

Sunrise

Friday, 15 October 2021

KBC Sunrise Market Commentary

Markets

- The astonishing bull flattening trend on core bond markets continued yesterday, especially in Europe.** German yields fell by 2.5 bps (2-yr) to 6.1 bps (30-yr). **Bond gains on the US curve were less ebullient**, but recall that the bond rally in the US started already on Tuesday whereas Europe only joined on Wednesday. Daily US yield changes varied between +0.2 bps (2-yr) and -2.5 bps (10-yr) with the belly of the curve outperforming the wings. The moves once again lacked clear-cut drivers, but was mainly inspired by lower real yields. If any, it suggests that **any future tightening cycle will be short-lived as central bankers might face a balancing act between inflation fighting and supporting a potential growth slowdown.** Equities rallied in lockstep with bonds while oil prices remain near recent highs. Main stock indices bounced up to 1.5% in Europe and over 1.5% in the US. **Yesterday's moves make a (technical) end to the end September/early October weakness and remind us that the buy-on-dip pattern still holds.** Since the November 2020 vaccination rally, the EuroStoxx50 countered 6 corrections to the tune of 5%. We admit though that **the recovery time is lengthening with each and every correction.** The dollar didn't really benefit from US Treasuries' underperformance. EUR/USD is trying to make way above the 1.16 big figure. Recapturing 1.1664 would be a first signal that the September faint is over and that the technical picture could become somewhat more neutral. **As for now, the euro doesn't get any support whatsoever with the EUR/USD bounce mainly inspired by the dollar losing momentum.** The trade-weighted greenback (DXY) returned to the 94 big figure after failing to take out 94.47/74 resistance. **USD/JPY remains exemption to the rule.** JPY up until two days ago proved vulnerable to the rising (real) yield environment. The Japanese currency failed to recover over the past two days though as bonds rallied in lockstep with stocks. **USD/JPY trades above 114 for the first time since end 2018.** The 2018 top (resistance) stands at 114.55. **EUR/GBP in a technical move tested the downside of the EUR/GBP 0.8450/0.8719 trading range in place since April.** A break didn't occur with the pair currently changing hands around 0.8485. Today's European and UK eco calendars are empty. The failed test might trigger some return action higher. The US eco calendar contains retail sales, the empire manufacturing business survey and University of Michigan consumer confidence. **The focus in the data might gradually shift from focusing on price pressure to focusing on indications about (future) growth.** Overall, we don't expect them to be key for trading dynamics. We look out whether the slowdown of the bond rally in the US yesterday spills to Europe today with yields arriving at first technical support levels.

News Headlines

- BoC governor Macklem said he still expects inflation to be transitory but it's likely to be more persistent than previously thought.** Should, however, the current price increases create ongoing inflation, the BoC will do its job and take action, he added. The governor lauded the fact that **Canadian employment surpassed the pre-pandemic peak** with last week's blowout labour report but said it's not "the destination" as the labour force has grown during the pandemic, meaning **there's still some slack.** The BoC overall continues to anticipate a good economic rebound though it may not be as fast as it forecasted in July. The next policy meeting takes places on October 27. **The Canadian loonie had another good run against the USD and euro** yesterday (USD/CAD sub 1.24, EUR/CAD sub 1.44) and sticks to those gains after Macklem's speech.
- The Securities and Exchange Commission may allow the first US Bitcoin futures ETF to begin trading as soon as this month,** Bloomberg reported. That's a reversal of earlier decisions to reject other BTC ETF applications with a variety of different structures of which the SEC then said they didn't provide sufficient investor protections. One of the key hurdles was the cryptocurrency's notorious volatility and worries about insufficient liquidity. With the mood now shifted, the \$6.7tn ETF industry is ready for launch. **Bitcoin in recent weeks surged and adds another 4% today after the SEC report to trade just shy of \$60 000.**

Graphs



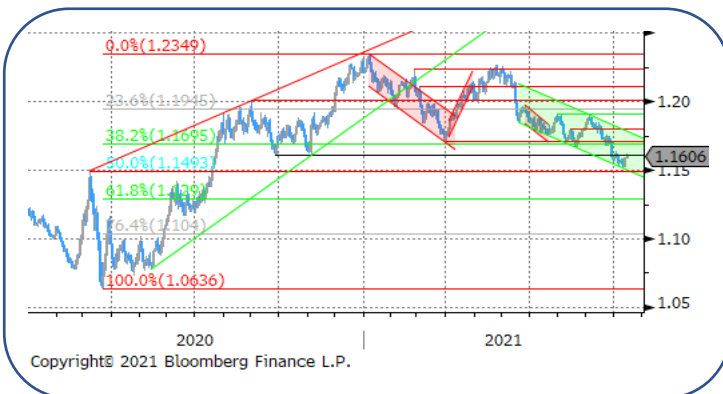
GE 10y yield

German 10-yr yield breaks above -0.25% resistance (62% retracement of May/July decline). ECB slows weekly PEPP purchases in Q4 but delays its post-PEPP strategy to December. Intensifying energy crisis jolted inflation expectations, adding to upward yield pressures.



