



**Thursday, 09 April 2020**

### Rates: Better safe than sorry ahead of the long weekend

US weekly jobless claims are today's eye-catcher and will hit a multi-million level again. Fed Chair's Powell view on the economy won't be rosy. Add an EU at loggerheads on fiscal aid and the uncertainty factor of the long weekend ahead and it's probably wise to take a defensive approach. That could benefit core bonds today.

### Currencies: (Trade-weighted) dollar stabilizes near 100 as global FX stress eases

Global FX trading markets developed in an orderly, calm fashion. Smaller currencies kept recent gains. The dollar stabilized. EUR/USD reacted only modestly to the failure to reach an agreement on an EU corona response. US data, even if negative, probably won't hurt the dollar much. Investor caution ahead of the long weekend might slightly favour the US dollar today.

### Calendar

## Headlines

- **US equities** surged as investors were optimistic coronavirus cases may be close to peaking. The Dow Jones (3.44%) outperformed. **Asian markets** are mostly higher with India (+2.35%) leading gains while Japanese markets drop (-1.25%).
- An OPEC+ deal to curb production and stabilize energy markets appears to move closer within reach after **Russia pledged it is ready to cut output by 1.6 million bpd, equivalently to roughly 15% of current output**.
- **US Democrats called for Congress to push through an additional stimulus package of \$500bn** to prop up loans to small businesses, provide additional funds to hospitals & state/local governments, and increase food stamp benefits.
- **Bernie Sanders dropped out of the US presidential race** clearing Joe Biden's path to the Democratic nomination and a showdown with President Donald Trump in November after a string of losses crippled Sanders' campaign.
- **Poland's ruling Law & Justice party is "seriously considering" nationalizing the country's pension funds** in search for resources to combat the coronacrisis, Gazeta Wyborcza reported.
- ECB's policymaker and head of the French CB **Villeroy said severe deflation in the eurozone could prompt central banks to deploy more radical steps such as printing money and giving it directly to companies** to fight the coronacrisis.
- In **today's economic calendar** US jobless claims take centre stage. Fed Chair Powell is scheduled to give an economic update via webcast and the crucial OPEC+ meeting takes off with hopes on a deal. Italy taps 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

	US yield	-1d
2	0.25	-0.01
5	0.45	0.01
10	0.77	0.06
30	1.34	0.08

	DE yield	-1d
2	-0.60	0.01
5	-0.53	0.00
10	-0.31	0.00
30	0.09	0.01

## Better safe than sorry ahead of the long weekend?

Core bonds traded choppy yesterday, but eventually the downside prevailed. US Treasuries underperformed following a decent 30y US bond auction (stopped through the WI bid; average bid cover) and with US stock markets (+3%) outperforming European ones (-0.5%). Lack of a coordinated EU fiscal response to the coronavirus (failed Eurogroup meeting) played in the disadvantage of European assets as well; the German Bund obviously being the stand-alone beneficiary. Changes on the German yield curve ranged between -0.3 bps (5-yr) and +1 bp (2-yr). 10-yr yield spread changes vs Germany fell in a range of -3 bps and +3 bps. The US yield curve steepened with yield changes varying between -1 bp (2-yr) and +8.1 bps (30-yr). **We remain cautious for interpreting this week's moves. They are veiled by low volumes in this holiday-shortened trading week.** Most European and US markets are closed tomorrow in observance of Good Friday. The general news flow is also extremely thin apart from daily counts of corona infections and deaths.

Asian investors don't really buy in to yesterday's WS rally. Gains are more modest with Japan even losing around 1%. **ECB Villeroy said that deflationary risks could prompt the ECB to create money on a lasting base to finance businesses directly**, circumventing the institute's prohibition on directly financing public authorities. **FOMC Minutes** mainly reflect on the Fed's crisis deliberations earlier this month, but **offer little clues for the future**. Chicago Fed Evans and Richmond Fed Barkin did warn for (obvious) longer lasting economic consequences. Core bonds trade with an upward bias this morning.

