



Thursday, 26 November 2020

## KBC Sunrise Market Commentary

### Markets

- The reflationary trade stalled yesterday.** A series of technical upside breaks in several equity indices didn't met with follow-through gains. Markets pondered the way forward as a rising amount of cases in the US will likely trigger more restrictions in the short term. A back-to-back rise in initial jobless claims added to the concerns. At the same time, we probably also saw **overall cautious repositioning ahead of today's US close due to Thanksgiving**. Stock swings in the EMU and on WS varied from -0.6% to +0.5%. Oil prices rose in the wake of an unexpected inventory drawdown (see below). In yesterday's FOMC minutes, the Fed emphasized it remains flexible and could boost its bond buying programmes in time and size if it deems necessary. **It also signaled the statement would include a "qualitative outcome-based guidance for asset purchases" "fairly soon"** (next month?!). Core bond's reaction was muted. US yields finished about 1 bp higher, German rates were stable. EUR/USD kicked off strongly, jumping to the strongest level in almost 2.5 months at 1.193 in early European dealings. The technical decline afterwards was only technically, with the pair closing the day higher still at 1.1917. The trade-weighted DXY ended below intermediate support at 92.15. Sterling traded volatile as **British finance minister Sunak projected the deepest recession in three centuries and a stunning peacetime record borrowing need of 19% GDP**. Meanwhile, EC president Von der Leyen indicated the following days are crucial for the trade negotiations. EUR/GBP eventually closed stable around 0.89.
- Asian-Pacific equities edge slightly higher in quiet trading. South-Korea outperforms after its central bank raised growth projections. Core bond futures trade with a slight upward bias. Cash markets are closed in the US for Thanksgiving. The dollar overall is trading on the weak side. EUR/USD extends gains to 1.194. DXY is coming ever closer to key 91.75 support.
- We're facing a dull end of the week. The US financial markets are shut today and close early tomorrow. The remainder of the economic calendar is empty. **The absence of the US makes FX markets particularly vulnerable for sharp moves amid lower volumes.** That's all the more important for the US dollar. The greenback hovered close to important technical references these last few days. This morning's market moves in EUR/USD and DXY for example suggest we could finally see a break. We wouldn't read too much in it though. The risk-on trade might dwindle a bit in coming days but we do not expect a major setback. EUR/GBP recently settled back above 0.89. We expect the gradual bottoming out to continue as sterling discounted sufficient good news by now.

### News Headlines

- A close aide of Italian Prime Minister Giuseppe Conte advocated that the ECB should consider cancelling sovereign bonds bought during the pandemic or perpetually extending their maturity.** He also raised the idea of a **green rule** that would exempt public spending related to environmental investment from a country's deficit calculations. For now, ECB officials have rejected that idea as it's incompatible with the law prohibiting the ECB of monetary financing.
- The central Bank of South Korea (BOK) kept its base rate unchanged at a record low 0.5%.** The BOK indicated monetary policy will remain accommodative, but **upgraded the growth outlook** of this (-1.1% from -1.3%) and next year (3.0% from 2.8%). The Bank warned for a rise in household debt. It is also **monitoring recent rise of the won** as it could hamper exports. USD/KRW currently trades at around 1105, near the strongest level since mid-2018.
- US stockpiles unexpectedly declined further by 754 000 barrel last week, while the market anticipated a rise.** The decline supported expectations that the end of the corona pandemic could revive demand. **Both the Brent (\$48.75 p/b) and WTI (\$46 p/b) this week set a new post-pandemic top**, break above the end-August peak.

# Graphs



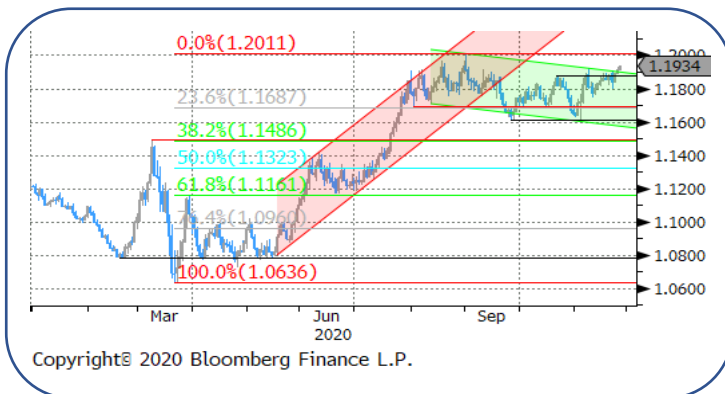
## GE 10y yield

German 10-yr yield surges off the -0.60%/-64% area on vaccine euphoria. Better growth prospects and potentially less need of monetary stimulus might support a **bottoming out process short term after hitting lower bound of upward trading range** and more upside in the medium term.



