

Sunrise

Thursday, 07 January 2021

## KBC Sunrise Market Commentary

### Markets

- The Democratic blue sweep is completed** following the Georgia Senate run-off races. Riots by Trump-admirers at Capitol Hill disturbed and interrupted the certification of Joe Biden's election victory in US Congress, but **failed to halt a rejuvenated reflation trade**. Yesterday's US Treasury sell-off was protagonist of this trade. The US yield curve bear steepened with yields rising by 1.6 bps (2-yr) to 10.7 bps (30-yr). **The US 10-yr yield pierced through the psychological 1%**. First intermediate resistance stands at the March 2020 top of 1.27%, but the key levels are 1.43% (2019 low) and 1.44% (38% retracement of 2019-2020 decline). Underlying dynamics showed that inflation expectations (2.09%) and real yields (-1.05%) both added 4 bps to the intraday increase. **The US 30-yr yield yesterday broke that similar 38% retracement at 1.75%** (also June and November 2020 tops) with the psychological 2% lurking next. The rally in crude oil prices adds to the rise in yields. **The reflationary thought and the surprising Saudi production cut pushed Brent crude for a test of \$55/b**, the highest level since February last year. European stock markets gained up to 2% with **US indices showing a cyclical rotation**. The tech-heavy Nasdaq lost 0.6% while the industrial Dow gained nearly 1.5%. The blue wave in US politics could also result in targeting big techs with more stringent regulation and/or higher taxes. **The dollar is still in the soft spot on FX markets**, trading near cycle lows on a trade-weighted basis and against most majors.
- Minutes of the previous Fed meeting showed unanimity on continuing asset purchases at the current monthly pace of \$120bn (of which \$80bn US Treasuries). They pledged to do so until there is *"substantial further progress"* toward employment and inflation goals. Ceteris paribus, this probably means at least the following 6 months and likely even 12 months. **Some participants suggested readiness to increase the pace of purchases or weigh them towards longer maturities if deemed appropriate**. The Minutes didn't alter trading dynamics. Asian stock markets copy yesterday's rally in Europe and the US this morning with core bonds and the dollar near yesterday's low. **Today's eco calendar is interesting, but unlikely to alter running trends**. December EMU headline inflation is expected to be negative for a fifth month running while the core gauge hovers near the EMU low of 0.2% Y/Y. EC confidence indicators, US weekly jobless claims and US non-manufacturing ISM are up for release as well. Consensus expects a small setback in the ISM from 55.9 from 54.5. It will be interesting to see whether we'll get such disconnect with Monday's stellar manufacturing ISM.

### News Headlines

- The Japanese PM is expected to declare a state of emergency later today for Tokyo** and its surrounding areas as corona cases continue to surge. Japan registered almost 5000 cases yesterday compared to a peak of about 650 and 1800 in the first and second wave respectively. Among the measures include asking residents to avoid going out after 8pm. Bars and restaurants will be instructed to close at that time. Economy minister Nimishura said it will **likely be imposed until February 7**.
- Matteo Renzi, leader of Italia Viva and former PM, **threatened to withdraw support for the Italian coalition government unless radical changes are made to current PM Conte's economic recovery plan**. Renzi said more use should be made of the available loans under EU Next Gen. Italia Viva is a minor junior party whose 48 seats in the lower and upper houses of parliament are decisive in ensuring a government majority.
- IMF chief economist Gopinath said the stimulus approved in the US and Japan end of last year will help to support a recovery in the second half of this year**, assuming that vaccines will be widely distributed by mid-year in those countries. She hinted at a growth upgrade in the institution's next projections due on January 26. Gopinath warned that (many developing) countries with limited access to those vaccines may see the recovery delayed until 2022.

# Graphs



## GE 10y yield

German 10-yr yield steadies roughly between -0.65% and -0.50% since start of Q4 2020. 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.



