



Sunrise

Wednesday, 07 April 2021

## KBC Sunrise Market Commentary

### Markets

- The action occurred on FX markets yesterday** with the single currency throwing off the shackles and rebounding against both the dollar and sterling. We must admit though that **more than genuine euro strength, we were probably dealing with corrective action on both dollar and sterling strength**. First signs of dollar fatigue came as very strong US eco data failed to reignite the reflation trade and with details of Biden's infrastructure plan now in the open. **EUR/USD broke through minor resistance at 1.1836 before closing near 1.1870**. The next, and more important hurdle is EUR 1.1950 (38% retracement on this year's slide). Taking out that level (and regaining the 1.20 handle) would improve the technical picture of the euro to "neutral". On a trade-weighted basis, the greenback closed at 0.9233, the softest level since mid-March. Even USD/JPY finished lower yesterday, below 110. Sterling had a similar splendid run against the euro this year, thanks to the lead in the vaccination process and to the reversal of some lockdown measures. A buy-the-rumour, sell-the-fact effect could be at play at the start of the fresh quarter with promised moves going into effect. **EUR/GBP fell prey to a mild short squeeze, sending the pair to a 0.8590 close, coming from an open near 0.89**.
- The slowdown of the reflation story showed on bond markets as well** with US Treasuries eking out some additional gains and **outperforming German Bunds**. US yields declined by 1 bp (2-yr) to 5.2 bps (7-yr) with the belly of the curve significantly outperforming the wings. German yields added around 1 bp across the curve. Peripheral yield spreads vs Germany widened by 2 bps to 5 bps with Italy underperforming. European stock markets made a catch-up move with the US, gaining 0.5% to 1% while US indices trade more lacklustre, ending slightly down on the day. **Eco data and events didn't play any role of importance. US JOLTS job openings** surged to the highest level since early 2019 in a sign that the labour market recovery still has quite some way to go. **The IMF upgraded global forecasts** for this year (6% from 5.5%) and next (4.4% from 4.2%), but that didn't really come as a surprise.
- Today's eco calendar remains **fairly thin with FOMC Minutes and speeches by several Fed-governors** worth mentioning. **Recent market moves eased pressure on the US central bank's laissez-faire approach**. While we remain **longer term proponents of higher long term bond yields**, we admit the current loss of momentum. From a technical point of view, **corrections on FI and FX markets can easily run somewhat further**, especially in current, thin, trading conditions.

### News Headlines

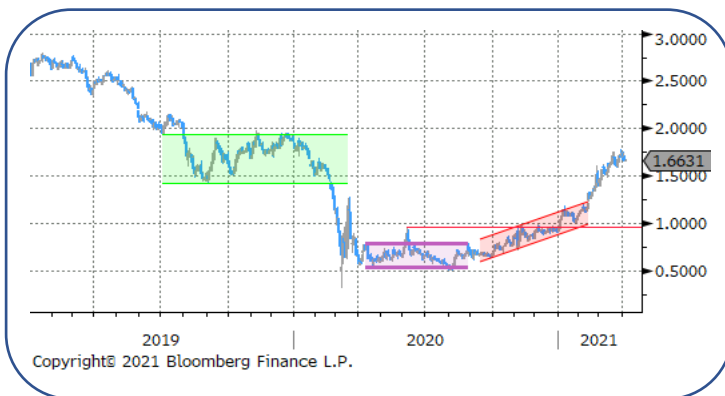
- Japanese PM Suga said he could call for snap elections before his term as head of the Liberal Democratic Party ends in September**, Asahi newspaper reported. Suga took over the helmet from Shinzo Abe, who resigned last year citing health reasons. The last regular elections took place in 2017 and the next one isn't due until October this year.
- The Reserve Bank of India kept interest rates unchanged at a record-low 4% this morning**. Facing headwinds from a second wave of the coronavirus, the RBI should remain accommodative, governor Das said, even though **underlying CPI measures are testing the upper bound of the 2%-6% inflation target**. The central bank also announced **a 1tn rupee bond buying programme as well as extended a TLTRO liquidity scheme with 6 months**. The Indian rupee slipped to USD/INR 73.8. An spike in bond yields in the run-up to the meeting is more than reversed.
- The UK will start rolling out the Moderna vaccine for the first time to residents in west Wales from Wednesday**. UK's government ordered some 17m doses of the shot. The news comes after growing concerns around a possible link between the AstraZeneca vaccine and blood clots. Its manufacturer has paused its trial on children aged 6-17 as the British health agency MHRA is still investigating the matter of blood clotting in adult patients.

