



Monday, 12 August 2019

KBC Sunrise Market Commentary

Markets

- European markets woke last Friday on headlines that **Italian deputy PM and Lega leader Salvini will pull support from the nation's administration and call for snap elections**. Constant infighting with the Lega's coalition partner, the five star movement, and favourable polling outcomes triggered his move. Italian **BTP's turned out to be the biggest victims of this political maneuver with the Italian/German 10-yr yield spread widening by 29 bps**. Bunds and, to a lesser extent US Treasuries, opened strong, but failed to cling on to gains even if **the general market environment remained risk-off**. European and US stock markets ended around 1% lower with trade quotes from the US President (eg "US isn't ready to make a deal with China"; "Trade talks scheduled for next month could be canceled") not helping. **German Bunds still managed to outperform US Treasuries** in a daily perspective. Germany yield changes ranged between -1 bp (5-yr) and -3 bps (30-yr). The US yield curve shifted 2.7 bps (10-yr) to 3.4 bps (5-yr) higher. **The single currency faced a difficult opening hour, but EUR/USD eventually traded with a cautious positive bias** after setting an intraday low around 1.1185. The pair eventually closed at 1.12. **The biggest FX moves occurred on sterling markets after quarterly GDP data turned negative for the first time since 2012** (-0.2% Q/Q vs 0% Q/Q expected), lifting recession fears. EUR/GBP extended the impressive rally since May, pushing the pair north of the 0.93 handle for the first time since August 2017. The post EU-referendum (0.9415; Oct2016) high is next resistance on the charts. GBP/USD is approaching the 1.20 big figure with 1.1841 key support (Oct2016 low).
- Global markets trade calm this morning**. There's no surprise CNY devaluation like last Monday. USD/CNY trades around 7.06. Asian stock markets are in positive territory though several regional bourses (eg Japan & India) are closed. Core bonds tread water. **Italian media report that the 5SM and opposition Democratic party are considering the unthinkable by linking up in an effort to delay Salvini's snap election call**. Italian parliamentary leaders will meet today to scheduled the vote of no confidence called against PM Conte. It might temporarily smoothen tensions on the BTP market, but **we wouldn't catch the falling knife yet**. EUR/USD is unmoved, changing hands just north of 1.12. EUR/GBP sets new short term highs, but sterling seems to be getting some support by reports that some UK lawmakers are drawing up a plan to compel UK PM Johnson to ask for a Brexit extension. Today's eco calendar is empty and won't guide trading. **General market sentiment and technical considerations will drive market action**. German and especially US yields are trying to form a bottom following the sharp early August declines. EUR/USD is still within well-known territory (broad 1.1027-1.1412 range).

News Headlines

- New Zealand's Treasury Department believes that -0.35% is the lowest the central bank (RBNZ) can cut its policy rate**, according to a draft paper titled 'Policy response to an economic downturn'. They argue that market interest rates paid by households and business would need to remain positive, because these economic actors would otherwise prefer to hold physical currency. That would limit the efficacy of monetary policy.
- Reuters reports that **South Korea said plans to drop Japan from its "white list" of countries with fast-track trade status from September**, a tit-for-tat move that deepens a diplomatic and trade rift between the two countries.
- Rating agency Fitch decided to keep the Italian BBB rating unchanged for now, but the outlook remains negative**, citing high debt levels and political risk. **Moody's increased the outlook on Portugal's Baa3 rating to positive** on a continued decline the government's debt burden and sustained improvements in the banking sector.

Graphs & Table



US 10-y yield tries to put a bottom in place after the sharp early August sell-off



German/Italian 10-yr yield spreads spikes after deputy PM Salvini drops support in administration, steering at snap elections



EUR/USD is back in well-known territory. Euro unmoved by Italian jitters



EUR/GBP pierces trough 0.93 handle on weak Q2 GDP outcome.

Source: Bloomberg

Calendar

Monday, 12 August		Consensus	Previous
China			
12AUG-15AUG	Aggregate Financing CNY (Jul)	1625.0b	2260.0b
12AUG-15AUG	New Yuan Loans CNY (Jul)	1275.0b	1660.0b
12AUG-15AUG	Money Supply M0 YoY (Jul)	4.40%	4.30%
12AUG-15AUG	Money Supply M1 YoY (Jul)	4.70%	4.40%
12AUG-15AUG	Money Supply M2 YoY (Jul)	8.40%	8.50%
12AUG-18AUG	Foreign Direct Investment YoY CNY (Jul)	—	8.50%
Events			
Japanese markets are closed (Mountain Day)			

	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	1.74	-0.02		US	1.65	0.03		DOW	26287.44	-90.75
DE	-0.58	0.00		DE	-0.86	-0.01		NASDAQ	7959.14	-80.02
BE	-0.22	0.00		BE	-0.75	0.00		NIKKEI	20684.82	0.00
UK	0.48	0.00		UK	0.44	-0.03		DAX	11693.8	-151.61
JP	-0.22	0.00		JP	-0.27	0.00		DJ euro-50	3333.74	-41.64
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	-0.51	1.55	0.60	Eonia	-0.3580	-0.0060				
5y	-0.44	1.51	0.60	Euribor-1	-0.4030	0.0060		Libor-1	2.1943	-0.0066
10y	-0.13	1.63	0.69	Euribor-3	-0.4040	-0.0060		Libor-3	2.1756	-0.0054
				Euribor-6	-0.3960	-0.0030		Libor-6	2.0520	0.0017
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1200	0.0020		EUR/JPY	118.38	-0.21		CRB	172.09	1.77
USD/JPY	105.69	-0.38		EUR/GBP	0.9312	0.0097		Gold	1508.50	-1.00
GBP/USD	1.2033	-0.0100		EUR/CHF	1.0899	0.0000		Brent	58.53	1.15
AUD/USD	0.6786	-0.0016		EUR/SEK	10.6935	-0.0392				
USD/CAD	1.3222	-0.0005		EUR/NOK	9.9464	-0.0371				

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