



Sunrise

Thursday, 08 April 2021

KBC Sunrise Market Commentary

Markets

- Minutes of the previous FOMC meeting showed that participants think that **it would likely be some time until substantial further progress toward the committee's maximum-employment and price-stability goals would be realised** and that, consistent with the committee's outcome-based guidance, **asset purchases would continue at least at the current pace (\$120bn/month) until then**. They strengthen the central bank's current laissez-faire approach. **Risks to the eco outlook remain tilted to the downside** because of the uncertain course of the pandemic, while **risks to the inflation outlook are broadly balanced**. FOMC members concluded that **financial conditions remain highly accommodative** despite the rise in longer term yields, which reflect the improved economic outlook, some firming in inflation expectations and expectations for increased Treasury debt issuance. The release of the Minutes didn't hamper the intraday comeback of US yields and the dollar going into the closing bell. We raise attention to one more part of the Minutes where Fed Chair Powell noted that it **might be appropriate to adjust the interest rate on excessive reserves (IOER), the amount the Fed pays on its facility for overnight reverse repo's or both** to stem recent downward pressure. Such move could even occur in between regularly scheduled meetings. The continued expansion of the Fed's balance sheet triggered a modest softening of the effective Fed funds rate (0.07% currently) while pulling rates on US bills or repo rates to or even below zero. In a first move to support the very short end of the US curve, **the Fed increased the daily counterparty limit on its overnight reverse repo facility to \$80bn/day from \$30bn/day**.
- Today's eco calendar remains extremely thin** with only Minutes of the ECB meeting and weekly US jobless claims. The ECB in March split ways with the Fed on how to handle rising longer term bond yields. The European Central Bank decided to frontload emergency bond purchases (PEPP). Dutch governor Knot yesterday indicated that the central bank in Q3 could already switch course again. Minutes could confirm that flexibility. **In absence of strong drivers, we are keen to see how much more short term potential the euro has**. EUR/USD's rebound already faced difficulties in the 1.19-zone as the greenback strengthened its back. EUR/GBP's momentum triggered a test of first resistance at EUR/GBP 0.8646 but a break higher didn't occur. Core bond yields erased an early dip to end near unchanged both in Europe and the US. Both moves on FI and FX markets for now show that **reflationary dynamics only allow for small corrections**. Italian underperformance on bond markets remained related to the €5bn sale of a new 50-yr BTP where they offered some price concession.

News Headlines

- The Polish central bank yesterday kept rates steady at 0.10% and will continue to buy government securities.** Policy remains easy to support an economy that is facing renewed headwinds from tightening restrictions in Poland and abroad. **Inflation** rose and will remain elevated in coming months. However, its **drivers are seen as temporary**. The NBP **remains committed to intervene in the FX market** to strengthen the impact of monetary policy but struck a **more neutral tone with respect to the zloty's current level**. The zloty rallied to EUR/PLN 4.57 (from 4.59) though the bulk of the move came in the run-up to the meeting and in lockstep with a broader CE FX bull run.
- Germany's Merkel is planning a law that would allow the federal government to impose restrictions** on areas struck hard by the pandemic, newspaper Bild reported. The move comes after seeing what she described last month as "broken commitments" from the 16 state leaders to take measures in curbing the Covid spread.
- US president Biden is open to negotiations on his 8-year \$2tn infrastructure bill and the way to fund it**, he said yesterday. The proposed \$2.5tn increase in corporate taxes over the next 15 years is facing a backlash from businesses, Republicans and moderate Democrats. Funding measures include raising the corporate tax rate to 28%.

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 deflation 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

Thursday, 8 April		Consensus	Previous
US			
14:30	Initial Jobless Claims	680k	719k
14:30	Continuing Claims	3638k	3794k
15:45	Langer Consumer Comfort	--	50.0
Japan			
01:50	BoP Current Account Adjusted (Feb)	¥1794.37bA	¥1497.4bA
07:00	Consumer Confidence Index (Mar)	--	33.8
08:00	Eco Watchers Survey Current SA (Mar)	--	41.3
08:00	Eco Watchers Survey Outlook SA (Mar)	--	51.3
UK			
01:01	RICS House Price Balance (Mar)	59%A	52%
10:30	Markit/CIPS UK Construction PMI (Mar)	55.0	53.3
EMU			
11:00	PPI MoM/Yoy (Feb)	0.60%/1.30%	1.40%/0.00%
Germany			
08:00	Factory Orders MoM/WDA YoY (Feb)	1.20%/5.30%	1.40%/2.50%
09:30	Markit Germany Construction PMI (Mar)	--	41
Events			
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
13:30	ECB Publishes Account of Its March 10-11 Policy Meeting		
17:00	Fed's Bullard Discusses Economy and Monetary Policy		
18:00	Powell Takes Part in IMF Panel on Global Economy		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	1.67	0.02		US	0.15	0.00	DOW	33446.26	16.02
DE	-0.32	-0.01		DE	-0.70	0.00	NASDAQ	13688.84	-9.54
BE	0.00	-0.01		BE	-0.67	0.00	NIKKEI	29708.98	-21.81
UK	0.77	-0.02		UK	0.06	-0.01	DAX	15176.36	-36.32
JP	0.10	0.00		JP	-0.13	-0.01	DJ euro-50	3956.77	-13.65
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	-0.47	0.49	0.43	Eonia	-0.4820	0.0000			
5y	-0.34	0.99	0.67	Euribor-1	-0.5530	-0.0030	Libor-1	0.1101	0.0000
10y	0.03	1.71	1.01	Euribor-3	-0.5430	-0.0050	Libor-3	0.1974	0.0000
				Euribor-6	-0.5170	0.0000	Libor-6	0.2010	0.0000
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1868	-0.0008		EUR/JPY	130.39	0.07	CRB	186.31	0.47
USD/JPY	109.85	0.10		EUR/GBP	0.8640	0.0049	Gold	1741.60	-1.40
GBP/USD	1.3737	-0.0087		EUR/CHF	1.1034	-0.0021	Brent	63.16	0.42
AUD/USD	0.7614	-0.0050		EUR/SEK	10.2379	0.0074			
USD/CAD	1.2609	0.0043		EUR/NOK	10.0539	-0.0231			

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