

Sunrise

Monday, 18 January 2021

## KBC Sunrise Market Commentary

### Markets

- Markets finished the week with a cautious risk bias last Friday** with Biden's \$1900 billion stimulus plan lifting spirits only temporarily. Its announcement was the market's cue for some profit-taking while pondering the way forward. The narrowest Senate majority possible won't make it easy for the plan to be approved while investor attention also shifted to the potential need for higher taxes. Disappointing US data (retail sales, NY Empire Manufacturing index, U. of Michigan consumer confidence) and reports about the vaccine rollout rick to be delayed added to the risk-off. European stocks finished more than 1% in red. Wall Street ended up to 0.87% (Nasdaq) lower. UST's vastly outperformed Bunds with the US yield curve bull flattening. Yields were down 0.6 bps (2-yr) to 4.6 bps (10-yr). German yields rose marginally at the very long end (1.3 bps, 30-yr). The dollar continued its corrective rebound in a largely sentiment-driven move, strengthening from EUR/USD 1.2155 to 1.2082. DXY finished near 90.8 (up from 90.2). USD/JPY traded choppy sub 104. EUR/GBP traded subdued just shy of 0.89.
- Overnight trading sentiment is mixed. Most Asian-Pacific indices trade in the red. **China is the exception, profiting from solid Q4 growth figures** (see details below). Core bonds trade muted. Japanese yields gapped higher on reports the BoJ is mulling a wider band for long term yields to fluctuate in (cf. infra). The dollar kicks off the week on slightly stronger footing. EUR/USD hovers slightly below Friday's close. The Aussie (and kiwi) dollar underperform G10 peers even as China's recovery stays on track.
- China's GDP release was today's economic calendar headliner. There's a EMU finance minister meeting scheduled today, followed by a full gathering of EU ministers tomorrow to discuss the implementation of the recovery fund. It is worth following up but it won't be a market mover. Moreover, **US financial markets are closed** in observance of Martin Luther King Jr. holiday, rendering low-volume, technically inspired trading in the run-up to this week's **key events: Biden's inauguration on Wednesday, the ECB policy decision on Thursday and EMU PMI's on Friday**. Markets could err on the side of caution, protecting core bond's downside in a daily perspective. Given the high-profile events later this week, the dollar could retain the benefit of the doubt today. EUR/USD is close at intermediate support around 1.206 (Dec. correction low, 38.2% Nov-Jan Fibo retracement). In any case we hold our view that 1.2011 is key and won't break easily. In case of a prudent risk setting we see few reasons for sterling to excel. EUR/GBP tested but did not break important support at 0.8865 last Friday. The pair is again flirting with 0.89. We assume the upward trading bias to hold.

### News Headlines

- The BoJ is considering a proposal to allow wider band for the fluctuations in long term yields**, Jiji mentioned without citing sources. The BoJ currently targets a 0% target for 10-y government bond yields with a deviation of 0.2% on either side. **A widening of the range might result in the BOJ buying less bonds and allow a bigger role for the market mechanism**. The Jiji report caused LT government bond yields to open up to 2-3 bp higher, but the move slowed afterwards. The BoJ meets on January 21.
- Chinese Q4 growth expanded at a faster than expected 2.6% Q/Q and 6.5% Y/Y**, resulting in positive growth for the year 2020 of 2.3%. **December production and retail sales data showed a divergent picture**. IP rose further from 7% Y/Y to 7.3%, but momentum in retail sales slowed from 5% Y/Y to 4.6% Y/Y, maybe as new restrictions in some part of the country slowed consumer spending. China today reported 109 new Covid Cases for January 17.
- In Germany, **Merkel's Christian Democratic Union voted for Armin Laschet to become the next party leader**. The appointment of Laschet is seen as providing a **continuation of Merkel's centric policy approach**. Usually, the party leader also becomes the chancellor candidate for the CDU/CSU block, but this step isn't sure currently.

# Graphs



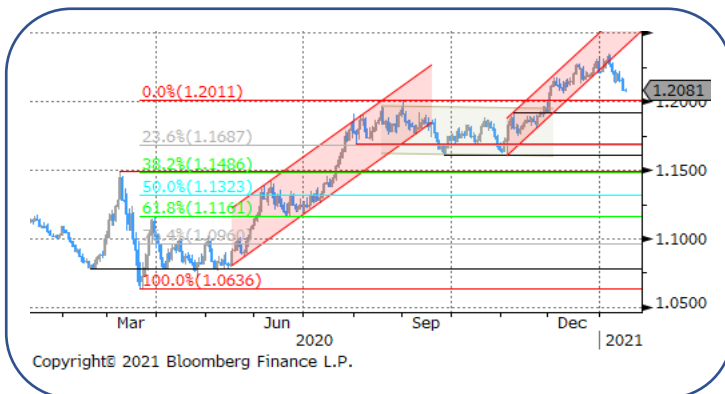
## GE 10y yield

German 10-yr yield tested the top of the -0.65%/-0.45% range, but the test was rejected. Mass immunity and brighter economic prospects suggest higher yields longer term. **Tighter lockdown measures and ample central bank liquidity take new market narrative hostage short term.**



