



Sunrise

Tuesday, 11 May 2021

KBC Sunrise Market Commentary

Markets

- Inflation was talk of town yesterday.** What started with record-rallying metal prices turned to a preview for Wednesday's US CPI release (headline 3.6% Y/Y; core 2.3% Y/Y) and ended with the NY Fed's survey of consumer expectations. The latter showed that the median year-ahead consumer inflation expectations rose to 3.4% Y/Y in April from 3.2% Y/Y in March. It's the highest level since September 2013. In the meantime, market based inflation expectations (eg 5y5y forward) continued surging higher, taking out 2.5% also for the first time since 2013. The FOMC meeting and US President Biden's American Families plan broke the April status quo in inflation expectations which added 20 bps since. Real yields over that same period lost more or less the same amount. Anyway, future price pressure and the US Treasury's upcoming mid-month refinancing operation prevailed for US Treasuries, causing bear steepening of the yield curve. US yields added 0.9 bps (2-yr) to 4.8 bps (30-yr). Moves confirm a firm bottom below long term bond yields after Friday's failed spike lower on the huge US payrolls miss. **A late faint on US stock markets (Nasdaq lost more than 2%) couldn't trigger a flight to safety bid.** Geopolitical tensions (Israel) are often cited as triggering the risk turnaround, but we deem that unlikely. **It's probably more a sign of fatigue with big tech names prone for correction and a consolidation phase.** Rising production costs (commodity prices, chip shortages, supply-chain issues) risk eating into corporate profits and consumer's wallets. From a technical point of view, the correction could be broader since the S&P managed a small fresh all-time high last week. **The US dollar kept its cool and prevented additional losses after Friday's blow.** US real yields stabilized while European rates weren't going anywhere. The German yield curve steepened with yield changes ranging between -0.4 bps (2-yr) and +0.6 bps (30-yr). The late risk-off even helped the greenback to small gains. EUR/USD closed at 1.2129. **Sterling unleashed the Scottish election shackles and rallied its way from EUR/GBP 0.87 to EUR/GBP 0.8589, the final support before a return the YTD low of EUR/GBP 0.8472.**
- Risk aversion spills to Asian stock markets this morning with rising April Chinese CPI (0.9% Y/Y) and PPI (6.8% Y/Y) numbers adding to the inflation narrative.** Spill-over effects to main FI and FX markets remain muted for now. Today's eco calendar contains German ZEW investor confidence and second tier US eco data (NFIB small business optimism & JOLTS). We don't expect them to overturn the trading story. Risk aversion will dominate, but can it overturn renewed weakness in US Treasuries? We fear not, at least not in a sustainable matter. For the US dollar, it could come as additional temporary reprieve. This week's key events follow later with US CPI (Wednesday), 10y and 30y Note/Bond auctions (Wednesday/Thursday) and US retail sales (Friday).

News Headlines

- Chinese consumer prices rose from 0.4% to 0.9% y/y in April**, just short of a 1% consensus. That's relatively subdued as **pork prices continued to edge lower**. Core inflation accelerated to 0.7%. Prices rose across the board with transport & communication (4.9%) and recreation & education (1.3%) being the most notable. **Producer inflation was much more prominent though, jumping from 4.4% to 6.8% y/y.** This **fastest pace since end 2017** was driven by searing gains in raw materials (15.2% y/y) and mining (24.9%), posing concerns to not only Chinese but also global inflation.
- Wrap-up of a slew of Fed speeches on Monday. Dallas Fed president Kaplan said the disappointing April job report a.o. comes from **employers struggling to attract workers despite offering higher wages**. It doesn't change his rosy outlook for the labour market this year however. He repeated that it would be **healthy to start the taper debate "sooner rather than later"**, citing excesses, imbalances and side effects of the Fed's bond buying. SF's Daly remains bullish about the future though warned "we're not there yet". Evans voiced similar concerns. Another batch of Fed talk is due today.

Graphs



GE 10y yield

German 10-yr yield tests -0.20% YTD high as real yields start bottoming out. Key resistance zone near -0.15%/-0.14%. Mass immunity and brighter economic prospects suggest higher yields longer term.



