



Friday, 27 November 2020

KBC Sunrise Market Commentary

Markets

- The absence of the US (Thanksgiving) as well as an enticing economic calendar yesterday lead to clueless trading. ECB Minutes highlighted the increased downside risks on growth and inflation due to the second coronavirus wave. It set the stage for the central bank to hint at more stimulus in the upcoming December meeting. The ECB's assessment didn't include the breakthrough in vaccines, which occurred later. However, the dovish comments by chief economist Lane yesterday made clear another (and final) monetary dose is on the way. European stocks hovered sideways, the German bund gained. Yields fell 1 bp (5-yr) to 2.2 bps (30-yr) even as the country announced a more than doubling of new debt issuance (180bn euro vs. 84bn in the earlier projections). Peripheral spreads were near stable. With a close of 0.09% yesterday, **Portugal is well on track of becoming the first peripheral country to join the list of sub-zero 10y yields**. The minor intraday dollar comeback didn't bring any relief from a technical point of view. EUR/USD still finished beyond 1.19, the trade-weighted DXY dipped below 92. USD/JPY remained north of 104. Sterling's choppy trading brought it slightly further north of EUR/GBP 0.89(2).
- Asian-Pacific shares trade mixed-to-positive without guidance from WS yesterday and in a session devoid of market moving news. Chinese industrial profits soared to 28.2% y/y, the highest level since 2011 in a sign the sector is continuing its post-pandemic recovery. US yields topple up to 3 bps in a catch-up move with Germany yesterday. The greenback once again trades heavy. EUR/USD advances towards 1.1925. **USD/JPY risks giving way to the 104 support area** (103.99 currently) **while DXY (91.88) is nearing the last line of defense at 91.75**.
- Today's economic calendar only contains the second tier EC economic confidence (November). US financial markets reopen today but finish the session early. Volumes will probably stay rather low. European equity futures erased an intraday loss to flat, suggesting a neutral opening later. **We assume this wait-and-see approach to hold going into the ("long US") weekend**. Core bonds' downside is protected with the German 10y yield finding support near -0.59%. US real yields show a topping out pattern the past two weeks after a protracted rise since September (-10 bps). It explains in part the recent dollar weakness. In any case, **we keep a close eye on USD/JPY. Accelerating declines below 104 could drag DXY with it towards the all-important 91.75 area**. EU trade negotiator Barnier called for an urgent meeting on EU fisheries today. It is unclear whether this is to announce a breakthrough in the stalemate. If it is, we could easily see the pound surging in a kneejerk move. We hold to the idea however that sterling discounted sufficient good news (i.e. a Brexit deal) by now.

News Headlines

- **The Chinese Ministry of Commerce will start imposing anti-dumping duties from 107.1% to 212.2% on Australian wine, starting tomorrow**. The measures follow earlier import-restrictions on several commodities (coal, copper,...). China is the biggest export market for Australian wine. **Australian trade minister Birmingham** labeled the action grossly unfair, unwarranted and unjustified and **will appeal to the WTO**. Sino-Australian relations deteriorated since Canberra blocked Huawei's 5G network and as PM Morrison asked a probe into the origins of the Covid-pandemic. The Australian dollar remains strong against a weak dollar. AUD/USD (0.7380) is closing in on the 0.7414 YTD high.
- **The Turkish central bank (CBRT) raised the ratio for Turkish lira deposit and checking accounts with maturities less than 3 months from 4% to 6%**. The required reserve ratio for FX deposits with a maturity of 1 year or less is raised to 19% from 17%. The CBRT will use a 12% remuneration rate for the lira required reserves. The Turkish lira strengthens marginally this morning, trying to leave move below yesterday's dip around EUR/TRY 9.35.

Graphs



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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**.



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US 10y yield

US 10-yr yield set new recovery high just below 1%. Volatile swings within upwardly sloping trend channel. **US real yields'** rise is showing tentative signs of topping near term.



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EUR/USD

Ongoing dollar weakness (topping out in real yields?) draws EUR/USD towards 1.2011 recovery top.



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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 didn't break.

Calendar & Table

Friday, 27 November		Consensus	Previous
Japan			
00:30	Tokyo CPI YoY (Nov)	-0.70%A	-0.30%
00:30	Tokyo CPI Ex-Fresh Food YoY (Nov)	-0.70%A	-0.50%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Nov)	-0.20%A	-0.20%
EMU			
11:00	Economic Confidence (Nov)	86.0	90.9
11:00	Industrial Confidence (Nov)	-10.9	-9.6
11:00	Services Confidence (Nov)	-16.3	-11.8
11:00	Consumer Confidence (Nov F)	--	-17.6
France			
08:45	CPI EU Harmonized MoM/YoY (Nov P)	0.0%/0.0%	0.00%/0.10%
08:45	Consumer Spending MoM/YoY (Oct)	3.5%/1.8%	-5.10%/-1.30%
08:45	GDP QoQ/YoY (3Q F)	18.20%/-4.30%	18.20%/-4.30%
Italy			
10:00	Consumer Confidence Index (Nov)	99	102
10:00	Manufacturing Confidence (Nov)	93	95.6
10:00	Economic Sentiment (Nov)	--	92.9
Belgium			
27NOV	CPI MoM/YoY (Nov)	--/--	0.20%/0.74%
China			
02:30	Industrial Profits YoY (Oct)	28.2%	10.10%
Sweden			
09:30	GDP QoQ/WDA YoY (3Q)	4.30%/-3.60%	8.30%/-7.70%
Events			
27NOV	US financial markets closed early		
11:00	ECB Executive Board Member Schnabel Speaks		
11:00	Italy to Sell Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.88	0.00		US	0.16	0.00	DOW	29872.47	0.00
DE	-0.59	-0.02		DE	-0.76	-0.01	NASDAQ	12094.4	0.00
BE	-0.40	-0.02		BE	-0.72	0.00	NIKKEI	26644.71	107.40
UK	0.28	-0.04		UK	-0.04	-0.02	DAX	13286.57	-3.23
JP	0.03	0.01		JP	-0.14	0.00	DJ euro-50	3510.94	-0.96
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.51	0.30	0.14	Eonia	-0.4690	0.0000			
5y	-0.46	0.45	0.25	Euribor-1	-0.5390	-0.0060	Libor-1	0.1455	0.0000
10y	-0.25	0.87	0.46	Euribor-3	-0.5280	-0.0020	Libor-3	0.2330	0.0000
				Euribor-6	-0.5060	0.0020	Libor-6	0.2600	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1913	-0.0004		EUR/JPY	124.22	-0.25	CRB	160.39	0.00
USD/JPY	104.26	-0.20		EUR/GBP	0.8919	0.0018	Gold	1811.20	0.00
GBP/USD	1.3358	-0.0022		EUR/CHF	1.0802	-0.0021	Brent	47.80	-0.81
AUD/USD	0.7362	-0.0003		EUR/SEK	10.1566	0.0320			
USD/CAD	1.3017	0.0010		EUR/NOK	10.5776	0.0572			

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