

Sunrise

Tuesday, 19 January 2021

KBC Sunrise Market Commentary

Markets

- With US markets closed in observance of the Martin Luther King Jr Holiday, **trading took a slow start of the week.** Asian equity indices finished mixed with China outperforming in the wake of better-than-expected Q4 GDP data. After opening in the red, a protracted and gradual bottoming out process brought minor gains for Europe eventually. The fairly guarded trading session did not hurt core (German) bond yields, on the contrary. The German yield curve bear steepened with yields up 1.6 bps (10-yr) to 1.8 bps (30-yr). Peripheral spreads didn't budge whatsoever. In Italy, **premier Conte won a first crucial vote of confidence in the lower House** (see headline below). Dollar FX markets were an ocean of calm in which the greenback more or less retained the benefit of the doubt, holding on to Friday's gains. EUR/USD finished the session slightly lower near 1.208. The trade-weighted DXY was headed towards 91 but closed stable at 90.77 in the end. EUR/GBP took out 0.89 intraday amid a cautious risk setting but also failed to hold on to it as the tone gradually improved. The pair closed the session just south of 0.89.
- A **broad-based rally is lifting Asia-Pacific stocks** this morning. Hong Kong (+2.15%) is one of the outperformers even as the region decided to extend social distancing measures. China lags. The PBOC injected the most short-term cash since the end of 2020 amid concerns over tighter liquidity after using the tool to drain cash for six days straight. Nevertheless, short term Chinese yields continue to rise following yesterday's surge in the wake of the GDP release. USD/CNY trades slightly weaker, below 6.49. Core bonds trade slightly weaker, USTs underperforming in a catch-up move. The dollar is facing selling pressures amid risk-on. The Australian and New Zealand dollar lead G10 peers along with the Norwegian krone. EUR/USD has the eyes set on 1.21. USD/JPY is the exception to this morning's dollar weakness, tentatively capturing 104.
- Today's economic calendar only contains Germany's ZEW investor sentiment index which is expected to show a growing divergence between the current assessment and the expectations component. However, its market moving potential usually is very limited. We keep a close eye at **new Treasury Secretary Yellen's confirmation hearing** (cf. infra). The Wall Street Journal earlier this week reported Yellen is expected to affirm the US' commitment to a market-determined dollar. She reportedly **doesn't actively seek to comment its level nor to deliberately weaken it. It's doubtful whether this will halt the (long-term) decline in the USD**, especially when Yellen at the same time will be promoting the massive Biden stimulus proposal against a (currently) constructive risk sentiment. EUR/USD bounced of support near 1.206 yesterday and could extend gains today. Core bonds are likely to stay under selling pressure. EUR/GBP struggles for a relaunch after hitting support near 0.886, weighed down by the current risk environment. That said, there is no need for a break lower either given the (economic) challenges sterling faces.

News Headlines

- **Italian PM Giuseppe Conte yesterday evening won a vote of confidence in the lower House of Parliament** as he gained support of 321 member out of 629. The Italian PM now faces a **key vote in the Senate** were a majority will be much harder to get. Conte might get a simple majority if members of his previous coalition partner, 'Italy Alive', would abstain in today's vote. **Still, that would leave Italian PM in a uncomfortable situation as the government needs an absolute majority to pass certain (budgetary) measures.**
- At a her confirmation hearing before the Senate finance committee as New Treasury Secretary, **Janet Yellen is expected to advocate further stimulus measures to support the restart of the economy.** Yellen and the Biden administration are taking into account the **high and rising debt pile** of the US economy, "but right now, with interest rates at historic lows, the smartest thing we can do is act big", Yellen is expected to say according to prepared remarks for the hearing as obtained by the press.

