

Sunrise

Tuesday, 23 February 2021

KBC Sunrise Market Commentary

Markets

- Yesterday in Asia, the reflation trade simply continued with commodities and yields succeeding another leap higher. However, gradually the rise in commodity prices and yields became a source of uncertainty. **(Parts of the) reflationary dynamics hit a roadblock early in European dealings.** A better German IFO business confidence wasn't enough to restore reflationary spirits. Yields and equities nosedived. In the afternoon, **short-covering on European bonds even accelerated** as ECB President Lagarde said the **ECB is closely monitoring the evolution of long term government bond yields.** An outright verbal intervention toward (European) bond markets. Question remains how well the ECB is equipped to fight this global trend. German LT yields at some point lost up to 5/6 bp, but closed with yields between 0.5 bp (2-y) and 4.6 bp (30-y) lower. Treasuries temporarily joined the rally of EMU bonds, but later returned a big part of those gains. In the end, US yields rose between 0.6 bp (2-y) and 4.0 bp (30-y). **Equities** traded **skittish throughout the session.** European equities reversed part of the initial losses losing less than 0.5%. The tech heavy Nasdaq lost 2.25%. The Dow closed little changed. FX markets again moved a bit contra-intuitive given the developments on other markets. **A sharply widening US-euro interest rate differential & shaky equity markets didn't help the dollar.** EUR/USD even gained compared to Friday's close (1.2157 vs 1.2119). USD/JPY also tumbles from the mid 105 area to close at 105.08. Sterling kept recent outperformance as UK PM Johnson revealed an albeit gradual path to normalization (EUR/GBP close at 0.8644, cable close at 1.4086)
- Reflationary momentum** some kind of returns in Asia, despite a fragile sentiment on WS. **Broad-based commodity strength is catching the eye** with not only the likes of copper and oil (Brent \$66 p/b), but also several soft commodities near multi-month (or even multi-year) peaks. **This inflationary narrative continues to weigh on the dollar.** The DXY USD index dropped below the 90.12/05 support. Core yields show no clear trend yet (Japanese markets closed). Other Asian equities are trading mixed with the commodity sensitive indices (Australia) outperforming. AUD/USD is holding north of 0.79, touching the strongest level in three year.
- The calendar contains US consumer confidence (Conference Board), final EMU CPI and a US 2-y auction (\$60bln). However, the focus will be on Fed Powell's semi-annual testimony before the Senate. It is probably too early for the Fed Chair to change its narrative on prolonged policy stimulus via low yields and asset purchases. Even in case of a soft Powell message, the risk is for rising inflationary dynamics to keep yields under upward pressure. As is the case for ECB's Lagarde, it will probably won't be easy for the Fed to fight current trends without committing new money, which is unlikely. Markets will also look out for **questions on asset market valuations.** On EMU bond markets, we look out how long the correction on Lagarde's verbal interventions lasts. We don't consider it a gamechanger. The USD picture is also turning fragile. An EUR/USD break north of 1.2190 would call off the better USD momentum. The EUR/GBP downtrend persist, but the pace slows. Will the 0.8621 support provide a pause for the sterling rally?

News Headlines

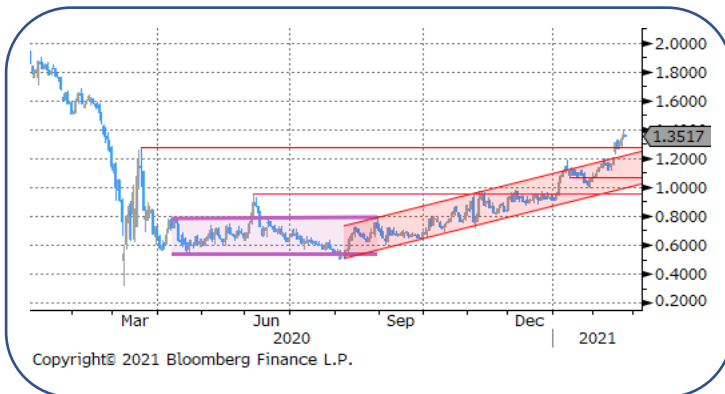
- USD/BRL tested 5.5 resistance** yesterday **on genuine Brazilian real weakness.** The move came after President Bolsonaro unexpectedly replaced the head of the state-controlled oil company Petroleo Brasileiro after a feud over fuel prices. **Bolsonaro** afterwards **threatened to replace other parts of his administration that may not be working well.** Bolsonaro represented market-friendly policies at first, but is more and more turning into the sort of Brazilian interventionist leader. The Bovespa stock market eventually closed 5% lower.
- Greek tourism minister Theocharis urged EU countries to move more quickly on the issue of vaccine passports** which would allow leisure and business travelers to cross international borders once being inoculated. Greece and other Southern countries can't just let another tourist season go bust. The issue will be topic of debate at the Feb 25-26 EU Summit. Germany, France and other northern countries are reluctant over fears of public anger from those at the back of vaccination queue.

