



Wednesday, 24 July 2019

KBC Sunrise Market Commentary

Markets

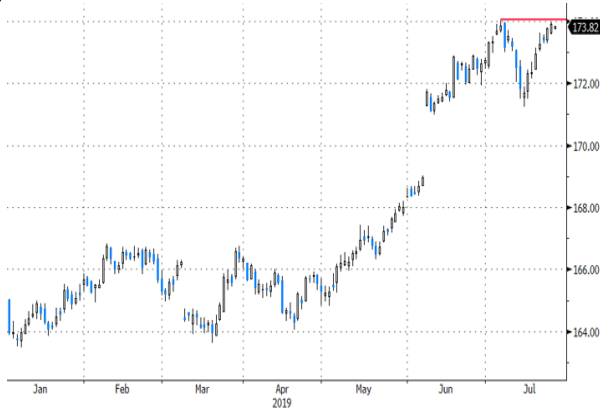
- German Bunds outperformed US Treasuries yesterday** as markets chose not to bet against soft expected PMI's (later today) and the ECB (Thursday). Trump's economic advisor Kudlow confirmed that a **US trade delegation will travel to China on Monday to discuss outstanding issues**. The report had little to no impact on the Bund but triggered a downleg in UST's which was only temporarily interrupted by disappointing US data. A solid 2-yr auction in the US went unnoticed. The US yield curve bear steepened with daily yield changes varying from +2.5 bps (2-yr) to +3.5 bps (10-yr). German yields were unchanged (2-yr, 5-yr) to 1 bp lower (10-yr). Peripheral spreads narrowed in Italy (-4 bps) and Greece (-5 bps). **Today's EMU PMI business confidence takes center stage**. Markets expect the recent stabilization to continue with an ongoing discrepancy between the manufacturing and services sector. It probably requires a significant positive surprise - which we don't see happening - for markets to change its view of a (very) soft expected ECB tomorrow. Instead, figures in line or below consensus will likely add fuel to rate cut speculations. That would cause further outperformance of the German bund (near its all-time high) vs. UST's, which might also feel some pressure of a \$41 bn 5-yr auction later today.
- EUR/USD further declined yesterday. The move was both due to **broader USD strength and euro weakness**. Recent US data are seen as too strong for the Fed to already embark for 50 bp rate cut next week. **Investors also avoided euro long exposure ahead of tomorrow's ECB decision**. Positive headlines on the US China trade talks improved global risk sentiment. The simultaneous, albeit modest, rise in US yields also supported the dollar. EUR/USD dropped below the 1.1180 support, confirming the negative ST momentum. The pair closed at 1.1252. USD/JPY finished the day at 108.23.

Tomorrow's ECB meeting will continue to cast a shadow on trading today. The EMU composite PMI is expected unchanged at 52.2. We see little evidence of a big positive surprise. **So the cautious attitude on the euro might persist**. The EUR/USD 1.1100/10 range bottom is coming within reach. One would expect a break only to occur in case the ECB delivers 'something tangible'. That said, recent low volatility suggests that investors are poorly prepared for a break of long-standing ranges. So, an unexpected break might force additional stop-loss repositioning.
- Sterling trading showed a mixed picture yesterday. Initially the UK currency was under pressure **after BoE's Saunders indicated that a BoE rate hike isn't evident in the current uncertain environment**. Sterling found its composure later. Boris Johnson becoming the new conservative party leader was already discounted by markets. His pledge to energize the economy (probably via fiscal stimulus) in theory is a tentative sterling supportive. **Sterling stabilized against the dollar and rebounded against a weak euro**. EUR/GBP closed at 0.8965. Today, Boris Johnson will take office as UK prime minister and will compose a new government. Brexit noise will probably return over time. However, in a day-to-day perspective, sterling selling might ease as markets await initiatives (on Brexit and on other topics) from the new UK government. Some sterling consolidation might be on the cards.

