

Sunrise

Monday, 11 January 2021

## KBC Sunrise Market Commentary

### Markets

- Most aspects of the reflation trade on Friday continued according to the established script. The three major US equity indices (Dow +0.19%, S&P +0.55% and Nasdaq + 1.03%) all closed at all-time highs. This was also the case for the German Dax. US payrolls disappointed. Net employment in the US in December declined 140 000 as a decline in the likes of leisure and hospitality more than counterbalanced ongoing positive job growth in the goods-producing sector. Markets initially showed some hesitation after the release but in the end the trends of higher US yields and equities simply continued. Later, the **Biden administration flagged that it will announce plans for trillions of USD of additional pandemic relief stimulus on Thursday**. US LT yields extended their gradual uptrend with the 10-y and 30-y respectively rising 3.6 bps and 3.1 bps. The rise this time was due to higher real yields rather than inflation expectations (US 10-y real yield up 6 bp). Change in German yields were still limited with yields rising less than 0.5 bp across the curve. The rise in US real yields caused the dollar to further decouple from the reflation trade. The US currency extended the (corrective) rebound that started on Thursday. The Trade-weighted dollar index returned north of 90. EUR/USD closed at 1.2218 (from 1.2272 on Thursday). USD/JPY tried to regain the 104 mark, but still closed slightly below this reference. Sterling resisted the dollar rebound rather well, with cable closing little changed at 1.3568. EUR/GBP drifted back to the 0.90 handle (close 0.9010).
- Asian equity markets initially joined the positive WS momentum on Friday, but opening gains reversed as the session proceeded and some indices even slipped into negative territory. US equity futures also suggest that some pause on recent rally might be in store. Cyclical commodities including copper and oil but also gold are falling prey to profit taking. Are investors becoming a bit worried that the rise in (US) yields is going so fast it might hurt the recovery? Treasury futures show no clear trade, but trading is limited as Japanese markets are closed. The dollar extends its rebound globally (DXY 90.34), but the decline of the yuan remains very limited (USD/CNY 6.48 area).
- **Today's** eco calendar is rather thin. Later this week, **plenty of Fed governors will speak**. We look out whether they join recent comments that (gradually) higher yields due to higher inflation expectations isn't that worrying. In the same context, we also keep a close eye at the **monthly US 3-10-30 Treasury auctions starting today**. Later this week, markets will also look forward to **the start of the earnings season** (big banks on Friday). A more cautious risk sentiment and ongoing high US yields might also support the recent corrective rebound of the dollar. The 1.2059/1.2011 (Dec 09 correction low/previous top) comes in as first reference for this correction.

### News Headlines

- **December Chinese producers' prices declined at their slowest level since February** (-0.4% Y/Y vs -0.7% Y/Y expected). Higher raw material prices and the rebound in the manufacturing sector contributed to move. PPI rose by 1.1% on a monthly basis, the fastest since end 2016. **December CPI returned to positive levels** (0.2% Y/Y vs flat expected) after turning negative for the first time in over a decade last month. Food prices contributed to the higher consumer prices.
- **Fed vice-chair Clarida said last Friday that the US economy was headed for an impressive 2021**, profiting from the potential of both the vaccination process and larger government spending under the Biden administration. Amid this positive economic outlook, he currently proposes to keep the pace of bond purchases (\$120bn/month) unchanged throughout the rest of the year. Any change is "well down the road". **Pinpointing when the Fed will start reducing monthly purchases will become a topic of debate this year**. Atlanta Fed Bostic was the first governor to give the prospect of already doing so in H2 2021.

# Graphs



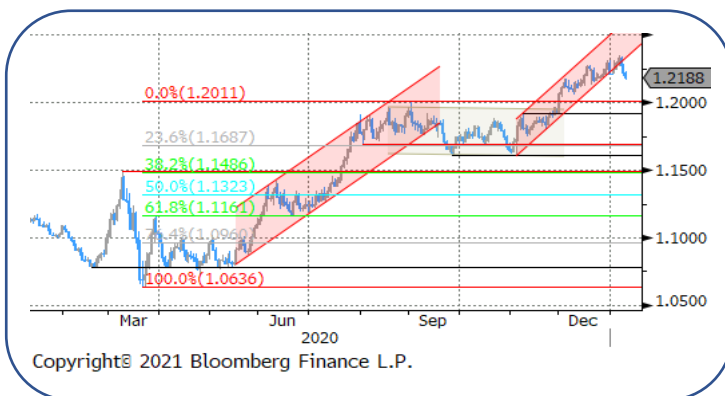
## GE 10y yield

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 an upward sloping trend channel, taking out the psychological 1% mark. Intermediate resistance at 1.27%. Strong resistance at 1.43%-1.44%. Divergence between rising inflation expectations (>2%) and subdued real yields (< -1%) becomes larger.



## 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 1.2011/59 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

Monday, 11 January		Consensus	Previous
<b>EMU</b>			
10:30	Sentix Investor Confidence (Jan)	1.9	-2.7
<b>China</b>			
02:30	PPI YoY (Dec)	-0.40%A	-1.50%
02:30	<b>CPI YoY (Dec)</b>	<b>0.20%A</b>	<b>-0.50%</b>
09JAN-15JAN	Money Supply M2 YoY (Dec)	10.70%	10.70%
<b>Norway</b>			
08:00	CPI MoM/YoY (Dec)	0.40%/1.40%	-0.70%/0.70%
08:00	<b>CPI Underlying MoM/YoY (Dec)</b>	<b>-0.10%/3.10%</b>	<b>-0.40%/2.90%</b>
<b>Events</b>			
11:00	ECB's Vlasle Speaks at Online Conference		
15:40	ECB's Lagarde Moderates Panel Discussion		
18:00	Fed's Bostic Discusses his 2021 Economic Outlook		
19:00	US to Sell USD58 Bln 3-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1,12	0,04	US	0,13	0,00	DOW	31097,97	56,84	
DE	-0,52	0,00	DE	-0,70	0,00	NASDAQ	13201,98	134,50	
BE	-0,36	0,01	BE	-0,69	0,00	NIKKEI	28139,03	0,00	
UK	0,29	0,00	UK	-0,13	0,01	DAX	14049,53	81,29	
JP	0,04	0,00	JP	-0,12	0,00	DJ euro-50	3645,05	22,63	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,51	0,29	0,12	Eonia	-0,4800	0,0000	Libor-1	0,1264	-0,0063
5y	-0,45	0,56	0,24	Euribor-1	-0,5550	0,0080	Libor-3	0,2244	-0,0004
10y	-0,23	1,13	0,48	Euribor-3	-0,5500	0,0040	Libor-6	0,2465	-0,0047
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,2218	-0,0054	EUR/JPY	127,06	-0,33	CRB	173,35	1,03	
USD/JPY	103,94	0,13	EUR/GBP	0,9010	-0,0037	Gold	1835,40	-78,20	
GBP/USD	1,3568	0,0000	EUR/CHF	1,0824	-0,0039	Brent	55,99	1,61	
AUD/USD	0,7757	-0,0012	EUR/SEK	10,0677	0,0192				
USD/CAD	1,2702	0,0011	EUR/NOK	10,291	-0,0509				

## 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		

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