Today's eco calendar feature the currently most closely watched indicator: **US weekly jobless claims**. Consensus expects a small setback from last week, but still at elevated levels (5.5 million!). Risks are tilted to the downside. **Fed Chair Powell** will give an economic update via webcast which won't be a good news show neither. The Eurogroup convenes again to find consensus on fiscal aid schemes, but northern and southern countries remain at loggerheads. **Together with the uncertainty factor of the long week ahead, we have an upward intraday bias for core bonds. Investors could use this week's stock market bounce as an opportunity to offload more positions.** We probably haven't turned the corner in the coronacrisis yet. Elevated stress on a corporate level could be the next domino.

**From a technical point of view**, the German 10-yr yield is back in the upper half of its trading band. **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 1% could open 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

## ('Trade-weighted) USD stabilizes as FX stress eases

R2	1.125	-1d
R1	1.1109	
EUR/USD	1.0858	-0.0034
S1	1.0778	
S2	1.0636	

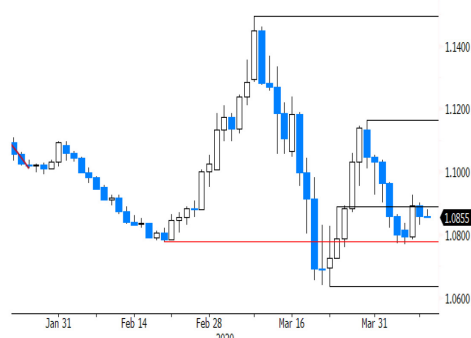
R2	0.9415	-1d
R1	0.9325	
EUR/GBP	0.8768	-0.0062
S1	0.8747	
S2	0.86	

Trading on global markets developed in a **rather calm, orderly fashion** yesterday and this bias was also visible in the currency markets. The euro spiked temporarily lower early in the session on the confirmation that the EU finance ministers failed to reach an agreement on a fiscal response to corona on an EU level. However, there was no follow-through price action. Intra-EMU spreads gradually eased from an initial widening and **EUR/USD settled in a sideways trading pattern in the mid 1.08 area** (close 1.0858). The **trade-weighted dollar** stabilized in the lower half of the 100 big figure. An ongoing positive sentiment, in particular in US equity markets, prevented a new USD rebound. **Smaller currencies mostly also maintained Thursday's gains**. At least for now, it looks that the level of stress in global FX markets is easing.

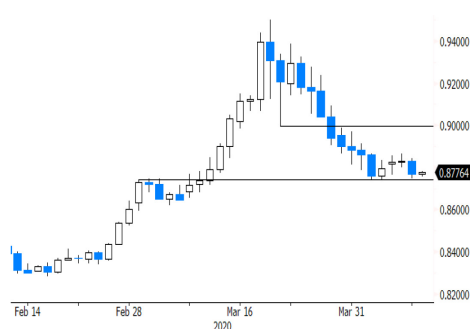
**This morning**, Asian equity markets mostly show modest gains with Japan underperforming. Sentiment remains constructive even as news on the development of the corona virus is mixed at best (e.g. Singapore). The trade-weighted dollar (DXY) is holding just north of the 100 level. USD/JPY (108.95) is trading with a mildly positive bias, but holding with its short-term consolidation pattern. The **Aussie dollar** maintains recent constructive bias and regained the 0.62 level.

**Today**, the US jobless claims and consumer confidence deserve some attention. However, of late, poor US data seldomly were a negative for the USD. Fed's Powell giving an economic update is a wild card. The discussion on the EU fiscal response remains a (modest) euro negative, but we maintain the view that global risk sentiment and the overall risk-on/off dynamics in global USD trading remains a main driver for EUR/USD trading. **Last week**, EUR/USD falling below 1.09 deteriorated the technical picture. The pair tested 1.0775/70 support, but no clear break occurred. The March low comes in at 1.0636. We continue to watch the TW USD. The USD might stay well bid, but we don't expect a rebreak beyond 103. EUR/USD rebounding above the 1.0950 area would be a first sign of improvement. In a day-to-day perspective, investor caution going into the long weekend might be slightly USD positive.

**Yesterday**, EUR/GBP returned to 0.8750 area, but recent lows/support survived. GBP (cable) trading is also USD driven. Even so, sterling recently often outperformed against the euro when the dollar declined. We don't see strong (economic) reasons for a further EUR/GBP decline, but a break below 0.8740 would be technically relevant. .



