

Sunrise

Tuesday, 02 March 2021

KBC Sunrise Market Commentary

Markets

- The violent moves on bond markets subsided and brought back calm to equity markets yesterday. European stocks rose about 2% while gains for the US mounted to 3% for the tech-heavy Nasdaq. **Commodity markets, usually also a beneficiary of investor optimism, failed to profit however.** Oil slipped (as it eyes the OPEC+ meeting on Thursday?) as did the likes of copper. Core bonds parted ways. The US yield curve steepened with the **belly outperforming** heavily and yields rising up to 3.9 bps at the long end, helped higher by a **stronger-than-expected US manufacturing ISM**. The 10-yr yield tested the 1.44/45% resistance area but failed to push through. Bunds jumped, partially in a catch-up move with USTs on Friday. **ECB's Villeroy comments, saying the central bank "can and must" react to any unwarranted rise of bond yields** that threaten the recovery also supported the daily boost. German yields declined 2.4 bps (2-yr) over 6.1 bps (5-yr) to 7.4 bps (10-yr). The dollar strengthened with the bulk of the move occurring in early European dealings. EUR/USD finished near 1.205, down from 1.2075. DXY ended north of 91 for the first time since early February. USD/JPY gained for a fifth day straight to 106.76. Sterling started off lower vs. the euro after talk of a corporate tax hike but found its composure soon. EUR/GBP eventually closed lower at 0.865.
- Asian-Pacific markets trade mixed despite a strong performance on WS yesterday. China underperforms after the **banking regulator warned for bubbles in overseas financial markets and in its own property sector**. The comments fuel talk of (monetary) tightening. USD/CNY is trading little changed in its 2021 narrow sideways trading range. The RBA (cf. infra) kept policy steady and vows to continue to buy bonds if needed. Australia's 10-yr yield rises 5 bps nevertheless. The Aussie dollar is little affected. The US dollar in general trades solid this morning. EUR/USD declines to 1.2025 after having come close to crucial support at 1.2011. Core bonds trade directionless.
- Today's economic calendar eyes meagre. Inflation in the euro zone is due. Readings in Germany yesterday suggested not to expect any major surprises for February however. **Overall sentiment remains the key driver.** Markets might hold a cautious approach today after yesterday's strong (equity) performance and in the run-up to key events later this week (services ISM, ADP, payrolls, Powell speech). This in theory supports core bonds. **We watch German 10y yield support near -0.34% closely.** EUR/USD is suffering from an overall stronger dollar although there is euro weakness at play as well. ECB governors including Schnabel and Villeroy recently highlighted the possibility of lower deposit rates. **Support at 1.2011 has to hold for the technical picture not to turn euro-negative.** Sterling holds on to yesterday's gains but might take a breather today as it awaits the new budget by the UK finance minister.

News Headlines

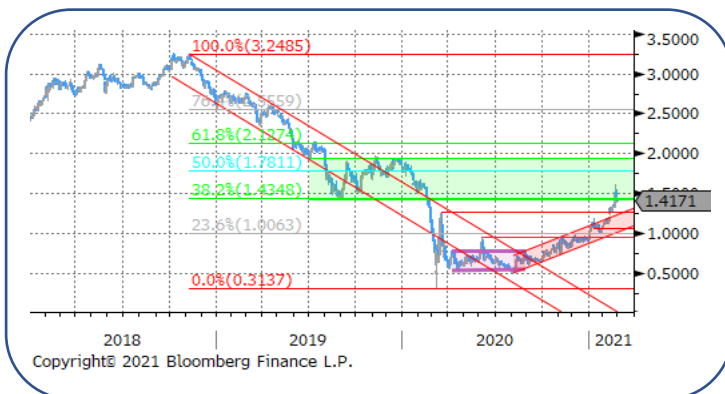
- **The reserve bank of Australia kept current policy settings**, including the 0.10% cash rate and the 0.10% 3-yr yield target as well as the parameters of the Term Funding Facility and the government bond purchase program. The **recovery has been stronger than expected** (3.5% growth is expected for this and next year). However, wage and price pressures are subdued as the economy is still operating with considerable spare capacity. Unemployment rate also remains higher than it has been for some years, leading the RBA to reconfirm its supportive monetary policy stance. In this respect, the **RBA explicitly mentioned that the bank can buy additional bonds to keep the 3-year rate target and bring forward bond purchases under the asset purchase program as it did of late.** On the Aussie dollar, the RBA mentioned that the currency remains in the upper end of the range of recent years.
- **The South Korean government is preparing an extra budget worth 15 trillion won** as additional support is needed for small businesses and to protect jobs as the new wave in the corona virus caused the government to prolong measures of social distancing. The measure would raise government spending to a record 573 trillion in 2021. As revenue is expected to grow only marginally, the **debt-to-GDP ratio is expected to rise to 48.2% this year from 43.9% last year.**

Graphs



GE 10y yield

German 10-yr yield left H2 2020 downward sloping channel, breaking above the 62% retracement on that move (-0.34%) and now eyeing the 76% retracement. The start of vaccinations and brighter economic prospects suggest higher yields longer term. **This prospect currently outweighs lockdown measures and ample central bank liquidity.**



