

# KBC Sunrise Market Commentary

## Markets

- **The ebb and flow of US-Sino trade headlines continued dominating trading. Pessimistic comments from the US corner were wiped out by a more softer tone from China.** Market pessimism was erased by optimism in the same vein. European and US stock markets rebounded by 1% to 1.5%, putting core bonds in the defensive. The German yield curve steepened with yield changes ranging between -2.1 bps (2-yr) and +4.6 bps (30-yr). **Comments by ECB Knot, who said that the EMU economy isn't in that dire straits to launch a new QE program, help explain the curve shift with investors doubling down on changes at policy rates instead.** The US yield curve flattened with daily changes varying between +1.9 bps (2-yr) and -0.7 bps (30-yr). The US Treasury's 7-yr Note auction flopped with the lowest demand since 2009 (bid cover 2.16) and the biggest tail since 2016. Markets didn't really react, but we keep it in mind for the 10-yr and 30-yr auctions in two weeks' time. 10-yr yield spreads vs Germany ended close to unchanged with Greece (-17 bps) and Italy (-8 bps) outperforming. Both countries' bonds extend their rally respectively **following the end of capital controls which raises the prospect of an investment grade rating and in the run-up to an anti-Salvini coalition which averts early elections.** The dollar performed well which was especially visible in USD/JPY given positive risk sentiment. The pair closed at 106.52. **The technical picture doesn't improve as long as the pair remains below 106.78/107.21 resistance.** EUR/USD (1.1057 close) again grinded slowly lower with the 2019 low (1.1027) coming into play. Losing that minor support brings the 1.0778/1.0821 support area into play. Sterling continues to take PM Johnson's maneuvering well with EUR/GBP whipsawing around 0.9070.
- Asian stock markets copy WS's gains. **Japanese eco data were mixed** with lower than expected inflation and weak retail sales balancing decent industrial production and a multi-year low unemployment rate. **Yesterday's trends on bond markets and FX markets continue as well.** Today's eco calendar contains EMU August inflation numbers, US personal income/spending data, PCE deflators and Chicago PMI. Inflation is expected to print a t 1% Y/Y both for headline and core readings which remains way below the 2% target. Risks might even be tilted to the downside following this week's disappointing German readings. US data gently started beating estimates of late. **It would support the case of an underperformance of US Treasuries vs German Bunds today, but we add that investors generally tend to take a more cautious approach ahead of long weekends in the US.** That's the case now with markets closed on Monday for US Labor Day. **EUR/USD is at risk of breaking below 1.1027/1.10.**

## News Headlines

- **The Bank of Japan tweaked its regular bond buying operations for a third time this month. It pursued some curve steepening** by keeping the buying amount stable for the short and middle end of the curve (up to 5yr) but cutting purchases in longer maturities. The Japanese 10-yr bond added some 2 bps only temporarily as Japanese data (inflation, retail sales, industrial production, unemployment) painted a mixed picture.
- A day after Argentina said it looks into extending the maturity of \$100 bn debt "unilaterally", **rating agency S&P slashed its long-term debt rating by three notches from B- to CCC**, the deepest area of junk debt, saying the government's plan had triggered a default.
- In its 2019/20 corporate plan, **the Australian central bank said that the country's high household debt "could complicate future monetary policy decisions** by making the economy less resilient to shocks". The RBA also thinks movements in asset values and leverage will be more important for economic developments than in the past given the already high debt levels.
- **The US Chamber of Commerce advised president Donald Trump and Xi Jinping to hold back on new tariffs starting on Sunday, revamping trade talks instead.** Uncertainty and concerns among US companies has made them sit on cash and scaling back on business investment, Thomas Donohue, head of the Chamber said. Comments by China yesterday already suggested they might not retaliate immediately on Trump's new round of tariffs.

# Graphs & Table



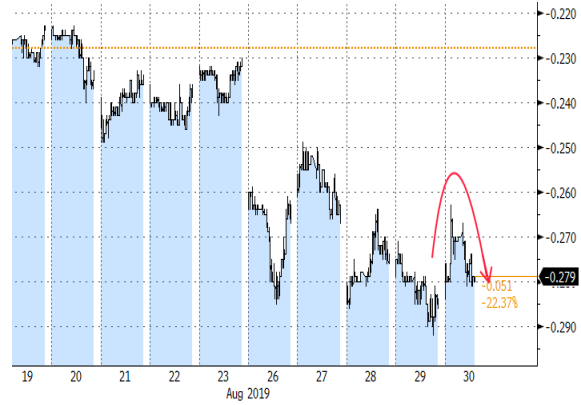
EUR/USD at risk of falling below minor support (1.1027) and psychological 1.10 mark



US 10-yr yield: too soon to call the bottoming out process, but at least the pace of decline is slowing



US S&P 500 about to test upper bound of sideways trading channel



Japanese 10-yr yield (intraday): BoJ's tweaked bond buying on longer maturities had no lasting impact.