# Graphs



## GE 10y yield

**German 10-yr yield steadies roughly between -0.40% and -0.20% since early March.** Mass immunity and brighter economic prospects suggest higher yields longer term. **Tighter lockdown measures and ample central bank liquidity take market narrative hostage short term.**



## US 10y yield

**US 10-yr yield** accelerated out of mildly upward sloping trend channel as US real yields started catching up with inflation expectations. **Current reflation pause is probably only temporary with 2% area next resistance.**



## EUR/USD

**EUR/USD's downward trend channel remains in place.** Dollar no longer profited from stronger US eco data. **Sufficient euro negative and dollar positive news discounted in the short run? Rebreak of 1.20-area necessary to improve technical picture for euro.**



## EUR/GBP

**Similar dynamics are at play as in EUR/USD** with the combination of a softer euro and a stronger pound accelerating this year's EUR/GBP slide. First signs that vaccination lead and reopening of economy are discounted in UK currency?

# Calendar & Table

Wednesday, 7 April		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-2.20%
14:30	Trade Balance (Feb)	-\$70.5b	-\$68.2b
20:00	<b>FOMC Meeting Minutes</b>		
21:00	Consumer Credit (Feb)	\$2.800b	-\$1.315b
<b>UK</b>			
08:00	Official Reserves Changes (Mar)	--	-\$1070m
10:30	Markit/CIPS UK Services PMI (Mar F)	56.8	56.8
10:30	Markit/CIPS UK Composite PMI (Mar F)	56.6	56.6
<b>EMU</b>			
10:00	Markit Eurozone Services PMI (Mar F)	48.8	48.8
10:00	Markit Eurozone Composite PMI (Mar F)	52.5	52.5
<b>Events</b>			
07APR	G20 Finance Ministers and Central Bank governors Meet		
11:30	Germany to Sell 4 Billion Pounds of 2026 Bonds		
15:00	<b>Fed's Evans Discusses Economic Outlook</b>		
17:00	Fed's Kaplan Takes Part in Panel Discussion		
18:00	<b>Fed's Barkin Discusses Monetary Policy and the Economy</b>		
19:00	<b>Fed's Daly Discusses US Economic Outlook</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.66	-0.04	US	0.16	-0.01	DOW	33430.24	-96.95	
DE	-0.32	0.01	DE	-0.70	0.01	NASDAQ	13698.38	-7.21	
BE	0.00	0.02	BE	-0.66	0.01	NIKKEI	29730.79	34.16	
UK	0.80	0.00	UK	0.08	0.00	DAX	15212.68	105.51	
JP	0.10	-0.02	JP	-0.12	0.00	DJ euro-50	3970.42	24.46	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.47	0.50	0.43	Eonia	-0.4810	0.0000	Libor-1	0.1104	0.0000
5y	-0.34	1.00	0.68	Euribor-1	-0.5500	0.0010	Libor-3	0.1998	0.0000
10y	0.04	1.69	1.02	Euribor-3	-0.5380	0.0000	Libor-6	0.2013	0.0000
				Euribor-6	-0.5170	-0.0050			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1876	0.0063	EUR/JPY	130.32	0.18	CRB	185.84	1.76	
USD/JPY	109.75	-0.43	EUR/GBP	0.8591	0.0095	Gold	1743.00	14.20	
GBP/USD	1.3824	-0.0076	EUR/CHF	1.1055	-0.0007	Brent	62.74	0.59	
AUD/USD	0.7664	0.0013	EUR/SEK	10.2305	-0.0497				
USD/CAD	1.2566	0.0041	EUR/NOK	10.077	0.0307				

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