

Sunrise



Wednesday, 13 January 2021

KBC Sunrise Market Commentary

Markets

- The global reflation trade met some resistance** since last week. There was no outright correction but some parts of the global pattern show signs of fatigue. The equity rally slowed, the USD decline took a breather ... The rise in US yields yesterday also met resistance. Initially, the uptrend in core yields simply continued as investors still looked forward to the additional stimulus of the Biden administration to be announced later this week. The move was supported by higher oil and other commodity prices (including several soft commodities, eg. wheat). However, **sentiment on US bond markets changed for the better after the \$38bln US 10-yr Treasury auction met strong investor interest**. After some Fed members pondering the need for tapering earlier this week, others (including Rosengren, Bullard, George, cf. infra) did strike a more cautious tone. US yields reversed the earlier rise. At the end of the day, US yields declined up to 1.7bps (10-yr). German yields still rose up to 2.8 bps (5 & 10-yr). The Italian 10-yr spread versus Germany widened as political tensions with the government are mounting (+6 bps) as the junior coalition party of Matteo Renzi will decide on its support for the government today. US equities hovered between gains and losses and closed the session little changed. European equities recorded minor losses. The dollar initially maintained most of Monday's gain, but tumbled in lockstep with US yields after the 10-yr auction. So, interest rates again have become a potential driver for the US currency. EUR/USD closed the day at 1.2207, near the intraday top. USD/JPY returned below the 104 handle (103.76). Sterling rebounded further, supported by higher short term UK yields (close EUR/GBP 0.8933). Markets are not convinced that the BoE will move to negative rates anytime soon.
- Asian equity indices mostly trade in positive territory **this morning** with China slightly underperforming. US yields extend yesterday's corrective decline. The dollar is also losing modest further ground (DXY 90, EUR/USD 1.2215). The yuan remains well bid (USD/CNY 6.45 area). Oil extends its rebound with Brent trading north of \$57 p/b.
- There are again few eco data in the EMU **later today**. In the US, December CPI is expected to stay well below the 2% Fed target (1.3% headline, 1.6% core). Several Fed governors will again speak on the economy and on policy. The US Treasury will finish its mid-month refinancing operation with a \$24bln sale of 30-yr bonds. Another successful auction might inspire some further correction on the recent rise in US yields. ST, we expect the US 10-yr yield to settle in a range with bottom at 0.97% (previous top) and top at 1.27% (March top). We also keep an eye at the political developments in Italy. However, for now we don't expect the political turmoil in the country to have any significant impact on the euro or on markets outside Italy. EUR/USD entered some kind of ST consolidation mode. We still see 1.2011 as a strong support/USD resistance.

News Headlines

- More Fed governors shed their views on 2021** with **most of them expecting bond purchases to remain in place at the current pace for at least until the end of the year**. Boston **Fed Rosengren** is one of them even if he also pencils in a robust recovery in H2 2021. St. **Louis Fed Bullard** also preached cautiousness. First things first, he argues. Get through the pandemic and see where the dust settles before even thinking about where to go with balance-sheet policy. **Cleveland Fed Mester** also wouldn't feel the need to change the degree of accommodation if the outlook comes in as she expects.
- Japanese newspaper Nikkei reports that **the BoJ will consider cutting its economic forecast for the current fiscal year ending in March**. Currently, the BoJ expects this year's contraction (-5.5%) to be followed by a 3.6% rebound in the next fiscal year, but consumption is under pressure from state of emergency Covid-measures. Furthermore, the country faces possible blackouts as a cold snap coincides with tight supplies of LNG. **Electricity prices soared to all-time highs** with the electricity system hitting 99% of its maximum capacity in some parts of the country.

