

6 July 2020

- Sentiment remains supported but has slipped somewhat after stellar Chinese trade session in comparatively quiet European hours
- China's Securities Times remarked that fostering a health bull market following the COVID-19 pandemic is now more important than ever to the economy
- China is braced for possible financial sanctions from the United States over the Hong Kong national security law
- Reportedly, China is considering increasing tariffs against Britain and Australia as a retaliatory measure
- US Officials intend to promote a new study showing promising therapeutic results for COVID-19, an announcement they have described as being 'market-moving', NBC reported
- Florida & Texas reported record daily COVID-19 case increases on Saturday while restrictions were reimplemented in Spain's Galicia & Catalonia alongside Victoria, Australia
- Looking ahead, highlights include US Composite & Services PMIs (Final), ISM Non-Manufacturing PMI, BoC Business Outlook & Consumer Expectations Survey

CORONAVIRUS UPDATE

World Health Organization reported that the global number of new COVID-19 cases rose by a record 212,326 to over 10.9mln as of Saturday. (Newswires)

US CDC reported 52,228 new coronavirus cases on Sunday for a total of 2,841,906 and the death toll increased by 271 to 129,576. (Newswires)

Florida coronavirus cases rose by 10,059 which represents the 3rd occasion new daily cases rose by over 10,000 in the past 4 days, while Texas coronavirus cases rose by 3,449 to 195,239 and current hospitalizations rose by 291 to a record 8,181 total. Furthermore, Texas and Florida had reported record daily increases on Saturday with a combined total of almost 20,000 new cases. (Newswires)

White House Officials are reportedly planning to intensify a sharper and less-conflicting message regarding COVID-19, which will focus on the fact the virus is not going away soon and will be around for the November Presidential election. Additionally, in the next week Officials intend to promote a new study showing promising therapeutic results, an announcement they have described as being 'market-moving'. (NBC)

UK coronavirus death toll rose by 22 to 44,330 which was one of the lowest number of increases in deaths since the pandemic began. (Newswires)

Spain's Galicia has re-imposed lockdown restrictions until Friday with individuals only allowed to leave for work travel, a move which follows Catalonia imposing a regional lockdown which is being enforced via police checkpoints. Restrictions affect around 70k people in Galicia and 210k in Catalonia. (BBC)

Australia's New South Wales will close border with Victoria from Tuesday amid increases in coronavirus cases for the latter. Australia's Victoria state imposed further restrictions including a hard lockdown in 9 public housing towers in Melbourne where police guards have been placed to ensure residents will not leave their homes and which affects about 3,000 residents. (Newswires)

Tokyo reports 102 new COVID-19 cases in the past 24 hours (vs. Prev. 111). Japanese Government spokesman does not think Japan needs to make a blanket request for people to stop moving across prefectures. (Newswires)

US FDA Commissioner Hahn said he cannot predict when a COVID-19 vaccine will be available. (BBC) *This follows US President Trump's suggestion that a "vaccine solution" to the pandemic would be ready "long before the end of the year".*

Experts at Oxford University believe that COVID-19 may not have originated from China and could have lain dormant across the world and emerged when environment conditions were right. (Telegraph)

ASIA

Asian equity markets and US equity futures began the week mostly firmer as trade picked up from the holiday lull in which the broad heightened risk appetite consigned the increasing COVID-19 infection rates to the backseat. ASX 200 (-0.7%) and Nikkei 225 (+1.8%) were mixed as the Australian benchmark lagged due to weakness in industrials and the commodity related sectors and with sentiment also subdued by rising infections in the country's 2nd largest city of Melbourne which prompted the Victoria state government to close the border with New South Wales from tomorrow, while Tokyo stocks coat-tailed on the favourable currency flows and after the decisive victory by Tokyo Governor Koike at the gubernatorial election on Sunday. **Hang Seng (+3.8%) and Shanghai Comp. (+5.7%)** surged despite the lack of solid fundamental catalysts and amid the ongoing global reproach towards China with Canada suspending its extradition treaty with Hong Kong in the wake of the security law and with the UK set to end the use of Huawei technology in the 5G networks as early as this year due to security issues, while it was separately reported that China is considering retaliatory measures against Britain and Australia in the form of increased tariffs. Nonetheless, this failed to impede the rally in Chinese stocks and the mainland bourse extended to its highest level seen since the beginning of 2018 with financials leading the ascent amid increased IPO activity and after the latest PBoC survey showed the loan demand index surged to 75.8 in Q2 vs. Prev. 66.0 in Q1. Finally, 10yr JGBs were lower amid similar weakness in T-notes as havens were shunned by the heightened risk appetite, which saw prices retreat further away from resistance near 152.00, but with downside also stemmed by the BoJ's presence in the market whereby it upped purchases of 5yr-10yr maturities.