EUR/USD: 1.0770/75 support area holds, for now. Investors still await EU fiscal answer.



EUR/GBP 0.8740 support to come under test again?

# Calendar

Thursday, 9 April		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM/YoY (Mar)	-0.40%/0.50%	-0.60%/1.30%
14:30	PPI Ex Food and Energy MoM/YoY (Mar)	0.00%/1.20%	-0.30%/1.40%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Mar)	0.00%/1.30%	-0.10%/1.40%
14:30	<b>Initial Jobless Claims</b>	<b>5500k</b>	<b>6648k</b>
14:30	Continuing Claims	8236k	3029k
16:00	<b>U. of Mich. Sentiment (Apr P)</b>	<b>75.0</b>	<b>89.1</b>
16:00	U. of Mich. Current Conditions (Apr P)	84.1	103.7
16:00	U. of Mich. Expectations (Apr P)	60.7	79.7
16:00	U. of Mich. 1 Yr Inflation (Apr P)	--	2.20%
16:00	U. of Mich. 5-10 Yr Inflation (Apr P)	--	2.30%
<b>Canada</b>			
14:30	<b>Net Change in Employment (Mar)</b>	<b>-500.0k</b>	<b>30.3k</b>
14:30	Full Time Employment Change (Mar)	--	37.6
14:30	Part Time Employment Change (Mar)	--	-7.3
14:30	Hourly Wage Rate Permanent Employees YoY (Mar)	4.40%	4.30%
14:30	Unemployment Rate (Mar)	7.5%	5.60%
14:30	Participation Rate (Mar)	65.0	65.5
<b>Japan</b>			
04:00	Tokyo Avg Office Vacancies (Mar)	1.50A	1.49
<b>UK</b>			
01:01	RICS House Price Balance (Mar)	11%A	29%
08:00	Industrial Production MoM/YoY (Feb)	0.10%/-3.00%	-0.10%/-2.9%
08:00	Manufacturing Production MoM/YoY (Feb)	0.10%/-4.00%	0.20%/-3.6%
08:00	Construction Output MoM/YoY (Feb)	0.30%/0.20%	-0.80%/1.6%
08:00	Index of Services MoM/3M-3M (Feb)	0.20%/0.30%	0.10%/0.0%
<b>Germany</b>			
08:00	Imports/Exports SA MoM (Feb)	-1.00%-1.00%	0.50%/0.00%
<b>Italy</b>			
10:00	Industrial Production MoM/WDA YoY (Feb)	-1.70%/-2.30%	3.70%/-0.10%
<b>Events</b>			
11:00	Italy to Sell Bonds		
16:00	<b>Fed Chair Powell to Give an Economic Update Via Webcast</b>		
22:00	Fed's Daly Takes Part in Online Discussion		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	0.77	0.06		US	0.25	-0.01	DOW	23433.57	779.71
DE	-0.31	0.00		DE	-0.60	0.01	NASDAQ	8090.903	203.64
BE	0.25	0.00		BE	-0.38	0.01	NIKKEI	19345.77	-7.47
UK	0.38	-0.03		UK	0.12	-0.06	DAX	10332.89	-23.81
JP	0.01	-0.01		JP	-0.15	-0.04	DJ euro-50	2851.27	-6.40
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	0.50	0.51	Eonia	-0.4480	0.0000			
5y	-0.16	0.60	0.55	Euribor-1	-0.3790	0.0270	Libor-1	0.8635	0.0000
10y	0.05	0.83	0.65	Euribor-3	-0.2540	0.0390	Libor-3	1.3199	0.0000
				Euribor-6	-0.1960	0.0360	Libor-6	1.2245	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	1.0858	-0.0034		EUR/JPY	118.18	-0.31	CRB	129.19	1.24
USD/JPY	108.83	0.07		EUR/GBP	0.8768	-0.0062	Gold	1684.30	0.60
GBP/USD	1.2383	0.0051		EUR/CHF	1.0553	-0.0008	Brent	32.84	0.97
AUD/USD	0.623	0.0060		EUR/SEK	10.9405	-0.0008			
USD/CAD	1.4013	0.0020		EUR/NOK	11.2036	0.0023			

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