Graphs



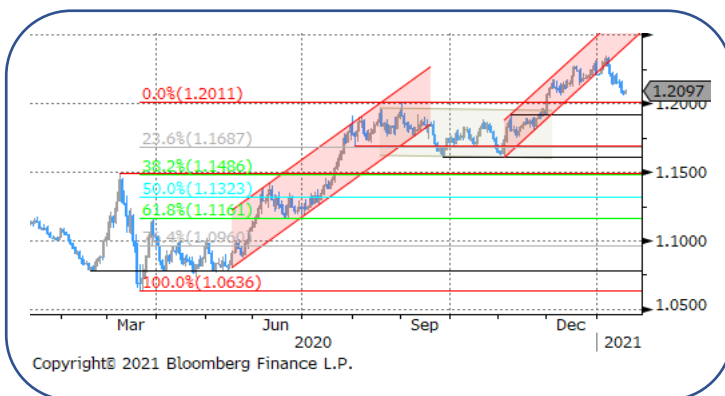
GE 10y yield

German 10-yr yield tested the top of the -0.65%/-0.45% range, but the test was rejected. Mass immunity and brighter economic prospects suggest higher yields longer term. While tighter lockdown measures and ample central bank liquidity take new market narrative hostage short term a cautious bottoming out process is developing.



US 10y yield

US 10-yr yield regained the psychological 1% mark and remains near the upper bound of the upward trend 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

A test of EUR/GBP 0.8864 support failed again, hinting at little upward potential for the UK currency, both from a technical as fundamental (third national lockdown will hurt growth) perspective. EUR/GBP belongs near 0.92/0.93.

Calendar & Table

Tuesday, 19 January		Consensus	Previous
US			
22:00	Net Long-term TIC Flows (Nov)	--	\$51.9b
EMU			
08:00	EU27 New Car Registrations (Dec)	--	-12.00%
10:00	ECB Current Account SA (Nov)	--	26.6b
11:00	Construction Output MoM/YoY (Nov)	--/--	0.50%/-1.40%
11:00	ZEW Survey Expectations (Jan)	--	54.4
Germany			
11:00	ZEW Survey Expectations (Jan)	59.5	55
11:00	ZEW Survey Current Situation (Jan)	-68.3	-66.5
Events			
Q4 earnings	Halliburton (bef-mkt), Bank of America (12:45), Goldman Sachs (13:30), Netflix (22:00) ...		
19JAN	Yellen's confirmation hearing as Treasury Secretary before Senate Finance Committee		
19JAN	EU finance ministers meet		
19:00	BOE's Haldane In Conversation With Lord Rusbridger		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.08	0.00	US	0.13	0.00	DOW	30814.26	0.00	
DE	-0.53	0.02	DE	-0.72	0.01	NASDAQ	12998.5	0.00	
BE	-0.35	0.02	BE	-0.68	0.01	NIKKEI	28633.46	391.25	
UK	0.29	0.00	UK	-0.14	0.00	DAX	13848.35	60.62	
JP	0.04	-0.01	JP	-0.12	-0.01	DJ euro-50	3602.67	3.12	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.52	0.27	0.13	Eonia	-0.4810	0.0000	Libor-1	0.1295	0.0000
5y	-0.45	0.53	0.25	Euribor-1	-0.5670	-0.0100	Libor-3	0.2234	0.0000
10y	-0.23	1.10	0.49	Euribor-3	-0.5530	-0.0010	Libor-6	0.2481	0.0000
				Euribor-6	-0.5330	-0.0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.2077	-0.0005	EUR/JPY	125.24	-0.32	CRB	175.25	0.00	
USD/JPY	103.69	-0.16	EUR/GBP	0.8889	-0.0001	Gold	1829.90	0.00	
GBP/USD	1.3587	-0.0003	EUR/CHF	1.0759	-0.0002	Brent	54.75	-0.35	
AUD/USD	0.7681	-0.0022	EUR/SEK	10.1358	-0.0063				
USD/CAD	1.2757	0.0025	EUR/NOK	10.3818	0.0309				

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
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
KBC Economics – Markets Dublin		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
CSOB Economics – Markets Prague		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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