Friday, 19 February 2021

KBC Sunrise Market Commentary

Markets

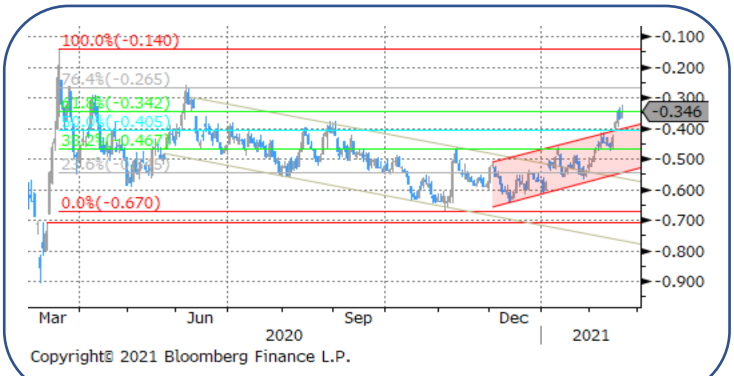
- It's starting to get complicated. **When typical correlations start being as atypical as they were yesterday, we might have to consider some fatigue on the trading theme;** reflation in case. **First shocker: US yields and the dollar.** The US yield curve continued its bear steepening trend with yields rising by 0.1 bp (2-yr) to 4.5 bps (bps). The +2.4 bps nominal increase for the 10y gauge hides the fact that **the real yield added 6.5 bps while inflation expectations corrected some 4 bps.** Up until now we safely assumed that the other way around was the dollar's kryptonite. It's **quite surprising that the greenback eventually ceded ground in that context yesterday.** EUR/USD returned from the 1.2040 area towards 1.21. The tradeweighted greenback closed at 90.59 from a 90.86 open. Cable smashes all records, arriving within reach of the psycho 1.40-level for the first time since April 2018. Real strong resistance stands at 1.4377, but we'll return to sterling strength later. **Second shocker: risk sentiment and the dollar.** The unabated curve steepening is starting to have an impact on stock markets. The German (up to +2.1 bps) and UK yield curve (up to +5.6 bps) steepened as well in a global trend. Losses on stock markets amounted to -1% in Europe and -0.7% in the US. We add the **important disclaimer that the bull run remains in place from a technical point of view, with US stocks showing intraday signs of resilience,** closing off weakest levels. Nevertheless, **some doubt on the shelf date of ultra-easy policies and the risks they're wearing towards inflation and/or financial instability is slowly dripping into the system.** Again, you'd expect the dollar to be the main beneficiary in such context with sterling normally trailing other FX majors. Not happening right now. **EUR/GBP yesterday on first attempt waved goodbye to EUR/GBP 0.8671 support, the final real hurdle before returning towards 0.83.** Keep a close eye at tonight's (weekly) close! For the UK currency, markets are running away with an early/earlier UK end to the lockdown and its consequences for (monetary) policy. Verbal interventions like the one from BoE Saunders yesterday is preaching in the dessert. **Third shocker: commodities and the dollar.** Some pockets of the commodity spectrum show fear of height after an astonishing run. Iron Ore ran into the recent record levels, other metals closed off best levels and oil prices took a step back. **Brent crude slipped from $65.5/b to $62.5/b.** A gradual (climatic) return to normal in the US mid-west helps resolve supply issues. **The oil market perhaps also finally received the memo that Saudi Arabia is preparing a reduction in the one-sided production cuts** it pledged to in January to keep overall output stable. The Saudi promise lasts until March. Correcting oil/commodity prices tend to favour the greenback. Overall, it keeps us currently guessing for why markets behave the way they currently do. Are we just **in hesitation mode** on whether or not to continue strong trends, with some locking in some profits as strong technical resistance levels emerge? Or are markets in progress on switching to a new dynamic? We currently stick to the first option. **Today's market action could be telling with EMU PMI's scheduled for release.** We side with consensus of stabilization near recent lows. **Risks are probably even asymmetrically tilted to the upside. In that case the reflation market theme will be severely tested.**

News Headlines

- **The ECB is mulling disclosing climate risks in its bond programs and will focus on gathering data that help achieve that,** people familiar with the matter said. Policy makers had a discussion about the issue during a meeting earlier this week which was part of the strategic overhaul. This risk management topic has turned hot as the ECB's view on "brown" securities could shift as part of a greener policy. **This could in turn affect the collateral banks can use in return for funding and for the ECB's bond buying programs.**