US 10y yield

US 10-yr yield lost Q1 upward trend channel as markets buy into Fed's narrative that red hot economy won't permanently feed into higher prices, allowing the central bank to keep its very accommodative monetary policy in place. Support strengthened after failure to take it out after payrolls.



EUR/USD

A setback in US real yields, higher US inflation expectations and a bottoming out of EUR real yields sparked a EUR/USD comeback in April, ending the EU/US divergence trade. Taking out EUR/USD 1.21 on a sustained basis is needed to bring the recovery top (1.2349) back on the radar.



EUR/GBP

Similar dynamics as in EUR/USD are at play this year in EUR/GBP with the single currency's April comeback ending the downtrend. Multiple attempts to take out 0.87 failed so far. Sterling relief rally after Scottish elections.

Calendar & Table

Tuesday, 11 May		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Apr)	100.8	98.2
16:00	JOLTS Job Openings (Mar)	7500k	7367k
Japan			
01:30	Household Spending YoY (Mar)	6.20%A	-6.60%
UK			
01:01	BRC Sales Like-For-Like YoY (Apr)	39.60%A	20.30%
EMU			
11:00	ZEW Survey Expectations (May)	--	66.3
Germany			
11:00	ZEW Survey Expectations (May)	72	70.7
11:00	ZEW Survey Current Situation (May)	-41.6	-48.8
Italy			
10:00	Industrial Production MoM/WDA YoY (Mar)	0.40%/37.10%	0.20%/-0.60%
China			
03:30	CPI YoY (Apr)	0.90%A	0.40%
03:30	PPI YoY (Apr)	6.80%A	4.40%
Czech Republic			
09:00	CPI MoM/YoY (Apr)	0.20%/2.70%	0.20%/2.30%
Hungary			
09:00	CPI MoM/YoY (Apr)	0.50%/4.80%	0.70%/3.70%
Events			
11MAY	The UK Government lays out Agenda for New Parliamentary Session		
16:30	BOE Governor Bailey Speaks on Labor		
17:30	ECB's Knot speaks in Webinar		
16:30	Fed's Williams speaks at SOFR Symposium		
18:00	Fed's Brainard Discusses U.S. Economic Outlook		
19:00	Fed's Daly Speaks at Community Bankers Event		
19:00	US to Sell USD58 Bln 3-Year Notes		
19:15	Fed's Bostic Speaks to Rotary Club of Alexandria, Louisiana		
20:00	Fed's Harker Speaks on Economic Outlook		
20:30	Fed's Kashkari Discusses Economic Outlook		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>		Stocks	<u>Close</u>	<u>-1d</u>
US	1,60	0,02		US	0,15	0,01		DOW	34742,82	-34,94
DE	-0,21	0,00		DE	-0,69	0,00		NASDAQ	13401,86	-350,38
BE	0,14	0,00		BE	-0,64	-0,01		NIKKEI	28608,59	-909,75
UK	0,79	0,01		UK	0,04	0,01		DAX	15400,41	0,76
JP	0,08	-0,01		JP	-0,13	0,00		DJ euro-50	4023,35	-10,90
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>-1d</u>	<u>-2d</u>
3y	-0,42	0,42	0,44	Eonia	-0,4780	0,0000				
5y	-0,27	0,87	0,67	Euribor-1	-0,5510	0,0020		Libor-1	0,1014	0,0000
10y	0,13	1,58	1,02	Euribor-3	-0,5330	-0,0040		Libor-3	0,1599	0,0000
				Euribor-6	-0,5130	0,0010		Libor-6	0,1928	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	1,2129	-0,0037		EUR/JPY	131,98	-0,14		CRB	206,16	-0,81
USD/JPY	108,81	0,21		EUR/GBP	0,8591	-0,0106		Gold	1837,60	6,30
GBP/USD	1,4118	0,0134		EUR/CHF	1,0931	-0,0024		Brent	68,32	0,04
AUD/USD	0,783	-0,0014		EUR/SEK	10,1212	0,0142				
USD/CAD	1,2102	-0,0031		EUR/NOK	10,0349	0,0422				

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