## US 10y yield

US 10-yr yield regained the psychological 1% mark and tries to break the top of a gradual uptrend channel, illustrating a ST positive momentum. Intermediate resistance at 1.27%. Strong resistance at 1.43%-1.44%. **Divergence between rising inflation expectations (>2%) and subdued real yields remains big.**



## EUR/USD

LT, EUR/USD is heading towards 2018 top of 1.2555. Underlying (US) yield dynamics (see above) hurt the US currency. However, a technical correction is developing short term with 1.2059/11 first reference



## EUR/GBP

A test of EUR/GBP 0.8864 support failed again, hinting at **little upward potential for the UK currency**, both from a technical as fundamental (third national lockdown will hurt growth) perspective. **EUR/GBP belongs near 0.92/0.93.**

## Calendar & Table

Monday, 18 January		Consensus	Previous
<b>Japan</b>			
05:30	Capacity Utilization MoM (Nov)	-2.9%0A	6.00%
<b>UK</b>			
01:01	Rightmove House Prices MoM/YoY (Jan)	-0.90%A/3.30%A	-0.60%/6.60%
<b>China</b>			
03:00	<b>GDP SA QoQ/YoY (4Q)</b>	<b>2.60%A/6.50%A</b>	<b>2.70%/4.90%</b>
03:00	GDP YTD YoY (4Q)	2.30%A	0.70%
03:00	<b>Industrial Production YoY/YTD YoY (Dec)</b>	<b>7.30%A/2.80%A</b>	<b>7.00%/2.30%</b>
03:00	<b>Retail Sales YoY/YTD YoY (Dec)</b>	<b>4.60%A/-3.90%A</b>	<b>5.00%/-4.80%</b>
03:00	Property Investment YTD YoY (Dec)	7.00%A	6.80%
03:00	Fixed Assets Ex Rural YTD YoY (Dec)	3.90%A	2.60%
03:00	Surveyed Jobless Rate (Dec)	5.20%A	5.20%
15JAN-18JAN	Foreign Direct Investment YoY CNY (Dec)	--	5.50%
<b>Events</b>			
18JAN	US equity and bonds markets closed for Martin Luther King Jr. holiday		
18JAN	Euro zone finance ministers meet		
14:30	BOE Governor Bailey Speaks With Lord Stern on Climate		

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>	<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
US	1.08	-0.05		US	0.13	-0.01	DOW	30814.26	-177.26
DE	-0.54	0.01		DE	-0.72	0.01	NASDAQ	12998.5	-114.14
BE	-0.36	0.01		BE	-0.70	0.01	NIKKEI	28242.21	-276.97
UK	0.29	0.00		UK	-0.13	-0.01	DAX	13787.73	-200.97
JP	0.05	0.01		JP	-0.13	-0.01	DJ euro-50	3599.55	-41.82
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>	<b>USD</b>	<u>-1d</u>	<u>-2d</u>
3y	-0.52	0.27	0.14	Eonia	-0.4790	0.0000			
5y	-0.46	0.52	0.25	Euribor-1	-0.5570	0.0070	Libor-1	0.1295	0.0006
10y	-0.24	1.09	0.49	Euribor-3	-0.5520	-0.0020	Libor-3	0.2234	-0.0023
				Euribor-6	-0.5320	0.0010	Libor-6	0.2481	-0.0031
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
EUR/USD	1.2082	-0.0073		EUR/JPY	125.56	-0.61	CRB	175.25	-1.52
USD/JPY	103.85	0.05		EUR/GBP	0.8890	0.0011	Gold	1829.90	-21.50
GBP/USD	1.359	-0.0099		EUR/CHF	1.0761	-0.0035	Brent	55.10	-1.32
AUD/USD	0.7703	-0.0075		EUR/SEK	10.1421	0.0435			
USD/CAD	1.2732	0.0092		EUR/NOK	10.3509	0.0635			

## Contacts

<b>KBC Economics – Markets Brussels</b>		<b>Global Sales Force</b>	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
<b>KBC Economics – Markets Dublin</b>		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
<b>CSOB Economics – Markets Prague</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
<b>CSOB Economics – Markets Bratislava</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>K&amp;H Economics – Markets Budapest</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