PBoC skipped reverse repo operations for a net daily drain of CNY 180bln. (Newswires)

PBoC set USD/CNY mid-point at 7.0663 vs. Exp. 7.0642 (Prev. 7.0638)

China's Securities Times remarked that fostering a health bull market following the COVID-19 pandemic is now more important than ever to the economy. (Newswires)

China is braced for possible financial sanctions from the United States over the Hong Kong national security law, but still hopes to ease tensions with Washington, according to a source close to China's financial authority, who added that the Mainland and Hong Kong "certainly have prearranged plan". The official did not elaborate on China's possible responses. (SCMP)

Canadian PM Trudeau said they are looking at taking additional measures regarding Hong Kong including immigration. There were also comments from the Global Times which warned that meddling in Hong Kong is to backfire on Canada's economy. (Newswires/Twitter) Chinese Embassy in Canada has warned Chinese nationals to exercise caution when travelling to Canada. (Newswires)

UK is set to end the use of Huawei technology in the 5G networks as early as this year due to security issues, while it was separately reported that China is considering retaliatory measures against Britain and Australia in the form of increased tariffs. (Sky News/The Australian) British Culture Minister Dowden says the imposition of US sanctions will have a significant impact on the reliability of Huawei equipment. (Newswires)

China Daily's EU Bureau Chief Chen tweeted criticism on US President Trump in which he alleged President Trump is racist and the most incompetent national leader in pandemic response, while he added that President Trump sabotages global solidarity too. (Newswires)

BoJ is said to be likely to maintain its view that the economy is likely to recover later this year; BoJ expected to warn that risks to the outlook is extremely high, sources state. (Newswires)

US

US musician Kanye West has announced he is running for US presidency this year. However, he does not appear to have registered his name with the Federal Election Commission (FEC) for November's election. (BBC)

UK/EU

UK PM Johnson will set the timetable for reopening in the week ahead and said he will not hesitate to reimpose restrictions if COVID-19 runs out of control again, while they are looking at other ways to contain a second wave as they do not want to do a national lockdown again. (Newswires)

UK Treasury is mulling steps on how to make it easier for businesses to access coronavirus support loans. The Treasury and the British Business Bank are reviewing access to state-backed loan schemes after EU relaxed state-aid rules. Sources said it was likely that UK firms rejected under the EU's financial difficulty tests could reapply if loan schemes were altered. **There were also separate reports that Chancellor Sunak is considering a radical**

proposal to give vouchers of GBP 500 to each adult to spend on companies impacted by the coronavirus pandemic, while is also said to plan increasing the property tax threshold to as high as GBP 500,000. (The Times/Telegraph/Guardian)

UK banks are reportedly preparing a code of conduct for pursuing businesses which default on coronavirus loan repayments amid industry forecasts that as many as 80% of borrowers may fail to fully repay loans. (The Guardian)

UK hospitality industry warned UK PM Johnson that urgent support is needed for the industry to avert widespread devastation. (BBC)

BoE Governor Bailey reiterated that negative interest rates were one of the potential measures under review should further stimulus be required, but also warned lenders of challenges associated with negative rates. (Newswires)

ECB's Villeroy stated that the French economy is probably rebounding faster than anticipated and that the latest economic figures suggest situation is at least as well as expected early last month and probably better. Furthermore, the Governing Council member stated that exceptional ECB measures are here to stay. (Newswires)

Bundesbank is to reportedly formally elect to take the lead from the German Finance Ministry & Parliament that the proportionality requirements have been satisfied; debate remains on whether to announce this or just let the deadline of August 5th pass, according to Officials. (FT)

