



Sunrise

Tuesday, 20 August 2019

KBC Sunrise Market Commentary

Markets

- Core bond yields corrected higher for a second straight session.** Fiscal expansion plans in Germany (space of €50bn in case of recession) and the US (exploring payroll tax cut) together with the US Treasury's intention to look into tapping the very long end of the curve (50-yr/100-yr) and a further rebound of stock markets (+1.5%) explain the moves. The German yield curve bear steepened with yields ending 1.6 bps (2-yr) to 7.6 bps (30-yr) higher. The US yield curve initially moved in similar fashion, but the front end of the curve made a catch-up move higher in the US session. **Quotes by voting FOMC member Rosengren (Boston Fed)** could have played a role. He said that the Fed has to be careful not to ease too much when there are no significant problems. *"We are supposed to focus on unemployment and inflation in the US and so I think we are in a pretty good spot right now."* We think that the majority within the FOMC, unlike Rosengren, is ready to implement another rate cut already in September. **FOMC Chair Powell might seal the deal at his keynote address later this week at the Fed's symposium in Jackson Hole.** Trading in EUR/USD was confined to a tight range near 1.11 with the dollar eventually gaining on points as the US 2-yr yield started rising as well. **EUR/USD closed at 1.1078.** USD/JPY extended gains in the risk rebound to close at 106.64. A return above 106.78/107.21 is necessary to call off the downside alert. EUR/GBP bounced off 0.9108 support after a gloomy leaked UK Cabinet Office report warned for consequences if the UK crashes out of the EU without a deal. EUR/GBP ended at 0.9135. The no-deal Brexit scenario should keep sterling in the defensive.
- Asian stock markets remain positively oriented this morning,** gaining up to 1% (South Korea). Core bonds and EUR/USD show no clear direction. RBA Minutes showed that members would consider further easing of monetary policy if the accumulation of additional evidence suggests that it was needed to support sustainable growth. AUD/USD didn't react and continues trading near multiyear lows sub 0.68. Today's eco calendar won't inspire trading. **Sentiment driven trading within known territory can be expected in the run-up to this week's main events:** FOMC Minutes (Wednesday), EMU PMI & ECB Minutes (both on Thursday) and Fed Chair Powell's speech (on Friday). **Italian politics are a wildcard.** PM Conte will address the senate and will face a confidence vote afterwards unless Salvini's Lega changes its mind. **If the vote goes through, anything is possible** ranging from Conte staying on to the PM resigning followed by a caretaker government/grand coalition/government reshuffle/fresh elections. **BTP's could face a bumpy ride going forward.**

News Headlines

- China new one-year reference rate for bank loans** ("loan prime rate"), announced this weekend as part of the monetary policy reform, was fixed a first time this morning at 4.25% by the PBOC. That's slightly lower than the current level of 4.31%. **The aim is to help lower the country's sticky borrowing costs for households and companies,** which haven't come down like eg interbank rates during previous easing spins, and thus improve the transmission mechanism of monetary policy.
- There seems to be **a way out of the coalition threatening Czech political stalemate.** PM Babis and President Zeman blocked minority government Social Democrat's candidate (Smarda) for the position of Czech culture minister. The Social Democrats next set an ultimatum to nominate him whatsoever or pull support from the government. **Michal Smarda, the nominee, now officially asked his party to withdraw his candidacy.**
- The Washington Post adds details to this weekend's rumored new US tax cuts. The US newspaper cites several senior White House officials which have **begun discussing whether to push for a temporary payroll tax cut as a way to arrest an economic slowdown.** Many Americans pay a 6.2% levy on their earnings (up to \$132 900). The tax was last cut to 4.2% in 2011 and 2012.

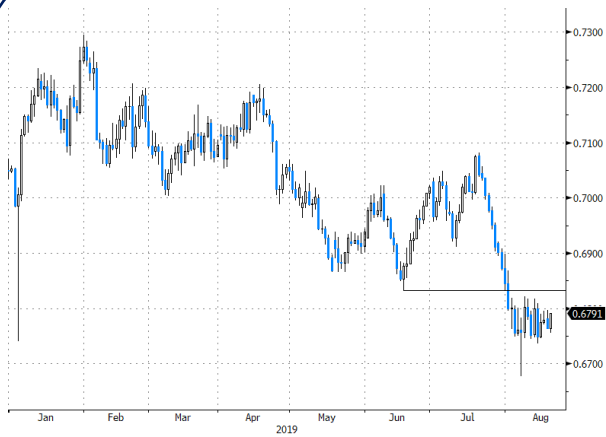
Graphs & Table



German 10-yr yield rebounds off all-time low on fiscal stimulus hopes



German/Italian 10-yr yield spread as risk of widening given uncertain political future?



AUD/USD remains near multiyear lows. RBA ready to ease further if needed



USD/JPY enjoys risk rebound, but return above 106.78/107.21 necessary to call off downside alert

Source: Bloomberg

Calendar

Tuesday, 20 August		Consensus	Previous
UK			
12:00	CBI Trends Total Orders (Aug)	-25	-34
12:00	CBI Trends Selling Prices (Aug)	--	12
EMU			
11:00	Construction Output MoM / YoY (Jun)	--/--	-0.3%/0.2%
Germany			
08:00	PPI MoM / YoY (Jul)	0%/1%	-0.40%/1.2%
Events			
03:30	RBA Minutes of August Policy Meeting		
	Vote of no confidence against PM Conte in Italian Senate?		

	<u>Close</u>	<u>-1d</u>		<u>2-year</u>	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.61	-0.01		US	1.55	0.07	DOW	26135.79	249.78
DE	-0.65	0.00		DE	-0.90	0.01	NASDAQ	8002.813	106.82
BE	-0.31	0.00		BE	-0.78	0.01	NIKKEI	20677.22	114.06
UK	0.47	0.00		UK	0.50	-0.02	DAX	11715.37	152.63
JP	-0.24	-0.01		JP	-0.29	-0.01	DJ euro-50	3369.19	40.11
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	-0.55	1.47	0.67	Eonia	-0.3640	0.0000			
5y	-0.51	1.43	0.64	Euribor-1	-0.4090	0.0140	Libor-1	2.1721	0.0000
10y	-0.25	1.51	0.66	Euribor-3	-0.4220	-0.0020	Libor-3	2.1359	0.0000
				Euribor-6	-0.4230	0.0040	Libor-6	2.0168	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	1.1078	-0.0012		EUR/JPY	118.13	0.17	CRB	170.78	0.37
USD/JPY	106.64	0.26		EUR/GBP	0.9135	0.0006	Gold	1511.60	-12.00
GBP/USD	1.2126	-0.0023		EUR/CHF	1.0875	0.0022	Brent	59.74	1.10
AUD/USD	0.6764	-0.0015		EUR/SEK	10.7312	0.0162			
USD/CAD	1.3324	0.0055		EUR/NOK	9.9463	-0.0421			

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