



Wednesday, 25 November 2020

KBC Sunrise Market Commentary

Markets

- Investors shrugged at the sharp and **larger-than-expected drop in the November Conference Board consumer confidence** yesterday. The decline from 100.9 to 96.1 was largely due to deteriorating expectations (9 points lower to 89.5) about the future environment as the virus resurged also in the US. Focus instead was on the Biden-Yellen market themes that emerged already during the Asian session. European equities rose more than 1%. Wall Street edged up about 1.5% with the **DJI surpassing 30 000** for the first time ever and a **record close in the S&P500**. Cyclical, including energy and financials, led the way. Brent oil prices advanced once again, coming closer within reach of the symbolic \$50. Core bonds fell, USTs underperforming. The US yield curve bear steepened with changes varying from flat (2-yr) to 5.2 bps (30-yr). Yields did retreat from intraday highs after a solid 7-year auction. German yields rose 1 bp (2-yr) to 1.8 bps (10-yr), the latter confirming the lower bound of the upward trading range as a support area. EUR/USD traded volatile. Its morning rise was capped by an afternoon comeback by the dollar. The greenback lacks strong momentum though. **EUR/USD managed a close higher still shy of 1.19**. The trade-weighted dollar finished dangerously close to the 92.15 support. Sterling took a breather after the recent strengthening. Technical trading sent EUR/GPB near the 0.89 pivot.
- Overnight news is limited, leaving Asian-Pacific trading up to sentiment and technical considerations. Markets opened in the green in the wake of Wall Street's records this morning. Indices are off best levels however. China underperforms. Core bonds erased opening losses. The USD kicked off vulnerable. EUR/USD ventured north of 1.19 and the DXY came very close to the 92 handle before recouping losses. USD/JPY is going nowhere in the 104.5 zone.
- Initial and continuing jobless claims are scheduled for today. A further easing is expected. October durable goods orders and PCE inflation is worth watching but are unlikely to materially influence traders. The FOMC meeting Minutes could spur some volatility as markets look for clues for potential easing in December. That said, we don't think any of the afore mentioned will affect the recent investor sentiment in the run-up to tomorrow's US holiday (Thanksgiving) though. **Also from a technical perspective** (EuroStoxx50 clears 76.1% hurdle, DJI, S&P500) **the stars remain aligned for riskier assets**. We assume the current Asian upside in core bonds as well as the dollar thus to be capped. We keep a close eye at the 1.19 area in **EUR/USD. Several attempts to leap higher so far failed but a (technical) dollar comeback is far from convincing either**. Sterling awaits but probably already discounted British minister of finance Sunak's spending announcement for next year. He is expected to announce another 4.3 billion pounds of new funding. EUR/GBP tested the important 0.8865 Monday before recovering yesterday. We assume the bottoming out to continue.

News Headlines

- According to an article in the Financial Times, **vice-chair of the ECB supervisory board, Yves Merch, indicated that EU banks could be allowed to pay dividends again from next year**, if they can convince supervisors that their balance sheets are strong enough to bear the fall-out from the corona pandemic. Merch cited legal uncertainty on the enforceability of the dividend ban and the prospect of other countries allowing banks to restart payouts.
- In the annual policy address, **Hong Kong Chief Executive Carrie Lam said her administration wants to restore confidence**. In this respect, Liam indicated that the economy of Hong Kong can benefit 'from its proximity to the mainland and the central government's long-standing support under the one country two systems principle'. Aside from **strengthening ties with the mainland**, Lam also signaled **additional measures to support the economy**. Amongst others, Hong will take measures to support the (commercial) property sector and to support tourism sector.

Graphs



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GE 10y yield

German 10-yr yield surges off the -0.60%/-64% area on vaccine euphoria. Better growth prospects and potentially less need of monetary stimulus might support a **bottoming out process short term after hitting lower bound of upward trading range** and **more upside in the medium term**.



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US 10y yield

US 10-yr yield set new recovery high last week. Volatile swings within upwardly sloping trend channel. **US real yields'** rise is showing tentative signs of topping near term.



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EUR/USD

EUR/USD develops an inconclusive trading pattern within **1.16/1.19 sideways range**. Upside tests have failed several times but the subsequent technical dollar comebacks are far from convincing.



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EUR/GBP

Continued hopes on a Brexit deal as well as a not-too-negative risk environment support sterling. As a deal has more or less been priced in, the pound is particularly vulnerable to negative surprises, which could come from a poor UK eco performance. EUR/GBP 0.8866 was tested but is solid support.

Calendar & Table

Wednesday, 25 November		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-0.30%
14:30	Initial Jobless Claims	730k	742k
14:30	Continuing Claims	6000k	6372k
14:30	Advance Goods Trade Balance (Oct)	-\$80.4b	-\$79.4b
14:30	Wholesale Inventories MoM (Oct P)	0.40%	0.40%
14:30	Retail Inventories MoM (Oct)	0.60%	1.60%
14:30	GDP Annualized QoQ (3Q S)	33.10%	33.10%
14:30	Durable Goods Orders (Oct P)	0.90%	1.90%
14:30	Durables Ex Transportation (Oct P)	0.35%	0.90%
14:30	Cap Goods Orders Nondef Ex Air (Oct P)	0.50%	1.00%
14:30	Cap Goods Ship Nondef Ex Air (Oct P)	0.40%	0.50%
16:00	Personal Income/Spending (Oct)	-0.10%/0.40%	0.90%/1.40%
16:00	PCE Deflator MoM/YoY (Oct)	0.00%/1.20%	0.20%/1.40%
16:00	PCE Core Deflator MoM/YoY (Oct)	0.00%/1.40%	0.20%/1.50%
16:00	U. of Mich. Sentiment (Nov F)	77.0	77
16:00	New Home Sales Total/MoM (Oct)	975k/1.70%	959k/-3.50%
20:00	FOMC Meeting Minutes		
Japan			
00:50	PPI Services YoY (Oct)	-0.60%A	1.30%
Belgium			
15:00	Business Confidence (Nov)	--	-8.5
Norway			
08:00	Unemployment Rate AKU (Sep)	--	5.30%
Events			
27NOV	UK Chancellor Sunak unveils government's spending plans for next year		
27NOV	ECB publishes its Financial Stability Review		
11:00	Italy to Sell Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.88	0.03		US	0.16	0.00	DOW	30046.24	454.97
DE	-0.56	0.02		DE	-0.74	0.01	NASDAQ	12036.79	156.16
BE	-0.37	0.02		BE	-0.72	0.01	NIKKEI	26296.86	131.27
UK	0.33	0.01		UK	-0.02	0.01	DAX	13292.44	165.47
JP	0.02	0.00		JP	-0.15	-0.02	DJ euro-50	3507.98	44.94
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.50	0.30	0.15	Eonia	-0.4720	0.0000			
5y	-0.45	0.46	0.27	Euribor-1	-0.5370	0.0050	Libor-1	0.1501	0.0000
10y	-0.23	0.88	0.50	Euribor-3	-0.5230	0.0000	Libor-3	0.2065	0.0000
				Euribor-6	-0.5100	-0.0010	Libor-6	0.2538	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1892	0.0051		EUR/JPY	124.2	0.46	CRB	159.79	2.47
USD/JPY	104.44	-0.08		EUR/GBP	0.8900	0.0013	Gold	1810.90	-33.20
GBP/USD	1.3357	0.0036		EUR/CHF	1.0836	0.0030	Brent	47.86	1.80
AUD/USD	0.7361	0.0075		EUR/SEK	10.1644	-0.0523			
USD/CAD	1.2998	-0.0084		EUR/NOK	10.5976	-0.1013			

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