

Friday, 09 April 2021

KBC Sunrise Market Commentary

Markets

- "I really want to finish the job and get back to a great economy". Fed chair Powell stressed the uneven economic recovery during a virtual IMF panel to stick as long as necessary to the US central bank's very accommodative monetary policy stance.* Last month's payrolls showed that a >8 million gap remains between American working ahead of the pandemic and Americans at work now. *"We will not forget those people and we'll provide the economy the support that it needs until that job is done".* Powell again *easily set aside fears that such policy stance will work extremely inflationary* especially in combination with the US government's huge fiscal effort. The Fed Chair's message *added even more strength to the dovish message* sent out by regional Fed governors and FOMC Minutes recently and *extended the reflationary ceasefire.* *US Treasuries prolonged this week's outperformance* against German Bunds. US yields shed 0.4 bps (2-yr) to 7.2 bps (20-yr). The curve thus bull flattened compared to the outperformance of the belly earlier this week. From a technical point of view, *1.58% is first support for the US 10-yr yield.* It's the neckline of a possible double top formation (final target 1.39%). A break lower would also end this year's accelerated yield increase and turn the technical picture more neutral. Daily changes on the German yield curve remained again constraint to -1 bp across the curve. 10-yr yield spreads vs Germany ended virtually unchanged with Greece and Italy (-2 bps) slightly outperforming. *Stock markets thrived* with main European and US indices ending 0.5% to 1% higher.
- This month's dollar slide continued in the calm market context where only Powell's dovish message echoed.* The trade-weighted greenback touched 92 for the first time since March 23. That's first support, *being 38% retracement of the Feb-Mar USD rebound.* A break lower would be significant and pave the way to the low 91-area. EUR/USD managed a close above 1.19, but *38% retracement of the Jan/Mar stands at 1.1950 and isn't threatened yet.* USD/JPY closed at 109.26 from an 109.85 open. EUR/GBP 0.8645 resistance initially held even after *NIRP comments by BoE Tenreyro*, but eventually gave away during US dealings. EUR/GBP closed at 0.8675. The move higher has further to go from a technical point of view with next resistance kicking in around 0.8750. *Today's eco calendar again won't be a game-changer* with only US PPI data scheduled for release. It will be interesting *to see how strong the reflation correction remains* with FI and FX markets arriving at first important technical levels.

News Headlines

- The US Treasury still plans to gradually reduce its cash balance* as outlined at the last quarterly refunding despite the cash pile at the end of March being even higher than assumed, UST deputy assistant Smith confirmed. He added that they are *"highly attentive" to how cash balance decisions affect money market conditions.* US money markets are on the verge of turning negative due to liquidity gushing through the system. This could prompt action by the US central bank, earlier published Fed minutes suggested.
- Clashes between Irish nationalists and unionists continued* on Thursday night despite appeals by the Northern Ireland's power-sharing government. A week of violence has been the worst in years and is seen as a result of Brexit. The Northern Ireland Protocol introduced a border in the Irish Sea for checks on goods entering the Irish isle coming from the British mainland. This came as *a blow to unionists who were promised no such thing by PM Johnson.*
- France will only gradually shore up it's pandemic-struck public finances*, avoiding austerity that would hurt economic growth, a long-term fiscal plan showed. *The budget deficit won't decline below 3% until 2027.* France plans to keep taxes unchanged and will limit annual spending increases to 0.7% on average over the course of the plan. To meet the targets, structural reforms including a pension system overhaul is needed, a government official explained.

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.



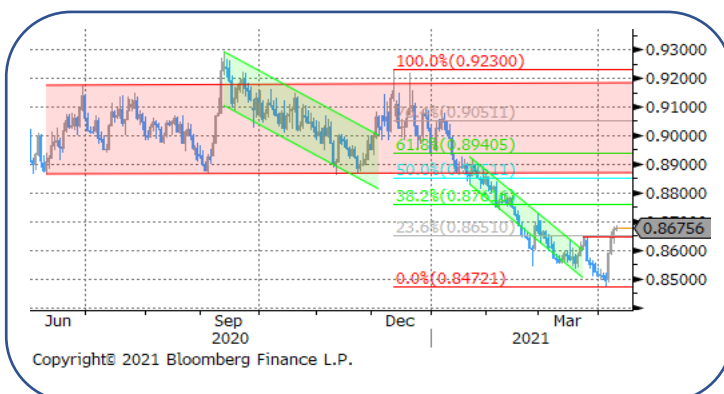
US 10y yield

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. US 10y yield 1.58% is first support.