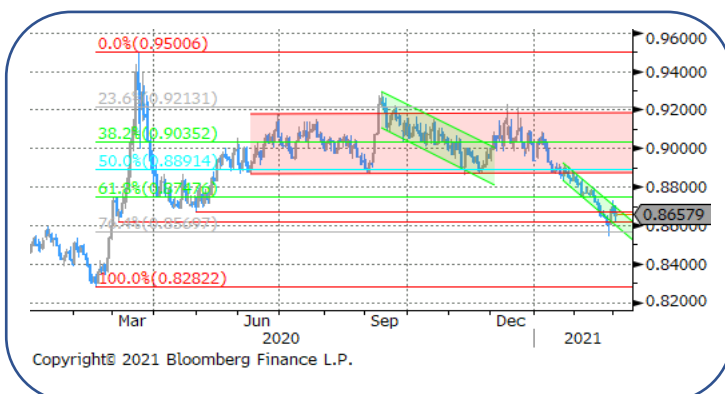
US 10y yield

Reflationary spirits push US 10-yr yield above the March liquidity squeeze top (1.27%). Next important resistance lies around 1.43% (2019 low & 38% retracement of 2018/2020 decline). Real yields are now the main driver supporting the uptrend.



EUR/USD

EUR/USD leaves the short-term upward trend channel on a solid dollar as well as a touch of euro weakness amid divergence in central bank views on higher yields. **1.2011 support has to hold for the technical picture not to turn euro negative.** A break above 1.2190 is needed to improve the EUR/USD picture and call off the downside alert.



EUR/GBP

Short and long term economic fundamentals warrant a soft UK currency, but the **UK taking the lead in vaccinations and possibly in the reopening the economy, supports the UK currency short term.** The close below 0.8670 improved the ST picture for sterling. Next reference situations near 0.8570.

Calendar & Table

| Tuesday, 2 March | | Consensus | Previous |
|------------------|--|----------------|----------------|
| Canada | | | |
| 14:30 | Quarterly GDP Annualized (4Q) | 7.30% | 40.50% |
| Japan | | | |
| 00:30 | Jobless Rate (Jan) | 2.90%A | 3.00%R |
| 00:50 | Capital Spending Ex Software YoY (4Q) | -4.80%A | -11.60% |
| 00:50 | Company Profits/Sales YoY (4Q) | -0.70%A/-4.5%A | -28.4%/-11.50% |
| 00:50 | Monetary Base YoY (Feb) | 19.60%A | 18.90% |
| UK | | | |
| 08:00 | Nationwide House PX MoM/NSA YoY (Feb) | -0.30%/5.60% | -0.30%/6.40% |
| EMU | | | |
| 11:00 | CPI MoM/YoY (Feb P) | 0.20%/1.10% | 0.20%/0.90% |
| 11:00 | CPI Core YoY (Feb P) | 0.90% | 1.40% |
| Germany | | | |
| 09:55 | Unemployment Change (000's) (Feb) | -10.0k | -41.0k |
| 09:55 | Unemployment Claims Rate SA (Feb) | 6.00% | 6.00% |
| Australia | | | |
| 04:30 | RBA Cash Rate/3-Yr Yield Target | 0.10%/0.10% | 0.10%/0.10% |
| Events | | | |
| 14:40 | ECB's Panetta Speaks in Webinar | | |
| 19:00 | Fed's Brainard Discusses Economic Outlook | | |
| 20:00 | Fed's Daly Speaks to Economic Club of new York | | |

| 10-year | Close | -1d | 2-year | Close | -1d | Stocks | Close | -1d | |
|------------|--------|---------|------------|-----------|---------|-------------|----------|---------|--------|
| US | 1.42 | 0.01 | US | 0.12 | -0.01 | DOW | 31535.51 | 603.14 | |
| DE | -0.33 | -0.07 | DE | -0.69 | -0.02 | NASDAQ | 13588.83 | 396.48 | |
| BE | -0.15 | -0.09 | BE | -0.67 | -0.02 | NIKKEI | 29408.17 | -255.33 | |
| UK | 0.76 | -0.06 | UK | 0.10 | -0.03 | DAX | 14012.82 | 226.53 | |
| JP | 0.13 | -0.03 | JP | -0.12 | 0.00 | DJ euro-50 | 3706.62 | 70.18 | |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | -0.45 | 0.38 | 0.38 | Eonia | -0.4810 | 0.0000 | Libor-1 | 0.1185 | 0.0000 |
| 5y | -0.35 | 0.81 | 0.61 | Euribor-1 | -0.5530 | -0.0060 | Libor-3 | 0.1884 | 0.0000 |
| 10y | -0.03 | 1.50 | 0.95 | Euribor-3 | -0.5330 | -0.0030 | Libor-6 | 0.2030 | 0.0000 |
| | | | | | | | | | |
| | | | | | | | | | |
| Currencies | Close | -1d | Currencies | Close | -1d | Commodities | Close | -1d | |
| EUR/USD | 1.2049 | -0.0026 | EUR/JPY | 128.64 | -0.03 | CRB | 189.37 | -1.06 | |
| USD/JPY | 106.76 | 0.19 | EUR/GBP | 0.8653 | -0.0018 | Gold | 1723.00 | -5.80 | |
| GBP/USD | 1.3925 | -0.0008 | EUR/CHF | 1.1026 | 0.0054 | Brent | 63.69 | -0.73 | |
| AUD/USD | 0.7772 | 0.0066 | EUR/SEK | 10.1523 | -0.0344 | | | | |
| USD/CAD | 1.2646 | -0.0092 | EUR/NOK | 10.3121 | -0.1515 | | | | |

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