



Monday, 26 August 2019

KBC Sunrise Market Commentary

Markets

- Friday's trading session was long earmarked to be all about Fed Chair Powell's key note address at the Jackson Hole symposium. **Eventually, it was again US President Trump who made all the headlines.** The Chinese Ministry of Finance started Friday's drama by **unexpectedly retaliating the US by raising tariff rates on US goods.** It sparked a **classic risk-off move** with stocks recording losses and core bonds gaining ground. The move made markets forget about **Fed Chair Powell's** strong hint that **"anything that affects the outlook for employment and inflation could also affect the appropriate stance of monetary policy and that could include uncertainty about trade policy."** The biggest impact on trading occurred after **US President Trump started a twitter rant against the Fed and China.** He wondered who his biggest enemy was – Fed Chair Powell or chairman Xi –, "ordered" US companies to immediately start looking for an alternative to China and added that the US would be far better off without the country. The US government also released a statement that communication on tariffs would follow later on. **US stock markets crashed and eventually lost up to 3%. US Treasuries hugely outperformed German Bunds.** US yields fell by 7.9 bps to 8.4 bps across the curve. German yields lost 2.7 bps to 3.1 bps. EUR/USD was testing the 1.1050 support area before **the dollar took a big hit**, propelling the pair towards 1.1150. The trade weighted dollar declined from 98.4 to 97.6. USD/JPY tested 104.56/104.87 support which are the 2018/2019 lows. A break lower in current risk off climate straightens the way towards the 100 area.
- The US-Sino trade war escalated further after the official close with US President Trump raising tariff rates nearly all Chinese goods.** At the G7 Summit he said to have second thoughts on his actions, a statement which was later clarified as **regretting not to have raised tariffs even more.** Chinese top negotiator and VP, Liu He, tried to calm tensions by calling for dialogue and firmly opposing the escalation of the trade war. **The Chinese currency trades at its softest level since early 2008 with USD/CNY rising further above the 7-mark (7.14).** Asian stock markets record heavy losses as well this morning with core bonds still upwardly oriented. **The gold price rose to its highest level since 2013 (\$1560/ounce).** Today's eco calendar contains US durable goods orders and German Ifo business sentiment. Ifo's are expected to deteriorate further, **boosting the case for a technical recession in Germany.** Overall market sentiment will be the key trading factor though. **We don't think that the worst is over yet, with especially stock markets at risk of losing additional ground. This remains fertile soil for core bonds despite absolute rich levels with the dollar showing signs of vulnerability.** The case for outright euro strength is still very low at this stage, suggesting that the battle of weakness in EUR/USD continues. EUR/GBP reversed some of Thursday's losses, changing hand around 0.9080 currently.

News Headlines

- US president Trump said on Friday he would **raise the existing 25% tariffs to 30% on \$250 bn worth of Chinese imports starting from October.** Trump also **increased the planned, new levy on another \$300 bn Chinese imports from 10% to 15%.** The move is a response on China announcing retaliatory measures earlier that day. In an attempt to de-escalate recent trade developments, China's top trade negotiator calls for dialogue though.
- Iran's foreign minister Zarif visited the G7 in France yesterday.** European leaders are trying to ease tensions between the US and Iran over the latter's nuclear ambitions. **Length discussions yielded no clear progress** however as US sanctions will remain in place for the time being.
- EU officials are considering to rewrite the Stability and Growth Pact to provide governments with softer debt reduction targets.** According to the officials, a revamp of the rules is needed because the Pact currently leads to "imprudent fiscal positions" and "procyclical fiscal policies".

Graphs & Table



US 10-yr yield is heading to the all-time low of 1.32%



S&P 500 loses more than 3% after the latest escalation in US-Sino trade spat. Test of 2822 support is lining up.



EUR/USD bounces off 1.1050 support area as dollar takes a hit. Balance of weakness between euro and dollar



USD/CNY: Chinese yuan at weakest level since 2008, further exceeding the 7 mark.

Source: Bloomberg

Calendar

Monday, 26 August		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Jul)	--	-0.02
14:30	Durable Goods Orders (Jul P)	1.20%	1.90%
14:30	Durables Ex Transportation (Jul P)	0.00%	1.00%
14:30	Cap Goods Orders Nondef Ex Air (Jul P)	0.00%	1.50%
14:30	Cap Goods Ship Nondef Ex Air (Jul P)	0.10%	0.30%
16:30	Dallas Fed Manf. Activity (Aug)	-4	-6.3
Germany			
10:00	IFO Business Climate (Aug)	95.0	95.7
10:00	IFO Expectations (Aug)	91.8	92.2
10:00	IFO Current Assessment (Aug)	98.8	99.4
Events			
16:00	Bullard Gives Welcoming Remarks at Minorities Banking Forum		

	<u>Close</u>	<u>-1d</u>		<u>2-year</u>	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.54	-0.09		US	1.53	-0.08	DOW	25628.9	-623.34
DE	-0.68	-0.03		DE	-0.89	-0.03	NASDAQ	7751.766	-239.62
BE	-0.32	-0.02		BE	-0.78	-0.04	NIKKEI	20261.04	-449.87
UK	0.48	-0.04		UK	0.45	-0.07	DAX	11611.51	-135.53
JP	-0.28	-0.05		JP	-0.32	-0.03	DJ euro-50	3334.25	-39.42
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	-0.53	1.43	0.67	Eonia	-0.3610	0.0000	Libor-1	2.1395	-0.0057
5y	-0.48	1.37	0.65	Euribor-1	-0.4130	0.0020	Libor-3	2.1444	0.0121
10y	-0.22	1.45	0.69	Euribor-3	-0.4120	0.0060	Libor-6	2.0801	0.0376
				Euribor-6	-0.4080	0.0100			
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1144	0.0064		EUR/JPY	117.49	-0.45	CRB	168.61	-1.71
USD/JPY	105.39	-1.05		EUR/GBP	0.9093	0.0050	Gold	1537.60	29.10
GBP/USD	1.2266	0.0015		EUR/CHF	1.0865	-0.0035	Brent	59.34	-0.58
AUD/USD	0.6756	-0.0001		EUR/SEK	10.6899	-0.0316			
USD/CAD	1.3283	-0.0020		EUR/NOK	9.9541	0.0044			

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