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.**



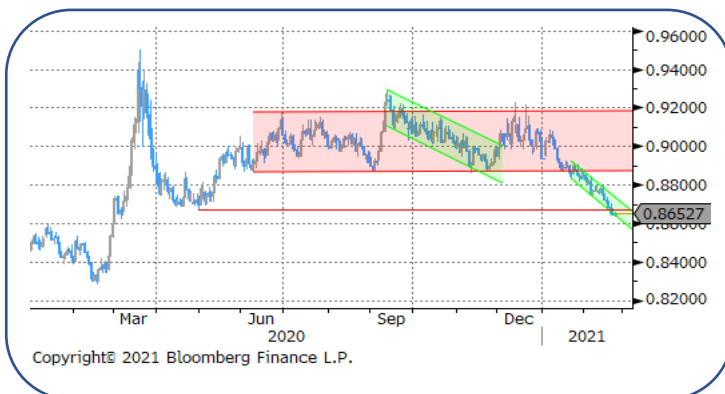
US 10y yield

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 1.2011 eventually held following an extensive test. A rebreak above 1.2190 would again improve the ST EUR/USD picture



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. 0.8621 is next reference.

Calendar & Table

Tuesday, 23 February		Consensus	Previous
US			
15:00	House Price Purchase Index QoQ (4Q)	--	3.10%
15:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Dec)	1.20%/9.90%	1.42%/9.08%
16:00	Conf. Board Consumer Confidence (Feb)	90	89.3
16:00	Conf. Board Present Situation (Feb)	--	84.4
16:00	Conf. Board Expectations (Feb)	--	92.5
16:00	Richmond Fed Manufact. Index (Feb)	16	14
UK			
08:00	Claimant Count Rate (Jan)	--	7.40%
08:00	Jobless Claims Change (Jan)	--	7.0k
08:00	Average Weekly Earnings 3M/YoY (Dec)	4.10%	3.60%
08:00	Weekly Earnings ex Bonus 3M/YoY (Dec)	4.00%	3.60%
08:00	ILO Unemployment Rate 3Mths (Dec)	5.10%	5.00%
08:00	Employment Change 3M/3M (Dec)	-30k	-88k
12:00	CBI Retailing Reported Sales (Feb)	-40	-50
12:00	CBI Total Dist. Reported Sales (Feb)	--	-44
EMU			
11:00	CPI MoM/YoY (Jan F)	-0.20%/0.90%	0.20%/-0.30%
11:00	CPI Core YoY (Jan F)	1.40%	1.40%
Italy			
10:00	Industrial Orders MoM/NSA YoY (Dec)	--/--	-1.30%/5.30%
Hungary			
14:00	Central Bank Rate Decision	--	0.60%
14:00	Overnight Deposit Rate	--	-0.05%
Sweden			
09:30	Unemployment Rate SA (Jan)	8.90%	--
Events			
16:00	Powell To Deliver Semi-Annual Monetary Policy Report		
19:00	US to Sell USD60 Bln 2-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d		
US	1,37	0,03	US	0,11	0,01	DOW	31521,69	27,37		
DE	-0,34	-0,03	DE	-0,69	-0,01	NASDAQ	13533,05	-341,41		
BE	-0,14	-0,04	BE	-0,65	0,00	NIKKEI	30156,03	0,00		
UK	0,68	-0,02	UK	0,04	0,05	DAX	13950,04	-43,19		
JP	0,13	0,00	JP	-0,10	0,00	DJ euro-50	3699,85	-13,61		
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d	
3y	-0,46	0,34	0,31	Eonia	-0,4780	0,0000	Libor-1	0,1155	0,0000	
5y	-0,35	0,73	0,52	Euribor-1	-0,5500	0,0030	Libor-3	0,1753	0,0000	
10y	-0,01	1,45	0,89	Euribor-3	-0,5430	0,0000	Libor-6	0,1950	0,0000	
Currencies			Close	-1d	Currencies			Close	-1d	
EUR/USD	1,2157	0,0038	EUR/JPY	127,74	-0,05	Commodities			Close	-1d
USD/JPY	105,08	-0,37	EUR/GBP	0,8644	-0,0006	CRB	192,62	4,00		
GBP/USD	1,4063	0,0047	EUR/CHF	1,0894	0,0032	Gold	1808,40	31,00		
AUD/USD	0,7916	0,0047	EUR/SEK	10,0462	0,0186	Brent	65,24	2,33		
USD/CAD	1,2615	0,0000	EUR/NOK	10,3237	0,0602					

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