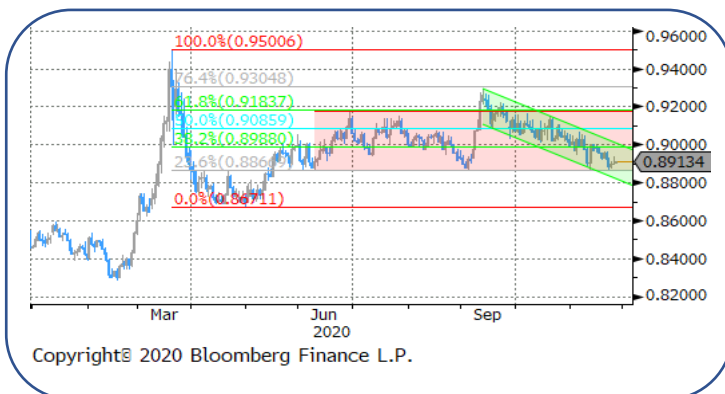
## US 10y yield

US 10-yr yield set new recovery high last week. Volatile swings within upwardly sloping trend channel. **US real yields'** rise is showing tentative signs of topping near term.



## EUR/USD

EUR/USD developed an inconclusive trading pattern within **1.16/1.19 sideways range**. Upside tests have failed several times but the subsequent technical dollar comebacks are far from convincing.



## EUR/GBP

**Continued hopes on a Brexit deal** as well as a not-too-negative risk environment support sterling. As a deal has more or less been priced in, the pound is particularly vulnerable to negative surprises, which could come from a poor UK eco performance. EUR/GBP 0.8866 was tested but is solid support.

# Calendar & Table

Thursday, 26 November		Consensus	Previous
<b>Japan</b>			
06:00	Supermarket Sales YoY (Oct)	2.80%A	-4.60%
<b>EMU</b>			
10:00	M3 Money Supply YoY (Oct)	--	10.40%
<b>Germany</b>			
08:00	GfK Consumer Confidence (Dec)	-4.9	-3.1
<b>Hungary</b>			
11:50	One-Week Deposit Rate	--	0.75%
<b>Riksbank</b>			
09:30	Riksbank Interest Rate	0.00%	0.00%
<b>Events</b>			
13:00	ECB Chief Economist Lane speaks		
13:30	ECB Publishes Account of October Policy Meeting		
26NOV	US financial markets closed in observance of Thanksgiving		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	0.88	0.00	US	0.16	0.00	DOW	29872.47	-173.77	
DE	-0.57	-0.01	DE	-0.75	-0.01	NASDAQ	12094.4	57.61	
BE	-0.38	0.00	BE	-0.72	0.00	NIKKEI	26537.31	240.45	
UK	0.32	-0.01	UK	-0.03	-0.01	DAX	13289.8	-2.64	
JP	0.03	0.01	JP	-0.14	0.00	DJ euro-50	3511.9	3.92	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.51	0.30	0.16	Eonia	-0.4710	0.0000			
5y	-0.45	0.46	0.27	Euribor-1	-0.5330	0.0040	Libor-1	0.1430	0.0000
10y	-0.24	0.88	0.49	Euribor-3	-0.5260	-0.0030	Libor-3	0.2323	0.0000
				Euribor-6	-0.5080	0.0020	Libor-6	0.2545	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1917	0.0025	EUR/JPY	124.47	0.27	CRB	160.39	0.59	
USD/JPY	104.46	0.02	EUR/GBP	0.8901	0.0000	Gold	1811.20	0.30	
GBP/USD	1.338	0.0023	EUR/CHF	1.0823	-0.0013	Brent	48.61	0.75	
AUD/USD	0.7365	0.0004	EUR/SEK	10.1246	-0.0398				
USD/CAD	1.3007	0.0009	EUR/NOK	10.5204	-0.0772				

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