Source: Bloomberg

# Calendar

Friday, 30 August		Consensus	Previous
<b>US</b>			
14:30	Personal Income (Jul)	0.30%	0.40%
14:30	Personal Spending (Jul)	0.50%	0.30%
14:30	Real Personal Spending (Jul)	0.30%	0.20%
14:30	PCE Deflator MoM / YoY (Jul)	0.20%/1.4%	0.10%/1.4%
14:30	PCE Core Deflator MoM / YoY (Jul)	0.20%/1.6%	0.20%/1.6%
15:45	MNI Chicago PMI (Aug)	47.5	44.4
16:00	U. of Mich. Sentiment (Aug F)	92.3	92.1
<b>Canada</b>			
14:30	Quarterly GDP Annualized (2Q)	3.0%	0.40%
<b>Japan</b>			
01:30	Jobless Rate (Jul)	2.2%A	2.30%
01:30	Job-To-Applicant Ratio (Jul)	1.59A	1.61
01:30	Tokyo CPI YoY (Aug)	0.60%A	0.90%
01:30	Tokyo CPI Ex-Fresh Food YoY (Aug)	0.70%A	0.90%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Aug)	0.70%A	0.80%
01:50	Retail Sales MoM / YoY (Jul)	-2.3%A/-2.0%A	0.00%/0.5%
01:50	Industrial Production MoM / YoY (Jul P)	1.3%A%/0.7%A	-3.30%/-3.8%
<b>UK</b>			
01:01	GfK Consumer Confidence (Aug)	-14A	-11
01:01	Lloyds Business Barometer (Aug)	1A	13
10:30	Consumer Credit YoY (Jul)	--	5.50%
10:30	Money Supply M4 MoM / YoY (Jul)	--	0.10%/2.3%
<b>EMU</b>			
11:00	Unemployment Rate (Jul)	7.50%	7.50%
11:00	CPI Core YoY (Aug A)	1.00%	0.90%
11:00	CPI Estimate YoY (Aug)	1.00%	1.10%
<b>Germany</b>			
08:00	Retail Sales MoM / NSA YoY (Jul)	-1.30%/3.30%	3.50%/-1.6%
<b>France</b>			
08:45	CPI EU Harmonized MoM / YoY (Aug P)	0.50%/1.2%	-0.20%/1.3%
<b>Italy</b>			
10:00	Unemployment Rate (Jul P)	9.60%	9.70%
11:00	CPI EU Harmonized MoM / YoY (Aug P)	0.0%/0.5%	-
12:00	GDP WDA QoQ / YoY (2Q F)	0.00%/0.00%	0.00%/0.00%
<b>Belgium</b>			
11:00	Unemployment Rate (Jul)	--	5.60%
15:00	GDP SA QoQ / YoY (2Q F)	--	0.20%/1.2%
<b>Norway</b>			
10:00	Unemployment Rate (Aug)	2.30%	2.40%
<b>Events</b>			
11:00	ECB's Rehn Speaks in a Panel in Turku, Finland		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.49	0.01		US	1.52	0.02	DOW	26362.25	326.15
DE	-0.69	0.02		DE	-0.91	-0.03	NASDAQ	7973.394	116.51
BE	-0.35	0.03		BE	-0.82	-0.01	NIKKEI	20704.37	243.44
UK	0.44	-0.01		UK	0.36	0.01	DAX	11838.88	137.86
JP	-0.28	0.01		JP	-0.30	0.01	DJ euro-50	3411.33	45.95
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.56	1.40	0.61	Eonia	-0.3650	0.0040			
5y	-0.53	1.33	0.58	Euribor-1	-0.4300	-0.0130	Libor-1	2.1120	0.0000
10y	-0.28	1.39	0.59	Euribor-3	-0.4280	-0.0060	Libor-3	2.1241	0.0000
				Euribor-6	-0.4230	0.0040	Libor-6	2.0351	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1057	-0.0021		EUR/JPY	117.78	0.22	CRB	172.08	0.88
USD/JPY	106.52	0.40		EUR/GBP	0.9077	0.0006	Gold	1536.90	-12.20
GBP/USD	1.2181	-0.0031		EUR/CHF	1.0909	0.0036	Brent	61.08	0.59
AUD/USD	0.6728	-0.0006		EUR/SEK	10.8095	0.0363			
USD/CAD	1.3287	-0.0019		EUR/NOK	10.0572	0.0346			

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