

Friday, 29 January 2021

KBC Sunrise Market Commentary

Markets

- Volatility on stock markets remains elevated** with main European and US stock markets closing with gains yesterday. The EuroStoxx 50 bounced back from a bad start to even close around 1% higher. US benchmarks did even better (>2% intraday), but had to return some of those gains in the close after some (online) retail brokers restricted trading in some of the companies subject to this week's short squeeze. The decision came after they were forced to shore up their financial position to oblige to fluctuating requirements towards SEC net capital obligations and clearing house deposits. Yesterday's improved risk environment hardly affected FI or FX trading. **Both proved to be an island of calm until the European afternoon/US morning eco releases.** A huge jump in German inflation (1.6% Y/Y from -0.7% Y/Y; mostly driven by one-off factors like the reversal of a temporary VAT reduction, higher minimum wages, higher energy prices and a reshuffle in basket weightings) initially didn't get much attention. However, German Bunds followed US Treasuries south after US data not much later showed a stronger-than-expected decline in weekly jobless claims and a near consensus though somewhat meagre Q4 GDP print (4% Q/Qa). The US yield curve bear steepened with yield rising up to 3.1 bps (30-yr). **Interestingly: underlying dynamics showed a 5bps rise in inflation expectations while US real yields lost 2 bps.** Real yields are closing in on -1.1% again. **The underlying dynamic helps explain the sudden faint in the dollar yesterday.** EUR/USD closed around 1.2120. The German yield curve steepened as well, with intraday changes varying between -0.3 bps (2-yr) and +1.5 bps (30-yr). 10-yr yield spread changes vs Germany narrowed by up to 3 bps (Italy). **Italian President Mattarella ends his round of consultations to end the political crisis tonight and could appoint a PM-designate as soon as tomorrow.** Sterling continues to eke out by default gains against the euro, possibly because of the UK's head start in the vaccination campaign which contrasts with current difficulties in several EU capitals. **EUR/GBP closed at the lowest level since May (0.8833).**
- Overnight risk sentiment is again very fragile.** South Korea (-4%) and Japan (-1.5%) underperform. Chinese shares perform rather well even if the 7-day repo rate spiked to its highest level since 2015. The higher rate reflects tighter liquidity with the PBOC this morning only for the first time this week adding some cash to the system. Japanese weakness is at odds with better-than-expected labour market data and especially at odds with yen weakness. **An overall strong dollar lifts USD/JPY to a new YTD high this morning above 104.50 and piercing the upper end of the downward trend channel since July.** For the record we add the a stronger-than-expected rise in January Tokyo (ex fresh food) inflation (-0.4% Y/Y from -0.9% Y/Y). EUR/USD drifts back below 1.21 with core bonds gaining some traction. Today's eco calendar contains national EMU Q4 GDP data, US PCE December deflator (which can be derived from yesterday's GDP data) and Chicago PMI. **The main market input will thus continue to come from general risk sentiment with inflation expectations and actual inflation developments gradually gaining more attention as well.**

News Headlines

- The EU will tighten the rules on the export of coronavirus vaccine shots today.** It will require companies to obtain authorization to ship shots outside of the bloc. European Council Michel also ponders seizing control of the production if the measures would fail, according to an official. **The stricter rules come after AstraZeneca said it will deliver a lot less doses to the EU,** triggering suspicion AstraZeneca sold doses that were meant for the EU to the UK.
- French GDP contracted 1.3% q/q in the final quarter of last year.** That is less than the expected -4%. France's economy is still well below the level of 2019Q4 (-5% y/y vs. -7.6% expected). **Private consumption** (-5.4% q/q) **weighed on growth** as lockdown restrictions prevented the French from consuming as usual. **Net trade was a positive** (1.3% rise in imports dwarfed by a 4.8% advance in exports) **as was fixed capital formation** (2.4%).

Graphs



GE 10y yield

German 10-yr yield steadies roughly between -0.65% and -0.50% since start of Q4 2020. Mass immunity and brighter economic prospects suggest higher yields longer term. Tighter lockdown measures and ample central bank liquidity take new market narrative hostage short term.



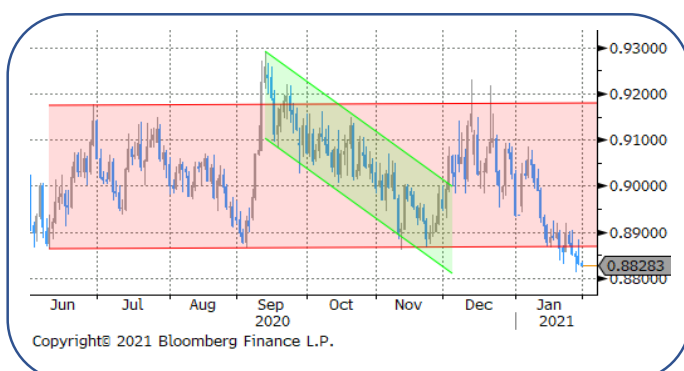
US 10y yield

US 10-yr yield finds itself in mildly upward sloping trend channel. Divergence between rising inflation expectations (>2%) and subdued real yields (-1%) remains. The decline below 1.07% intermediate support is paving the way for a further correction towards 0.98%.



