Monday, 22 July 2019

KBC Sunrise Market Commentary

Markets

- The clarifying statement by the NY Fed on early Friday to downplay William's previous comments (of aggressive easing) triggered a morning correction in core bonds. **The (core) bond market treaded water afterwards.** The U. of Michigan consumer confidence was too close to expectations. Fed's Rosengren (voter) was the last governor to speech (Friday evening) before the Fed blackout period kicks in. He said that he doesn't want to ease policy if the economy is doing "perfectly well". Rosengren is a known hawk, which might explain the limited impact of his comments on bonds. US yields rose by 6.4 bps (2-yr) to 3.1 bps (10-yr) on a daily basis. The German yield curve shifted south with yields changing about -1.5 bps across the curve. **Peripheral spreads widened with Italy (-6 bps) underperforming on rumours that Lega's Salvini might trigger snap elections.** We'll experience a classic Summer trading session today with zero data to inspire traders. If anything, the moderate risk-off climate due to rising geopolitical tensions (Iran) might cause some sentiment driven core bond buying. We don't expect a strong correction lower in yields however, with key central bank policy meetings looming. A soft expected ECB on Thursday might cause some outperformance of the Bund over Treasuries in the run up to Draghi's final performance.

- **The dollar rebounded as investors scaled back expectations for bold Fed easing** on Friday after the NY Fed clarified that (dovish) comments from Fed Williams on Thursday shouldn't be interpreted as guidance for the outcome of the July Fed meeting. Uncertainty on the fate of the Italian government and tensions around Iran maybe were tentative euro negative/USD positive factors too. EUR/USD closed the day at 1.1221. USD/JPY finished at 107.71.
  At the start of the week, the dollar remains well bid as some kind of market consensus is building that the Fed will probably cut rates by a cautious 25 bp next week. The eco calendar in the US and Europe is very thin today. FX traders will count down to the ECB policy decision on Thursday. The eco calendar is backloaded with EMU PMI's (Wednesday), the Ifo confidence (Thursday) and Q2 US GDP on Friday. (Geo)political topics (Italy, new UK PM, Iran) are a wildcard for (FX) trading. **The risks both for the eco headlines and the impact of the political topic might be slightly USD supportive and/or euro negative.** EUR/USD is nearing the bottom of recent 1.14/1.1181 consolidation pattern. A downside test looks likely. A break would open the door for the a retest of the key 1.11 support area.

- EUR/GBP declined slightly further Friday, cautiously extending Thursday's sterling rebound. EUR/GBP closed at 0.8974. Cable lost some ground to close at 1.2502, but this move was mainly USD strength. Sterling investors await **tomorrow's outcome of the vote within the conservative party on the successor of PM Theresa May.** Markets will be eager to see the first steps of the new PM to unlock the Brexit stalemate. However, for now, it is difficult to seen any progress in the very short-term. In this context, a sustained sterling rebound will probably remain difficult. **We expect EUR/GBP to hold close to the 0.90 barrier until some significant news on Brexit kicks in.**

News Headlines

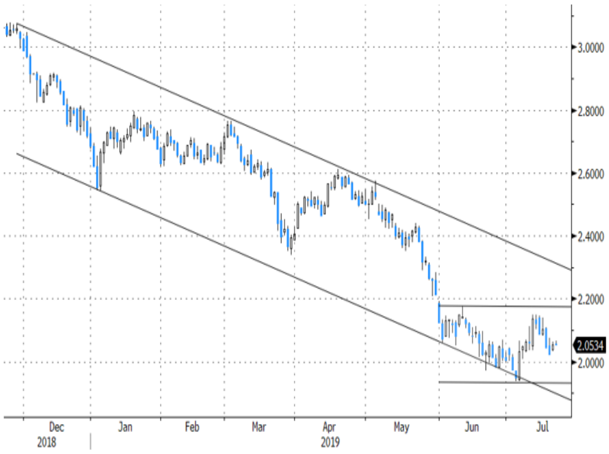
- Iran captured a British oil tanker Friday, in response to Britain's seizure of an Irian vessel earlier this month. **The move stokes fears of a potential oil supply disruption in the Strait of Hormuz.** Brent oil prices rise more than 1.5% this morning to $62.5/barrel.

- **China will impose anti-dumping duties on some steel products coming from the EU, Japan, South Korea and Indonesia,** it's Ministry of Commerce stated on Monday. The tariffs will range from 18.1% to 103.1%.

- **Japanese PM Shinzo Abe** and his ruling coalition as expected **won Sunday's upper house election for a sixth time.** He fell short of a supermajority needed for a constitutional reform however. The yen weakened slightly, close to USD/JPY 108.

Graphs & Table

EUR/USD nearing the 1.1180/90 support area as investors are scaling back aggressive Fed rate cut expectations



US 10-y yields stabilizes just north of 2.0% as markets prepare for a 25 bp Fed rate cut next week

Brent oil rise (albeit modestly) as tensions in the Strait of Hormuz are building.

EUR/GBP: sterling investors are awaiting the first steps on Brexit of the new UK PM

Source: Bloomberg

Calendar

Monday, 22 July		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Jun)	0.10	-0.05
Japan			
09:00	Convenience Store Sales YoY (Jun)	--	1.70%
Events			
2019Q2 earnings	Halliburton (bef-mkt), Steel Dynamics (aft-mkt) …		
11:30	Belgium to Sell 0.9% 2029 and 1.25% 2033 Bonds		
17:00	BoJ's Kuroda Speaks at IMF in Washington		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2.06	0.00		US	1.82	0.06	DOW	27154.2	-68.77
DE	-0.32	0.00		DE	-0.77	-0.02	NASDAQ	8146.489	-60.75
BE	-0.01	0.00		BE	-0.67	-0.01	NIKKEI	21416.79	-50.20
UK	0.73	0.00		UK	0.52	-0.02	DAX	12260.07	32.22
JP	-0.14	0.00		JP	-0.20	0.00	DJ euro-50	3480.18	-2.65

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.43	1.79	0.74	Eonia	-0.3690	-0.0010			
5y	-0.30	1.80	0.79	Euribor-1	-0.4030	-0.0040	Libor-1	2.2611	-0.0104
10y	0.11	1.99	0.95	Euribor-3	-0.3750	-0.0050	Libor-3	2.2594	-0.0182
				Euribor-6	-0.3540	-0.0010	Libor-6	2.1443	-0.0300

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1221	-0.0056	EUR/JPY	120.86	-0.13	CRB	178.59	1.14
USD/JPY	107.71	0.41	EUR/GBP	0.8974	-0.0014	Gold	1426.70	-1.40
GBP/USD	1.2502	-0.0047	EUR/CHF	1.1021	-0.0047	Brent	62.47	0.54
AUD/USD	0.7042	-0.0033	EUR/SEK	10.5294	0.0363			
USD/CAD	1.3059	0.0032	EUR/NOK	9.6208	-0.0071			

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