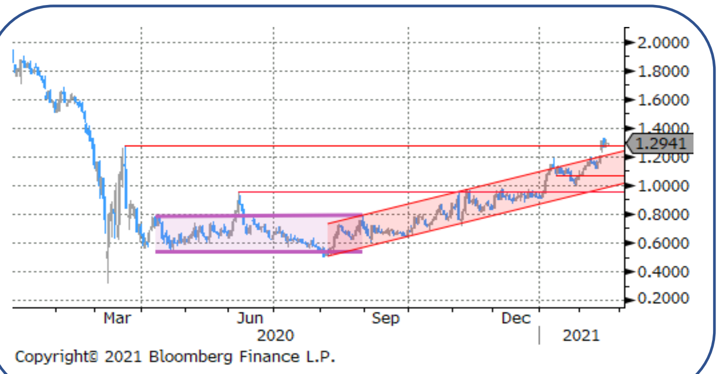
- **Czech lawmakers approved an increase in this year's budget to a record 500bn krona,** raising the deficit shortfall by 56%. The decision gives the Czech minority government **more leeway in extending the pandemic stimulus** (including prolonging job and business support programs) and boost and state spending.

Graphs



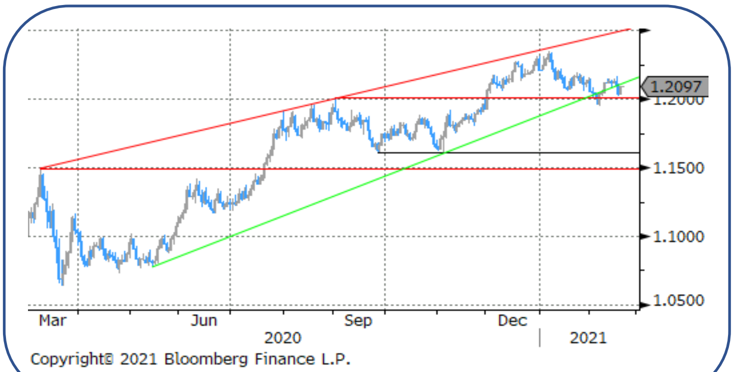
GE 10y yield

German 10-yr yield left H2 2020 downward sloping channel, currently testing 62% retracement on that move (-0.34%). The start of vaccinations and brighter economic prospects suggest higher yields longer term. **Lockdown measures and ample central bank liquidity partially counterbalance a faster rise.**



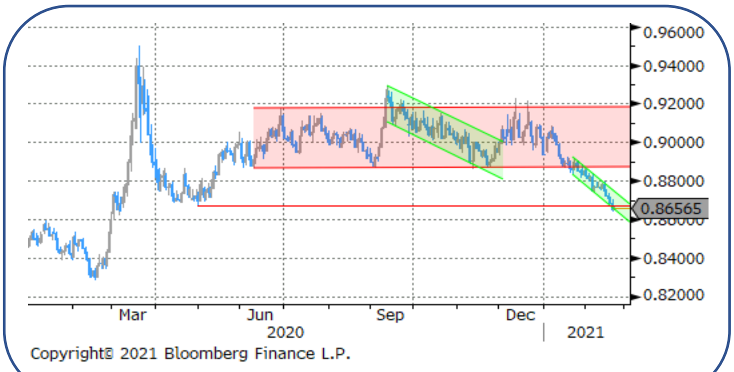
US 10y yield

Reflationary spirits push US 10-yr yield above the March liquidity squeeze top (1.27%). Next very big resistance stands around 1.43% (2019 low + 38% retracement of 2018/2020 decline). **Divergence between inflation expectations real yields is large, but the latter are catching up.**



EUR/USD

Reflation taking over again from vaccination differential as main trading theme, ending the USD comeback. However, the topic is less dominant for FX than last year. EUR/USD 1.2011 eventually held following an extensive test. Difficulty to take out EUR/USD 1.2151 (50% retracement on 2021 decline) suggests sluggish momentum



EUR/GBP

Sterling tested and broke below key support at EUR/GBP 0.8864. Short and long term economic fundamentals warrant a softer UK currency, but the UK taking the lead in vaccinations and possibly reopening the economy, supports the UK currency short term. A weekly close below 0.8670 raises the probability of return towards 0.83.