EUR/USD

EUR/USD is heading towards 2018 top of 1.2555 medium term. Underlying (US) yield dynamics hurt the US currency. Recent bout of risk aversion helps limited dollar rebound.



EUR/GBP

Sterling tested EUR/GBP 0.8864 support out of the blue. The first test was rejected last week, but we haven't left the danger zone yet. Short and long term economic fundamentals warrant a softer UK currency.

Calendar & Table

Friday, 29 January		Consensus	Previous
US			
14:30	Personal Income/Spending (Dec)	0.10%/-0.60%	-1.10%/-0.40%
14:30	PCE Deflator MoM/YoY (Dec)	0.30%/1.20%	0.00%/1.10%
14:30	PCE Core Deflator MoM/YoY (Dec)	0.10%/1.30%	0.00%/1.40%
15:45	MNI Chicago PMI (Jan)	58.5	59.5
16:00	Pending Home Sales MoM/NSA YoY (Dec)	-0.50%/20.3%	-2.60%/16.00%
16:00	U. of Mich. Sentiment (Jan F)	79.3	79.2
Japan			
00:30	Tokyo CPI YoY (Jan)	-0.50%A	-1.30%
00:30	Tokyo CPI Ex-Fresh Food YoY (Jan)	-0.40%A	-0.90%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Jan)	0.20%A	-0.40%
00:30	Jobless Rate (Dec)	2.90%A	2.90%
00:30	Job-To-Applcmt Ratio (Dec)	1.06A	1.06
00:50	Industrial Production MoM/YoY (Dec P)	-1.60%A/-3.2%A	-0.50%/-3.90%
06:00	Housing Starts YoY (Dec)	-9.0%A	-3.70%
06:00	Consumer Confidence Index (Jan)	29.6A	31.8
UK			
01:01	Lloyds Business Barometer (Jan)	-7A	-4
EMU			
10:00	M3 Money Supply YoY (Dec)	11.00%	11.00%
Germany			
08:00	GDP SA QoQ/WDA YoY (4Q P)	0.00%/-3.20%	8.50%/-4.00%
09:55	Unemployment Change (000's) (Jan)	7.5k	-37.0k
09:55	Unemployment Claims Rate SA (Jan)	6.10%	6.10%
France			
07:30	Consumer Spending MoM/YoY (Dec)	23.70%/3.40%	-18.9%/-17.10%
07:30	GDP QoQ/YoY (4Q P)	-4.00%/-7.60%	18.70%/-3.90%
Belgium			
11:00	GDP SA QoQ/YoY (4Q P)	-/-	11.40%/-4.50%
Spain			
09:00	GDP QoQ/YoY (4Q P)	-1.40%/-10.80%	16.40%/-9.00%
Events			
Q4 earnings	Chevron (bef-mkt), Caterpillar (12:30) ...		
19:00	Fed's Kaplan Speaks at Energy Forum		
22:00	Fed's Kaplan Speaks to Forecasters Club of NY		
23:25	Fed's Daly Takes Part on Moderated Discussion		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>		Stocks	<u>Close</u>	<u>-1d</u>
US	1.04	0.03		US	0.12	0.00		DOW	30603.36	300.19
DE	-0.54	0.01		DE	-0.75	0.00		NASDAQ	13337.16	66.56
BE	-0.36	0.00		BE	-0.70	0.00		NIKKEI	27663.39	-534.03
UK	0.29	0.02		UK	-0.11	0.02		DAX	13665.93	45.47
JP	0.06	0.02		JP	-0.12	0.00		DJ euro-50	3557.04	20.66
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>-1d</u>	<u>-2d</u>
3y	-0.52	0.26	0.15	Eonia	-0.4780	0.0000				
5y	-0.45	0.52	0.27	Euribor-1	-0.5680	-0.0010		Libor-1	0.1208	0.0000
10y	-0.20	1.09	0.51	Euribor-3	-0.5440	-0.0010		Libor-3	0.2115	0.0000
				Euribor-6	-0.5340	-0.0080		Libor-6	0.2276	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	1.2122	0.0011		EUR/JPY	126.35	0.26		CRB	174.29	-1.04
USD/JPY	104.24	0.13		EUR/GBP	0.8833	-0.0016		Gold	1841.20	-7.70
GBP/USD	1.3721	0.0034		EUR/CHF	1.0772	0.0009		Brent	55.53	-0.28
AUD/USD	0.7683	0.0020		EUR/SEK	10.1053	-0.0192				
USD/CAD	1.283	0.0031		EUR/NOK	10.4219	-0.0592				

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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