global sentiment was relatively calm compared to last week. Investors tried to look forward to possible positive developments in the containment of the coronavirus. Even so, the dollar rebounded modestly from last week's correction, suggesting that investors remain cautious to give up USD liquidity they put in place earlier this month. The trade-weighted dollar USD rebounded to close north of 99. The yen showed relative resilience. USD/JPY even closed marginally lower at 107.75. The euro underperformed. EUR/USD finished 1.1048 (1.1141 on Friday).

This morning, a surprisingly strong rebound of the **official Chinese PMI's** is the eye-catcher for trading on Asian markets. However the reaction is guarded as investors are well aware even the Chinese economy remains on a bumpy road. Next month's reading might to show new bottlenecks. Equities show no clear direction. Yuan rises only marginally (USD/CNY 7.09 area). The dollar remains well bid. USD/JPY is changing hands in the 108.30 area. EUR/USD is also losing a few more ticks (1.1015 area).

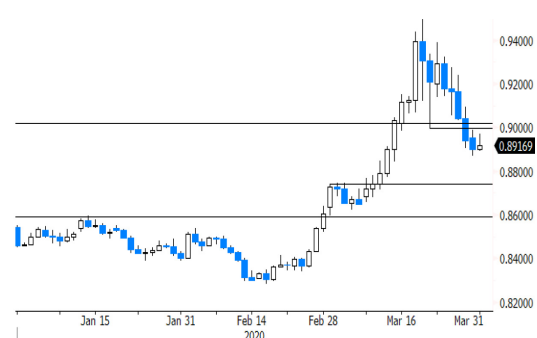
Of late, **eco data** had only a limited impact on global (FX) trading. Still we keep an eye at the US Chicago PMI and the US consumer confidence. Market moving potential of the labour data later this week might be more significant though.

For dollar trading, investors face a few conflicting drivers. Global equities suggest that part of the market wants to see the glass a bit half full. However, is this optimism enough to give up some of the dollar safe haven dollar buffers that were piled up earlier this month? For that it is probably too early. Another factor is whether a sharp (relative) deterioration in US data will take some shine off the dollar. Of late, we assumed the most aggressive run to the USD might be behind us and that the USD shouldn't return to the March highs. The EUR/USD technical picture improved after the swift break above 1.09. We assumed that the dollar entered a (guarded) sell-off upticks pattern. We maintain that view as long as the EUR/USD 1.09 support area holds. EUR/USD 1.1237/50 is a next topside reference.

Sterling traded again rather strong. The EUR/GBP decline yesterday continued after the pair dropped below the 0.90 support. This morning GfK consumer confidence declined less than expected. The day-to-day momentum of sterling is rather constructive, but for now, we remain cautious to join this sterling rebound.



USD (DXY trade-weighted): USD decline meets first support after last week's correction



EUR/GBP drops below 0.90 support area, improving the ST technical picture for sterling

Calendar

Tuesday, 31 March		Consensus	Previous
US			
15:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Jan)	0.40%/3.23%	0.43%/2.85%
15:45	MNI Chicago PMI (Mar)	4.0	49
16:00	Conf. Board Consumer Confidence (Mar)	110	130.7
16:00	Conf. Board Expectations (Mar)	--	107.8
16:00	Conf. Board Present Situation (Mar)	--	165.1
Japan			
01:30	Jobless Rate (Feb)	2.40%A	2.40%
01:30	Job-To-Applicant Ratio (Feb)	1.45A	1.49
01:50	Retail Sales MoM/YoY (Feb)	0.60%A/1.70%A	0.60%/-0.40%
01:50	Dept. Store, Supermarket Sales YoY (Feb)	0.20%A	-1.40%
01:50	Industrial Production MoM/YoY (Feb P)	0.40%A/-4.70%A	1.00%/-2.30%
06:00	Vehicle Production YoY (Jan)	-3.50%A	-8.50%
07:00	Housing Starts YoY (Feb)	-12.30%A	-10.10%
07:00	Annualized Housing Starts (Feb)	0.871mA	0.813m
07:00	Construction Orders YoY (Feb)	0.70%A	-17.00%
UK			
01:01	GfK Consumer Confidence (Mar)	-9A	-7
01:01	Lloyds Business Barometer (Mar)	6A	23
EMU			
11:00	CPI MoM/YoY (Mar P)	0.60%/0.80%	0.20%/1.20%
11:00	CPI Core YoY (Mar P)	1.10%	1.20%
Germany			
09:55	Unemployment Change (000's) (Mar)	25.0k	-10.0k
09:55	Unemployment Claims Rate SA (Mar)	5.10%	5.00%
France			
08:45	CPI EU Harmonized MoM/YoY (Mar P)	0.50%/1.0%	0.0%/1.6%
08:45	Consumer Spending MoM/YoY (Feb)	0.70%/0.00%	-1.1%/-0.9%
Italy			
11:00	CPI EU Harmonized MoM/YoY (Mar P)	1.90%/-0.10%	-0.40%/0.20%
China			
03:00	Composite PMI (Mar)	53A	28.9
03:00	Manufacturing PMI (Mar)	52.0A	35.7
03:00	Non-manufacturing PMI (Mar)	52.3A	29.6
Norway			
10:00	Norges Bank Daily FX Purchases (Apr)	--	-500m
Events			
11:00	ECB's Holzmann Speaks at Press Conference in Vienna		
11:00	Italy to Sell Bonds		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.73	0.05	US	0.23	-0.01	DOW	22327.48	690.70	
DE	-0.49	-0.02	DE	-0.68	0.00	NASDAQ	7774.151	271.77	
BE	0.02	0.01	BE	-0.51	0.02	NIKKEI	18917.01	-167.96	
UK	0.34	-0.03	UK	0.14	0.00	DAX	9815.97	183.45	
JP	0.02	0.00	JP	-0.14	0.00	DJ euro-50	2765.62	36.97	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.32	0.48	0.49	Eonia	-0.4450	0.0000	Libor-1	0.9894	0.0000
5y	-0.24	0.54	0.52	Euribor-1	-0.4360	0.0020	Libor-3	1.4501	0.0000
10y	-0.04	0.73	0.57	Euribor-3	-0.3530	0.0000	Libor-6	1.0720	0.0000
				Euribor-6	-0.2800	0.0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1048	-0.0093	EUR/JPY	119.1	-1.19	CRB	121.69	-2.20	
USD/JPY	107.76	-0.18	EUR/GBP	0.8898	-0.0040	Gold	1643.20	-10.90	
GBP/USD	1.2414	-0.0046	EUR/CHF	1.0587	-0.0013	Brent	22.76	-2.17	
AUD/USD	0.6174	0.0006	EUR/SEK	11.0853	0.0688				
USD/CAD	1.4166	0.0181	EUR/NOK	11.656	-0.0401				

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