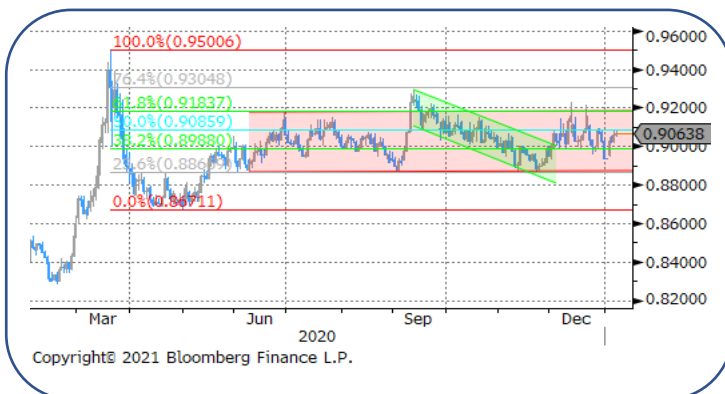
## US 10y yield

US 10-yr yield finds itself in mildly upward sloping trend channel, taking out the psychological 1% mark. Divergence between rising inflation expectations (>2%) and subdued real yields (< -1%) becomes larger.



## EUR/USD

EUR/USD is heading towards 2018 top of 1.2555. Underlying (US) yield dynamics (see above) hurt the US currency.



## 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

Thursday, 7 January		Consensus	Previous
<b>US</b>			
13:30	Challenger Job Cuts YoY (Dec)	--	45.40%
14:30	Initial Jobless Claims	800k	787k
14:30	Continuing Claims	5200k	5219k
14:30	Trade Balance (Nov)	-\$67.3b	-\$63.1b
16:00	ISM Services Index (Dec)	54.5	55.9
<b>Japan</b>			
00:30	Labor/Real Cash Earnings YoY (Nov)	-2.20%A/-1.10%A	-0.80%/-0.20%
<b>UK</b>			
10:30	Markit/CIPS UK Construction PMI (Dec)	54.6	54.7
<b>EMU</b>			
11:00	Retail Sales MoM/YoY (Nov)	-3.40%/0.90%	1.50%/4.30%
11:00	Consumer Confidence (Dec F)	--	-13.9
11:00	Economic Confidence (Dec)	89.9	87.6
11:00	Industrial Confidence (Dec)	-8.6	-10.1
11:00	Services Confidence (Dec)	-15	-17.3
11:00	CPI MoM/YoY (Dec)	0.30%/-0.30%	-0.30%/-0.30%
11:00	CPI Core YoY (Dec P)	0.20%	0.20%
<b>Germany</b>			
08:00	Factory Orders MoM/WDA YoY (Nov)	-0.50%/2.10%	2.90%/1.80%
09:30	Markit Germany Construction PMI (Dec)	--	45.6
<b>Events</b>			
10:45	Spain to Sell Bonds		
10:50	France to Sell Bonds		
15:00	Fed's Harker Discusses the Economic Outlook		
15:30	Fed's Harkin Speaks to North Carolina Bankers Association		
18:00	Fed's Bullard Discusses U.S. Economy and Monetary Policy		
19:00	Fed's Evans Speaks at Bankers Event		
21:50	Fed's Daly Speaks to Shadow Open Market Committee		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.04	0.08	US	0.14	0.02	DOW	30829.4	437.80	
DE	-0.52	0.06	DE	-0.70	0.01	NASDAQ	12740.79	-78.17	
BE	-0.36	0.02	BE	-0.69	0.01	NIKKEI	27490.13	434.19	
UK	0.24	0.03	UK	-0.13	0.01	DAX	13891.97	240.75	
JP	0.04	0.02	JP	-0.12	-0.01	DJ euro-50	3611.08	63.23	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.52	0.26	0.10	Eonia	-0.4780	0.0000	Libor-1	0.1309	0.0000
5y	-0.46	0.48	0.21	Euribor-1	-0.5670	0.0060	Libor-3	0.2369	0.0000
10y	-0.25	1.03	0.43	Euribor-3	-0.5560	-0.0040	Libor-6	0.2539	0.0000
				Euribor-6	-0.5300	-0.0060			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.2327	0.0029	EUR/JPY	127.03	0.74	CRB	172.11	0.40	
USD/JPY	103.04	0.32	EUR/GBP	0.9058	0.0033	Gold	1908.60	-45.80	
GBP/USD	1.3608	-0.0019	EUR/CHF	1.0829	0.0028	Brent	54.30	0.70	
AUD/USD	0.7802	0.0043	EUR/SEK	10.0666	0.0072				
USD/CAD	1.2677	0.0008	EUR/NOK	10.3692	-0.0432				

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