News Headlines

- The **US Department of Justice** announced it will **launch a broad antitrust probe into Big Tech**. The DoJ said it will investigate how the dominant tech firms have achieved market power and whether they are involved in practices that curb competition.
- Japanese PMI's edged slightly higher in July**. The composite indicator printed at 52.3 vs. 51.9 in June. Services came in at 51.2 vs .50.8. The manufacturing series increased 0.3 points but still suggests economic contraction (49.6). Australia PMI's, on the other hand, indicated a further loss of momentum in the economy. **The composite PMI dropped from 52.5 to 51.8**.

Graphs & Table



Bund future nearing contract top level as markets prepare for a soft ECB message tomorrow



EUR/USD dropped below 1.1180 support. Key 1.11 range bottom is coming with reach



AUD/USD: Aussie dollar drops back below 0.70 handle as soft data raise speculation on additional RBA stimulus



S&P 500 holding near record levels as decent US earnings and expectations for Fed easing support equities

Source: Bloomberg

Calendar

Wednesday, 24 July		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-1.10%
15:45	Markit US Manufacturing PMI (Jul P)	51.10	50.6
15:45	Markit US Services PMI (Jul P)	51.8	51.5
15:45	Markit US Composite PMI (Jul P)	--	51.5
16:00	New Home Sales Total/MoM (Jun)	6598k/5.10%	626k/-7.80%
Japan			
02:30	Jibun Bank Japan PMI Mfg (Jul P)	49.6A	49.3
02:30	Jibun Bank Japan PMI Composite (Jul P)	51.2A	50.8
02:30	Jibun Bank Japan PMI Services (Jul P)	52.3A	51.9
UK			
10:30	UK Finance Loans for Housing (Jun)	42700	42384
EMU			
10:00	Markit Eurozone Manufacturing PMI (Jul P)	47.7	47.6
10:00	Markit Eurozone Services PMI (Jul P)	53.3	53.6
10:00	Markit Eurozone Composite PMI (Jul P)	52.2	52.2
10:00	M3 Money Supply YoY (Jun)	4.60%	4.80%
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Jul P)	45.2	45
09:30	Markit Germany Services PMI (Jul P)	55.3	55.8
09:30	Markit/BME Germany Composite PMI (Jul P)	52.4	52.6
France			
09:15	Markit France Manufacturing PMI (Jul P)	51.6	51.9
09:15	Markit France Services PMI (Jul P)	52.8	52.9
09:15	Markit France Composite PMI (Jul P)	52.5	52.7
Belgium			
15:00	Business Confidence (Jul)	-4.9	-4.9
Events			
2019Q2 earnings	AT&T (bef-mkt), PayPal, Boeing (bef-mkt), Caterpillar (13:30), Ford (22:15), Facebook (aft-mkt), Tesla (aft-mkt) ...		
19:00	US to Sell USD41 Bln 5-Year Notes		

	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2.08	-0.01	US	1.84	0.03	DOW	27349.19	177.29	
DE	-0.36	0.00	DE	-0.77	0.00	NASDAQ	8251.403	47.26	
BE	-0.02	0.00	BE	-0.69	0.00	NIKKEI	21709.57	88.69	
UK	0.69	0.00	UK	0.49	-0.01	DAX	12490.74	201.34	
JP	-0.15	-0.01	JP	-0.20	-0.01	DJ euro-50	3532.87	42.95	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.43	1.81	0.71	Eonia	-0.3690	0.0000			
5y	-0.31	1.82	0.76	Euribor-1	-0.4070	-0.0010	Libor-1	2.2691	0.0000
10y	0.09	2.01	0.92	Euribor-3	-0.3730	0.0010	Libor-3	2.2828	0.0000
				Euribor-6	-0.3620	-0.0010	Libor-6	2.1808	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1152	-0.0057		EUR/JPY	120.69	-0.22	CRB	179.04	0.49
USD/JPY	108.23	0.36		EUR/GBP	0.8965	-0.0021	Gold	1421.70	-5.20
GBP/USD	1.244	-0.0036		EUR/CHF	1.0987	-0.0021	Brent	63.83	0.57
AUD/USD	0.7005	-0.0031		EUR/SEK	10.5523	0.0019			
USD/CAD	1.3136	0.0017		EUR/NOK	9.6773	0.0285			

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