

Sunrise

Monday, 22 February 2021

KBC Sunrise Market Commentary

Markets

- The global reflation trade showed **signs of a metamorphose last week**. Interest rates and cyclical commodities continued their ascent. Equities and the dollar showed some hesitation. **Eco data again were only a secondary factor to guide those developing trends**. Friday's EMU February PMI's didn't bring a major surprise. Strength in the manufacturing sector was still counterbalanced by a further contraction in services. From a market point of view, the rise in the price sub-indicators in the manufacturing sector and confidence on the outlook for the next 12 months rising to the highest level since March 2018 were the most relevant part of the narrative. The US PMI also showed strong growth prospects both for the manufacturing (58.5) and the services (58.9) sector. This positive forward-looking narrative reinforced **repositioning on bond markets**. The US yield curve steepened further with yields rising up to 5.2 bp (30-y). Interestingly, the rise now is driven by a sharp acceleration in real yields (10-y + 6.9 bp). Despite Europe lagging on the path to normalization, German yields joined the broader move with yields rising between 0.7bp (2-y) and 5.6 bp (30-y). The German 10-y yield (-0.30%) closed the week north of the -0.34% resistance. **Equities were mixed** as investors ponder the impact of rising interest rate volatility on other markets. European equities gained about 0.75%/1.0% on average. US indices closed little changed. The dollar still show no clear trend, despite the sharp rise in real US yields. The TW DXY index closed at 90.36 (from 90.59). EUR/USD also regained the 1.21 handle (close 1.2119) but stays within ST ranges. Sterling remained well bid on mixed UK data (poor January retail sales, but better than expected PMI's). EUR/GBP closed the week at 0.8650, below the 0.8671 support.
- Last week's trends continue this morning. On the commodity markets, copper is exponent of an expected supply demand imbalance, jumping above the \$9000 p/ton. On regional interest rate markets, Australia's 10-y yield jumped 16bp to 1.60% despite RBA QE buying. The 3-y yield (0.127%) drifted above the RBA 0.1% target. US yields also opened substantially higher (+5bp for 10-y). Asian equities show a mixed picture with China underperforming (CSI 300 -2.75%). The dollar still shows no clear trend with EUR/USD at 1.2120 and USD/JPY slightly higher (105.65). Today, the German Ifo mainly should confirm the PMI's. Tomorrow, markets will keep a close eye at Fed Powell's testimony before Congress. He will probably confirm the Fed supportive stance but markets will look out for comments on recent market developments. Later this week, the process of approving the \$1900bln US stimulus package will continue. **The focus for global trading remains on the repositioning** (or should we already call it a mini-crash?) **on the bond markets**. The break out of the gradual uptrend channel in US 10-y yield confirms the strong uptrend. The February 2020 top stance at 1.682%. **The rise in US real yields probably will help to put a floor for the dollar with EUR/USD 1.2169/90 tough short-term resistance**. For sterling, we look out whether UK PM Johnson's roadmap to end the lockdown will support further sterling gains. EUR/GBP 0.8621 is next reference on the charts.

News Headlines

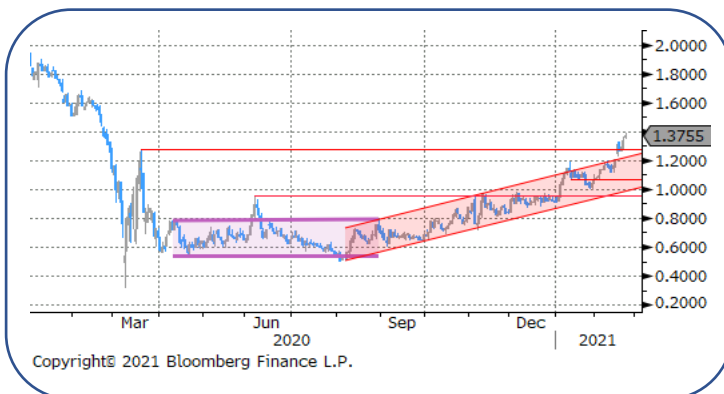
- Rating agency S&P upgraded New Zealand's credit rating from AA to AA+ (stable outlook)**. The country is recovering more quickly than most advanced economies from the COVID-19 crisis. Monetary flexibility, a wealthy economy and institutions are conducive to swift and decisive policy actions and offset the country's external imbalances. Credit metrics can handle a possible blow from negative economic shock including a potential weakening of the real estate market. S&P's rating is in between the one from Fitch (AA) and Moody's (Aaa). **NZD/USD briefly set a recovery top above 0.73, the highest level since April 2018**.
- UK PM Johnson will today announce a cautious roadmap for ending the coronavirus lockdown**. Four criteria will determine the speed of the reopening: vaccine enrollment, proof that vaccines reduce hospital admissions and deaths, work load of the NHS and risk assessment around COVID-variants. March 8 would kick off the process with all pupils returning to class, a resumption of outdoors sports and activity for children and 1v1 adult meetings in public spaces among the measures. From March 29, the latter would be extended to 6 people or two households with outdoor adult sports also back in play.

