



Friday, 23 August 2019

KBC Sunrise Market Commentary

Markets

- Core bonds fell prey to a small profit taking move yesterday.** Triggers from a European side were EMU PMI's and Minutes of the ECB meeting. Headline PMI's beat forecasts, but we add that underlying details remain weak. ECB Minutes managed to lift inflation expectations with members willing to counter concern among market participants that the ECB lacked instruments to guide inflation towards the 2% inflation target. On the US side, **several regional Fed Presidents joined a "campaign" against cutting interest further in September with the economy still in a good place and inflation near target.** Boston Fed Rosengren and Kansas City Fed George, who both voted against easing action in July, were the first this week to plead against additional action. They were joined by non-voting member SF Fed Daly and now Philly Fed Harker (non-voter). The latter said yesterday that *"we're roughly where neutral is right now and I think we should stay here for a while and see how thing play out"*. Dallas Fed President Kaplan (non-voter) was a little more balanced. He said that its possible to lower rates again in September. He doesn't want to wait before the US consumer is showing weakness, because than you've probably waited too long. He therefore watches closely to see if weakness in global manufacturing activity seeps into the services sector and leads to a slowdown in hiring. The combined comments of regional **Fed governors caused some minor scaling back in the aggressive easing cycle markets are currently discounting.** US yields rose by 3.7 bps (2-yr) to 2.5 bps (10-yr) in a daily perspective. German yields rose by 2.1 bps (5-yr) to 4.2 bps (30-yr).
- EUR/USD twisted and turned yesterday within this week's very narrow 1.1060-1.1110 trading range.** Fed governors had the final say, enforcing the greenback and pulling the pair towards the lower bound where it changes hands this morning. **USD/JPY is near a test of first resistance at 106.78/107.21.** Sterling rallied after Johnson/Merkel and Johnson/Macron talks showed some willingness to adjust small parts of the negotiated Brexit deal in order to avoid the UK from crashing out by the end of October. **EUR/GBP tested the 0.91 support area and the decline in the pair accelerated after the break lower. The fair finished the session at 0.9044.** Next support stands at 0.90 which is 38% retracement of the May-August rally in EUR/GBP.
- Asian stock markets trade up to 0.5% higher. Japanese inflation (ex fresh food) remained as expected at 0.6% Y/Y in July. Core bonds lose some additional ground. **All eyes are on Fed Chair Powell's speech in Jackson Hole today.** We still expect the Fed Chair **to lay the ground for additional easing in September.** Such scenario is by and large discounted. **One might conclude that US Treasuries are prone for more profit taking both in case Powell hints at a September rate cut and in case if he remains reluctant like Fed governors recently.** If so, we might get **a test in EUR/USD of nearby support (1.1027/1.1060).** We add though that markets won't be running ahead of themselves too much as **this weekend's G7 Summit in France will undoubtedly produce some market-moving comments by US President Trump.**

News Headlines

- RBNZ governor Orr said that the New Zealand central bank can afford to watch, wait and observe what is happening after cutting the policy rate by 50 bps (from 1.5% to 1%) early this month.** Markets scaled back bets of additional action by the RBNZ in September, lifting NZD/USD towards the high 0.63-zone. Orr added that the RBNZ's working basis is to keep side-lined until November and that they are willing to cut than if necessary.

Graphs & Table



German 10-yr yield holds near all-time lows



US 10-yr yield: ready for some corrective action higher?



EUR/USD: about to test this year's lows. G7 Summit poses dollar risk via Trump comments



EUR/GBP: sterling rallies on the faintest of Brexit hopes

Source: Bloomberg

Calendar

Friday, 23 August		Consensus	Previous
US			
16:00	New Home Sales (Jul)	647k	646k
16:00	New Home Sales MoM (Jul)	-0.2%	7%
Japan			
01:30	Natl CPI YoY (Jul)	A: 0.5%	0.7%
01:30	Natl CPI Ex Fresh Food YoY (Jul)	A: 0.6%	0.6%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Jul)	A: 0.6%	0.5%
Belgium			
15:00	Business Confidence (Aug)	-6	-5
Events			
16:00	Fed Chair Powell Speaks at Jackson Hole		

	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.61	0.03		US	1.61	0.04	DOW	26252.24	49.51
DE	-0.64	0.00		DE	-0.86	0.02	NASDAQ	7991.388	-28.82
BE	-0.30	0.00		BE	-0.75	0.01	NIKKEI	20710.91	82.90
UK	0.52	0.00		UK	0.52	0.01	DAX	11747.04	-55.81
JP	-0.23	0.00		JP	-0.30	0.00	DJ euro-50	3373.67	-21.22
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	-0.50	1.51	0.71	Eonia	-0.3610	0.0080			
5y	-0.45	1.45	0.69	Euribor-1	-0.4150	-0.0060	Libor-1	2.1666	0.0000
10y	-0.20	1.53	0.72	Euribor-3	-0.4180	0.0050	Libor-3	2.1476	0.0000
				Euribor-6	-0.4180	0.0060	Libor-6	2.0254	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	1.1080	-0.0005		EUR/JPY	117.94	-0.24	CRB	170.32	-0.59
USD/JPY	106.44	-0.18		EUR/GBP	0.9043	-0.0096	Gold	1508.50	-7.20
GBP/USD	1.2251	0.0121		EUR/CHF	1.0900	0.0009	Brent	59.92	-0.38
AUD/USD	0.6757	-0.0024		EUR/SEK	10.7215	0.0515			
USD/CAD	1.3303	0.0012		EUR/NOK	9.9497	0.0348			

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