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 1.1950/1.20-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 after move above EUR/GBP 0.8645?

Calendar & Table

Friday, 9 April		Consensus	Previous
US			
14:30	PPI Final Demand MoM/YoY (Mar)	0.50%/3.80%	0.50%/2.80%
14:30	PPI Ex Food and Energy MoM/YoY (Mar)	0.20%/2.70%	0.20%/2.50%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Mar)	0.20%/2.70%	0.20%/2.20%
16:00	Wholesale Trade Sales MoM (Feb)	--	4.90%
Canada			
14:30	Full Time Employment Change (Mar)	100k	88.2
14:30	Net Change in Employment (Mar)	--	259.2k
14:30	Part Time Employment Change (Mar)	--	171
14:30	Unemployment Rate (Mar)	8%	8.20%
14:30	Participation Rate (Mar)	64.80%	64.70%
14:30	Hourly Wage Rate Permanent Employees YoY (Mar)	--	4.30%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Feb)	1.50%/-2.30%	-2.50%/-3.90%
08:00	Trade Balance (Feb)	20.3b	13.8bR
08:00	Exports/Imports SA MoM (Feb)	1.00%/2.10%	1.40%/-4.70%
08:00	Current Account Balance (Feb)	21.3b	16.9b
France			
08:45	Industrial Production MoM/YoY (Feb)	0.50%/-1.20%	3.30%/-0.20%
08:45	Manufacturing Production MoM/YoY (Feb)	1.00%/--	3.30%/-1.00%
Italy			
10:00	Retail Sales MoM/YoY (Feb)	2.00%/-6.00%	-3.00%/-6.80%
China			
03:30	CPI YoY (Mar)	0.40%A	-0.20%
03:30	PPI YoY (Mar)	4.40%A	1.70%
09APR-15APR	Money Supply M2 YoY (Mar)	9.50%	10.10%
Hungary			
09:00	Retail Sales YoY (Feb)	-2.20%	-1.80%
09:00	CPI MoM/YoY (Mar)	0.80%/3.70%	0.70%/3.10%
Norway			
08:00	CPI MoM/YoY (Mar)	0.40%/3.40%	0.70%/3.30%
08:00	CPI Underlying MoM/YoY (Mar)	0.20%/2.70%	0.40%/2.70%
08:00	PPI including Oil MoM/YoY (Mar)	--/--	5.40%/9.70%
Events			
09-11APR	IMF and World Bank hold Spring Meeting		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.62	-0.05		US	0.15	0.00	DOW	33503.57	57.31
DE	-0.34	-0.01		DE	-0.71	-0.01	NASDAQ	13829.31	140.47
BE	-0.01	-0.01		BE	-0.68	-0.01	NIKKEI	29768.06	59.08
UK	0.75	-0.02		UK	0.05	-0.02	DAX	15202.68	26.32
JP	0.11	0.01		JP	-0.12	0.00	DJ euro-50	3977.83	21.06
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.48	0.47	0.42	Eonia	-0.4820	0.0000			
5y	-0.35	0.95	0.65	Euribor-1	-0.5560	-0.0030	Libor-1	0.1125	0.0000
10y	0.02	1.65	0.98	Euribor-3	-0.5450	-0.0020	Libor-3	0.1936	0.0000
				Euribor-6	-0.5180	-0.0010	Libor-6	0.2100	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1914	0.0046		EUR/JPY	130.18	-0.21	CRB	187.37	1.06
USD/JPY	109.26	-0.59		EUR/GBP	0.8675	0.0035	Gold	1758.20	16.60
GBP/USD	1.3735	-0.0002		EUR/CHF	1.1015	-0.0018	Brent	63.20	0.04
AUD/USD	0.7653	0.0039		EUR/SEK	10.1787	-0.0592			
USD/CAD	1.2562	-0.0047		EUR/NOK	10.078	0.0241			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
KBC Economics – Markets Dublin		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
CSOB Economics – Markets Prague		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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