Graphs



GE 10y yield

German 10-yr yield left H2 2020 downward sloping channel. currently breaking above the 62% retracement on that move (-0.34%). The start of vaccinations and brighter economic prospects suggest higher yields longer term. **This prospect currently outweighs lockdown measures and ample central bank liquidity.**



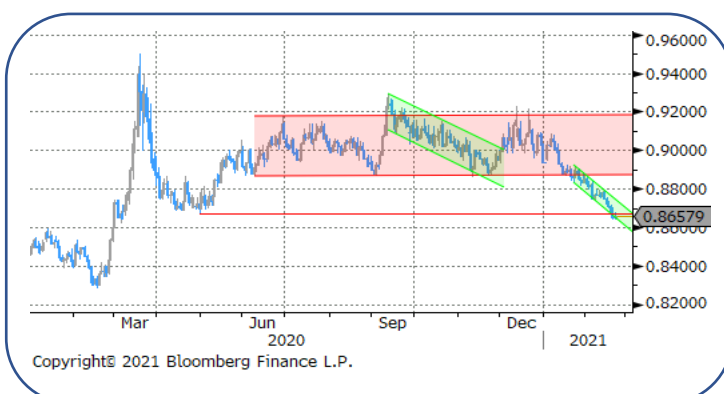
US 10y yield

Reflationary spirits push US 10-yr yield above the March liquidity squeeze top (1.27%). Next very big resistance stands around 1.43% (2019 low & 38% retracement of 2018/2020 decline). **Divergence between inflation expectations real yields is large, but the latter are catching up.**



EUR/USD

Reflation taking over again from vaccination differential as main trading theme, ending the USD comeback. However, the topic is less dominant for FX than last year. EUR/USD 1.2111 eventually held following an extensive test. Difficulties to take out EUR/USD 1.2151 (50% retracement on 2021 decline) suggests sluggish momentum



EUR/GBP

Sterling tested and broke below key support at EUR/GBP 0.8864. Short and long term economic fundamentals warrant a softer UK currency, but the UK taking the lead in vaccinations and possibly in the reopening the economy, supports the UK currency short term. Last week's close below 0.8670 improved the ST picture for sterling.

Calendar & Table

Monday, 22 February		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Jan)	0.50	0.52
16:30	Dallas Fed Manf. Activity (Feb)	5.0	7
Japan			
00:50	PPI Services YoY (Jan)	-0.50%A	-0.40%
06:00	Convenience Store Sales YoY (Jan)	-4.90%A	-4.00%
Germany			
10:00	IFO Expectations (Feb)	91.7	91.1
10:00	IFO Current Assessment (Feb)	89.1	89.2
10:00	IFO Business Climate (Feb)	90.5	90.1
Belgium			
15:00	Business Confidence (Feb)	-7.0	-7.5
Events			
14:45	ECB's Lagarde Gives Keynote		
12:00	Belgium to Sell 0.8% 2025 Bonds, 0.8% 2028 Bonds, 1.25% 2033 Bonds		
18:00	Fed's Kaplan Takes Part in Moderated Q&A		
19:00	BOE's Vlieghe to Speak on Economic Outlook		
21:30	Fed's Bowman Discusses Economic Inclusion		
21:30	Fed's Kaplan Speaks at Fed Conference		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1,34	0,04		US	0,10	0,00	DOW	31494,32	0,98
DE	-0,31	0,04		DE	-0,68	0,01	NASDAQ	13874,46	9,10
BE	-0,10	0,03		BE	-0,65	0,01	NIKKEI	30156,03	138,11
UK	0,70	0,08		UK	-0,01	0,03	DAX	13993,23	106,30
JP	0,12	0,01		JP	-0,11	0,00	DJ euro-50	3713,46	32,42
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,46	0,32	0,31	Eonia	-0,4770	0,0000			
5y	-0,33	0,71	0,53	Euribor-1	-0,5530	-0,0050	Libor-1	0,1155	0,0044
10y	0,02	1,42	0,91	Euribor-3	-0,5430	0,0000	Libor-3	0,1753	-0,0071
				Euribor-6	-0,5170	0,0010	Libor-6	0,1950	-0,0019
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,2119	0,0027		EUR/JPY	127,79	-0,02	CRB	188,62	-0,05
USD/JPY	105,45	-0,24		EUR/GBP	0,8650	-0,0003	Gold	1777,40	2,40
GBP/USD	1,4016	0,0041		EUR/CHF	1,0863	0,0029	Brent	62,91	-1,02
AUD/USD	0,7869	0,0101		EUR/SEK	10,0276	-0,0215			
USD/CAD	1,2615	-0,0064		EUR/NOK	10,2635	0,0302			

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