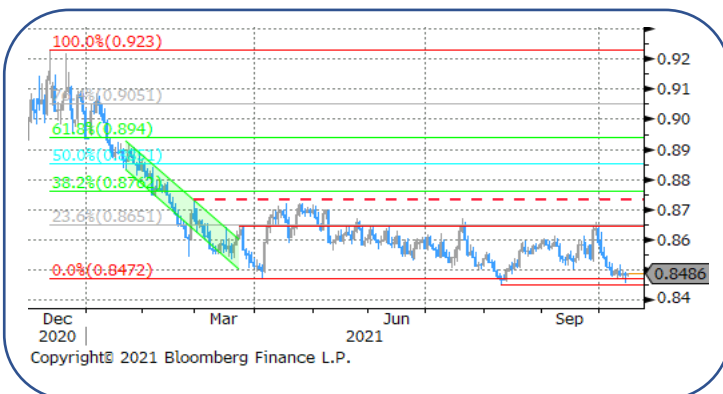
US 10y yield

US 10-yr broke 1.37% resistance in the wake of the Fed September policy announcement. Attempt to take out 1.62% resistance failed, causing some return action lower. Expected inflation is the main driver as real yields remain relatively stable.



EUR/USD

The ECB refuses to join the normalisations swing for now, depriving the euro from real rate support. Dollar strength instead took over. EUR/USD 1.1603 support caved with the crucial 1.1495/93 looking vulnerable short-term.



EUR/GBP

EUR/GBP remains on the weak side within narrow trading band as the Bank of England indicates a potential sooner first rate hike (Q4 2021?). Brexit issues over the Northern Ireland protocol are no worry for now.

Calendar & Table

Friday, 15 October		Consensus	Previous
US			
14:30	Empire Manufacturing (Oct)	25	34.3
14:30	Retail Sales Advance MoM (Sep)	-0.20%	0.70%
14:30	Retail Sales Ex Auto MoM (Sep)	0.50%	1.80%
14:30	Retail Sales Ex Auto and Gas (Sep)	0.40%	2.00%
14:30	Retail Sales Control Group (Sep)	0.50%	2.50%
14:30	Import Price Index MoM/YoY (Sep)	0.60%/9.40%	-0.30%/9.00%
14:30	Export Price Index MoM/YoY (Sep)	0.50%/--	0.40%/16.80%
16:00	U. of Mich. Sentiment (Oct P)	73.1	72.8
16:00	U. of Mich. Current Conditions (Oct P)	81.3	80.1
16:00	U. of Mich. Expectations (Oct P)	69.1	68.1
16:00	U. of Mich. 1 Yr Inflation (Oct P)	4.70%	4.60%
16:00	U. of Mich. 5-10 Yr Inflation (Oct P)	--	3.00%
EMU			
08:00	EU27 New Car Registrations (Sep)	--	-19.10%
11:00	Trade Balance SA (Aug)	14.2b	13.4b
Events			
Q3 earnings	Coinbase (tentative), Goldman Sachs (14:30) ...		
00:00	Fed's Harker Discusses the Economic Outlook		
17:45	St. Louis Fed President James Bullard discusses Optimal Monetary Policy for the Masses		
18:20	Fed's Williams Takes Part in Monetary Policy Panel		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.51	-0.03	US	0.36	0.00	DOW	34912.56	534.75	
DE	-0.19	-0.06	DE	-0.69	-0.02	NASDAQ	14823.43	251.80	
BE	0.11	-0.07	BE	-0.71	-0.03	NIKKEI	29068.63	517.70	
UK	1.04	-0.05	UK	0.51	-0.06	DAX	15462.72	213.34	
JP	0.08	0.00	JP	-0.12	-0.01	DJ euro-50	4149.06	65.78	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.31	0.78	1.01	Eonia	-0.4840	0.0000	Libor-1	0.0903	0.0000
5y	-0.15	1.13	1.07	Euribor-1	-0.5630	-0.0020	Libor-3	0.1238	0.0000
10y	0.20	1.52	1.19	Euribor-3	-0.5510	-0.0030	Libor-6	0.1568	0.0000
				Euribor-6	-0.5230	0.0010			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1597	0.0003	EUR/JPY	131.83	0.53	CRB	238.13	2.43	
USD/JPY	113.68	0.43	EUR/GBP	0.8482	-0.0005	Gold	1797.90	3.20	
GBP/USD	1.3673	0.0014	EUR/CHF	1.0711	-0.0002	Brent	84.00	0.82	
AUD/USD	0.7416	0.0037	EUR/SEK	10.0137	-0.0612				
USD/CAD	1.237	-0.0073	EUR/NOK	9.7964	-0.0553				

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