Calendar & Table

Friday, 19 February		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Feb P)	58.5	59.2
15:45	Markit US Composite PMI (Feb P)	--	58.7
15:45	Markit US Services PMI (Feb P)	58	58.3
16:00	Existing Home Sales MoM/Total(Jan)	-2.40%/6.60m	0.70%/6.76m
Japan			
00:30	Natl CPI YoY (Jan)	-0.60A	-1.20%
00:30	Natl CPI Ex Fresh Food YoY (Jan)	-0.60%A	-1.00%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Jan)	0.10%A	-0.40%
01:30	**Jibun Bank Japan PMI Mfg (Feb P)**	**50.6A**	**49.8**
01:30	**Jibun Bank Japan PMI Services (Feb P)**	**45.8A**	**46.1**
01:30	Jibun Bank Japan PMI Composite (Feb P)	47.6A	47.1
UK			
01:01	GfK Consumer Confidence (Feb)	-23A	-28
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Jan)	-3.00%/-0.80%	0.30%/2.90%
08:00	**Retail Sales Ex Auto Fuel MoM/YoY (Jan)**	**-2.10%/2.70%**	**0.40%/6.40%**
08:00	PSNB ex Banking Groups (Jan)	25.0b	34.1b
10:30	**Markit UK PMI Manufacturing SA (Feb P)**	**53.1**	**54.1**
10:30	**Markit/CIPS UK Services PMI (Feb P)**	**42.0**	**39.5**
10:30	Markit/CIPS UK Composite PMI (Feb P)	42.6	41.2
12:00	CBI Trends Total Orders (Feb)	-35	-38
12:00	CBI Trends Selling Prices (Feb)	--	4
EMU			
10:00	**Markit Eurozone Manufacturing PMI (Feb P)**	**54.3**	**54.8**
10:00	**Markit Eurozone Services PMI (Feb P)**	**45.9**	**45.4**
10:00	Markit Eurozone Composite PMI (Feb P)	48.0	47.8
Germany			
08:00	PPI MoM/YoY (Jan)	0.90%/0.30%	0.80%/0.20%
09:30	**Markit/BME Germany Manufacturing PMI (Feb P)**	**56.5**	**57.1**
09:30	**Markit Germany Services PMI (Feb P)**	**46.5**	**46.7**
09:30	Markit/BME Germany Composite PMI (Feb P)	50.5	50.8
France			
09:15	**Markit France Manufacturing PMI (Feb P)**	**51.5**	**51.6**
09:15	**Markit France Services PMI (Feb P)**	**47.0**	**47.3**
09:15	Markit France Composite PMI (Feb P)	47.5	47.7
Events			
14:00	Fed's Barkin Speaks on Panel		
16:00	Fed's Rosengren Speaks on Yale Economic Symposium		
17:00	Fed's Barkin Speaks on Panel		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.30	0.03		US	0.10	0.00	DOW	31493.34	-119.68
DE	-0.35	0.02		DE	-0.69	0.01	NASDAQ	13865.36	-100.14
BE	-0.13	0.05		BE	-0.66	0.02	NIKKEI	30017.92	-218.17
UK	0.62	0.05		UK	-0.04	0.01	DAX	13886.93	-22.34
JP	0.11	0.01		JP	-0.11	0.00	DJ euro-50	3681.04	-18.81

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.47	0.31	0.29	Eonia	-0.4780	0.0000			
5y	-0.35	0.68	0.48	Euribor-1	-0.5480	0.0040	Libor-1	0.1110	0.0000
10y	-0.02	1.37	0.83	Euribor-3	-0.5430	0.0020	Libor-3	0.1814	0.0000
				Euribor-6	-0.5180	0.0030	Libor-6	0.1978	0.0000

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.2092	0.0054	EUR/JPY	127.81	0.37	CRB	188.67	-0.01
USD/JPY	105.69	-0.18	EUR/GBP	0.8653	-0.0032	Gold	1775.00	2.20
GBP/USD	1.3975	0.0118	EUR/CHF	1.0833	0.0014	Brent	63.93	-0.41
AUD/USD	0.7768	0.0017	EUR/SEK	10.0491	0.0237			
USD/CAD	1.2679	-0.0023	EUR/NOK	10.2333	0.0007			

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