French President Macron is set to unveil a new cabinet this Monday, according to sources. (Newswires)

Greece's PM said he will not accept strict EU conditions on the use of coronavirus emergency funds in a sign of the difficult negotiations ahead and additional red lines appearing among EU member states for a recovery fund that needs unanimous backing to pass. (FT/Twitter)

EU Sentix Index* (Jul) -18.2 vs. Exp. -10.9 (Prev. -24.8). (Newswires)

EU Retail Sales MM (May) 17.8% vs. Exp. 15.0% (Prev. -11.7%, Rev. -12.1%) (Newswires)

Fitch affirmed Switzerland at AAA; Outlook Stable. (Newswires)

GEOPOLITICAL

US deployed aircraft carriers to the South China Sea for freedom of navigation operations. (Newswires) China's Foreign Ministry says the US is deliberately sending ships in order to flex their muscles, in relation to US military drills in the South China Sea. (Newswires)

Iran's Revolutionary Guards Navy Commander said Tehran has set up underground missile cities along coasts of gulf and Gulf of Oman, while he added that the IRGC Navy is present everywhere in the gulf like a nightmare for enemies. (Newswires)

Iran acknowledged that a fire incident and apparent explosion at its Natanz nuclear site set back its centrifuge program. Furthermore, Israeli experts assessed that the incident could set back Iran's nuclear program by a year, while a Middle Eastern intelligence official alleged that Israel was behind the recent incident at Iran's Natanz nuclear site which damaged buildings. (Newswires/NYT)

Chinese Army has moved back tents, vehicles & troops by 1-2 km from locations where disengagement was agreed upon at Corps Commander level talks, according to an Indian Army source cited by ANI. Subsequently, **India and China have agreed on completing the earliest disengagement at the Line of Actual Control (LAC);** the two sides are to ensure phased de-escalation in border area. (Newswires)

EQUITIES

European stocks kick the week off on a firm footing [Euro Stoxx 50 +1.9%] albeit off highs, but nonetheless supported by the stellar Chinese performance which saw the Shanghai Comp rally over 5% amid a number of factors including commentary from Securities Times which suggested that fostering a "healthy" bull market is now more important to the economy than ever. The article said investors could look forward "to the wealth effect of the capital markets". This coupled with Friday's announcement of easing margin financing rules stoked gains in the Mainland whilst Hong Kong's Hang Seng ended the day in bull market territory – some 21% off March lows. Gains in Europe are broad-based with the SMI (+0.8%) somewhat lagging amid its heavy exposure to the health sector – which lags amid inflows into cyclicals. Sectors are all in positive territory with cyclicals outpacing defensives on the constructive risk tone, whilst

the detailed breakdown paints a similar picture; Travel & Leisure names piggyback on the risk appetite and reside among the winners. In terms of individual movers, UK housing names were bolstered at the open on the back of reports the Treasury is said to plan to increase the property tax threshold to as high as GBP 500,000. As such, Persimmon (+5.7%), Barrat Development (+6.7%) and Taylor Wimpey (+5.0%) hold their positions as the top Stoxx 600 gainers. GSK (+1.3%) and Sanofi (+0.8%) performs better than the overall Health sector amid reports the Cos are close to agreeing a GBP 500mln deal to supply the UK government with 60mln doses of its COVID-19 vaccine, should it work in human trials due to begin in September. Commerzbank (+6.0%) derived support from reports Co. is said to be mulling cuts to its foreign business as part of its revised strategy - which would include cutting 450/1000 branches, 10k job cuts in total and cuts to the international businesses. Finally, no reprieve for Wirecard (-17%) as FT reported the Co's European and American core businesses have reportedly been lossmaking for years, with profits appearing to have largely existed on paper, according to the KPMG confidential appendix of the special audit.

FX

USD - Broad Buck weakness after the long US holiday weekend amidst a pronounced upturn in risk sentiment on the back of bullish Chinese stock market remarks in the Securities Journal overnight that has boosted the YUAN from a fractionally softer PBoC midpoint fix through a key Fib (7.0441) to test 7.0300 in both onshore and offshore terms. The DXY has lost grip of the 97.000 handle in response and is hovering just above a 96.818 low awaiting final Markit services and composite PMIs, the non-manufacturing ISM and employment trends.