Graphs



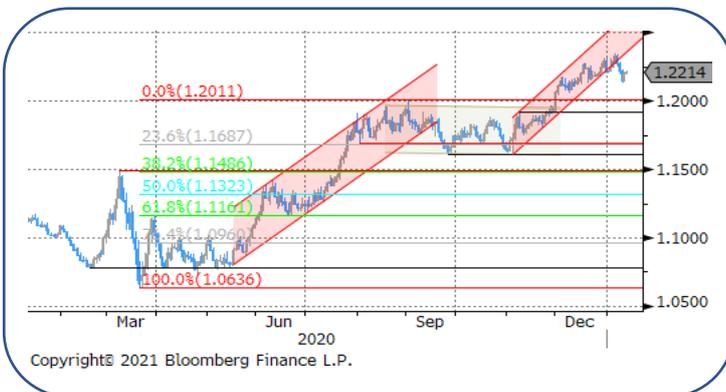
GE 10y yield

German 10-yr yield is testing the top of of the -0.65%/-0.45% range. 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 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

Sterling failed to retest EUR/GBP 0.8864 support after the last minute EU/UK trade deal, hinting at little upward potential for the UK currency. A third national lockdown will hurt growth. EUR/GBP belongs near 0.92/0.93.

Calendar & Table

Wednesday, 13 January		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	1.70%
14:30	CPI MoM/YoY (Dec)	0.40%/1.30%	0.20%/1.20%
14:30	CPI Ex Food and Energy MoM/YoY (Dec)	0.10%/1.60%	0.20%/1.60%
Japan			
00:50	Money Stock M3 YoY (Dec)	7.60%A	7.60%
05:30	Bankruptcies YoY (Dec)	-20.73%A	-21.73%
07:00	Machine Tool Orders YoY (Dec P)	--	8.60%
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Nov)	0.20%/-3.20%	2.10%/-3.80%
Italy			
10:00	Industrial Production MoM/WDA YoY (Nov)	-0.40%/-2.60%	1.30%/-2.10%
China			
13JAN-16JAN	1-Yr Medium-Term Lending Facility Rate	--	2.95%
Czech Republic			
09:00	CPI MoM/YoY (Dec)	0.10%/2.60%	0.00%/2.70%
Events			
09:30	ECB's Villeroy speaks in Paris		
10:00	ECB's Lagarde Participates in Q&A		
11:30	Germany to Sell EUR 5 Bln of 2026 Bonds		
15:30	Fed's Bullard Takes Part in Virtual Forum		
19:00	US to Sell USD24 Bln 30-Year Bonds		
19:00	Fed's Brainard Discusses Economic Outlook and Full Employment		
20:00	Fed's Harker Discusses the Economic Outlook		
20:00	U.S. Federal Reserve Releases Beige Book		
21:00	Fed's Clarida Discusses Fed's New Framework		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.13	-0.02	US	0.14	0.00	DOW	31068.69	60.00	
DE	-0.47	0.03	DE	-0.69	0.01	NASDAQ	13072.43	36.00	
BE	-0.31	0.03	BE	-0.65	0.02	NIKKEI	28456.59	292.25	
UK	0.35	0.04	UK	-0.08	0.04	DAX	13925.06	-11.60	
JP	0.03	-0.01	JP	-0.12	-0.02	DJ euro-50	3612.13	-8.49	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.49	0.30	0.17	Eonia	-0.4790	0.0000	Libor-1	0.1260	0.0000
5y	-0.42	0.58	0.29	Euribor-1	-0.5530	-0.0050	Libor-3	0.2245	0.0000
10y	-0.18	1.14	0.54	Euribor-3	-0.5490	-0.0040	Libor-6	0.2503	0.0000
				Euribor-6	-0.5300	-0.0070			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.2207	0.0056	EUR/JPY	126.66	-0.03	CRB	174.95	2.22	
USD/JPY	103.76	-0.50	EUR/GBP	0.8933	-0.0057	Gold	1844.20	-6.60	
GBP/USD	1.3664	0.0146	EUR/CHF	1.0821	0.0003	Brent	56.58	0.92	
AUD/USD	0.7772	0.0075	EUR/SEK	10.0652	-0.0246				
USD/CAD	1.2711	-0.0073	EUR/NOK	10.3136	-0.0587				

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