NOK/EUR/AUD - The major beneficiaries of heightened risk appetite, also manifest in firm crude prices, and general Greenback weakness, as Eur/Nok nudges down towards 10.6000 and Eur/Usd extends above several chart resistance levels, like the 100 and 200 HMAs plus a Fib retracement (1.1241, 1.1243 and 1.1157 respectively) to retest 1.1300. Meanwhile, the Aussie has revisited near 1 month peaks around 0.6980 in the run up to the RBA policy meeting on Tuesday and potential reaction to the renewed COVID-19 outbreak in the state of Victoria.

NZD/CHF - Both firmer vs their US counterpart as the Kiwi holds near 0.6550 and Franc close to the upper end of a 0.9462-14 range in advance of NZIER's Q2 survey, but with Eur/Chf acknowledging latest Swiss bank sight deposit rises more than Fitch's AAA ratings affirmation between 1.0650-25 parameters.

CAD/GBP/JPY - All narrowly mixed, as the Loonie meanders from 1.3520-65 against the backdrop of buoyant oil benchmarks and eyeing the looming BoC outlook survey for some independent direction, while Cable has ventured beyond 1.2500, but unsustainably despite a significant rebound in the UK construction PMI. Elsewhere, the Yen is marginally lagging on less safe-haven demand, albeit vying with the Dollar on risk factors, with the headline pair in a relatively tight 107.77-49 band and hardly reacting to BoJ sources suggesting that the Bank will stick to view for as gradual economic recovery in the latter part of 2020.

EM - The Lira remains tethered to 6.8500 even though the Turkish Government has taken more measures to restrict negative positioning in stocks from foreign entities via a short-selling for 6 banks for up to 3 months.

FIXED

Bunds have continued their recovery from Eurex lows to trade marginally in positive territory at 176.09 (+7 ticks vs -40 ticks at one stage), and perhaps encouraged by an even more pronounced rebound in Italian **BTPs** to 144.00+ from 143.65 at worst, while **Gilts** continue to lag around ¼ point below parity despite some loss of momentum in EU equities. The marked improvement in UK construction PMI may be weighing alongside caution ahead of more fiscal stimulus from Chancellor Sunak, while **US Treasuries** also remain depressed awaiting the restart from the long Independence Day weekend, Markit PMIs and the services ISM.

COMMODITIES

WTI and **Brent** crude futures extended on APAC gains in early hours as the contracts coat-tail on the overall risk appetite across the market as rising COVID-19 cases across the globe are somewhat side-lined, albeit prices have since waned off highs. The fundamental landscape is little changed but from the supply side of the equation, OPEC's JMMC is set to meet mid-July ahead of the planned tapering of cuts in August – with the Committee set to advise OPEC as opposed to setting policy. On that front, Saudi Aramco upped the price for its flagship Arab Light grade to Asia by USD 1/bbl from July – alluding to firmer demand in the region. Looking ahead, the week will see the release of the EIA STEO and IEA Monthly Oil Market report ahead of OPEC's take next week. WTI and Brent futures reside under USD 41/bbl (vs. low 40.20/bbl) and below USD 43.50/bbl (vs. low 42.74/bbl) respectively. Elsewhere, **spot**

gold remains underpinned on Dollar-dynamics around the USD 1775/oz mark ahead of its recent almost-8yr peak at around 1789/oz. **Copper** prices receive a double boost from the softer Buck coupled with the surge in Chinese stock markets – with the red metal reclaiming USD 2.75/lb to the upside and nursing steep losses posted at the latter end of last week.

China is said to be far behind on its agreed purchases of US energy products under the Phase 1 deal and will unlikely be able to fulfill its pledge to buy USD 25bln of US energy for this year. (WSJ)

Saudi Arabia August OSP: Arab light crude oil to Asia at USD 1.20 above Oman/Dubai average, which is +USD 1 from July, according to sources. (Newswires)

Operations have resumed at the Wafra oil field (220k BPD), according to the Kuwait Energy Minister. (Newswires)