

Friday, 20 November 2020

KBC Sunrise Market Commentary

Markets

- Yesterday initially developed as a **mild risk-off session**. The euphoria on the progress toward corona vaccines faded. At the same time, the IMF joined the assessment that the new rise in corona infections might slow the recovery and that the crisis will leave deep consequences for the economy going forward. The US jobless claims unexpectedly rising only supported the fear for a setback in the economy short-term. **European equities closed with losses of about 0.75%**. Some headlines on a possible restart of the negotiations of a US stimulus deal finally supported US equities going into the close, with gains between 0.15% (Dow) and 0.87% Nasdaq. However, **optimism was again reversed after the close of US markets**. US Treasury **Mnuchin secretary in a letter asked the Fed to return the unused funds** that serve as a backstop for several Fed lending programs that will expire at the end of December. The Treasury asked the Fed to prolong four other programs for 90 days, **but the Fed prefers to leave the full crisis toolkit operational for now**. Among the facilities that would end are two programs to buy corporate debt, the Main Street lending facilities and a program to lend to state and local government. Mnuchin advocated that the \$455 bln that will be freed could be used elsewhere by Congress to support the economy. **The rift between the Fed and the Treasury, caused some risk-off repositioning late in the session**. The **US yield curve bull flattened further with yields declining between 1.2 (2-y) bp and 5.5 bp (30-y)**. German yields, which closed already earlier, declined between 0.8 bp (2-y) and 2.5 bp (30-y). Interestingly, **the dollar reversed an early rise as sentiment improved during the US trading hours, but gained modest ground on the rift between the Fed and the Treasury**. The TW dollar (DXY) came again within reach of the 92.13 support area. EUR/USD closed at a lofty 1.1875. Sterling traded a bit volatile intraday, but EUR/GBP finally closed at 0.8953.
- Asian equities again show no clear trend this morning**, mostly showing limited gains. The yuan gains modestly as the USD remains in the defensive overall (USD/CNY 6.5675). **The yen gains a few ticks**. At USD/JPY 103.75, the pair is again nearing the lows reached earlier this week. Disappointing Japanese eco data (cf infra) had no big impact on the yen. The Aussie dollar profits slightly from solid October retail sales data. **AUD/USD nears the 0.73 barrier**.
- The eco calendar in the US and Europe is thin, with EC consumer confidence the exception to the rule. Several Fed and ECB policy makers are again scheduled to speak. **Core German and US bond yields this week reversed a big part of last week's 'vaccine-driven' gain**. The global picture remains uncertain, but **we gradually look out for some bottoming out process (in yields)**. The **dollar is again nearing important support levels** (DXY 92.13/91.75; EUR/USD 1.1881/1.1920) A break beyond these levels would confirm fragile underlying sentiment against the US currency. **For now, the stalemate on the EU budget/rescue package is no big issue for the euro yet**. EUR/GBP is still paralyzed in the 0.90 big figure as markets await 'hard news' from the Brexit negotiations.

News Headlines

- The Association for Financial Markets in Europe (AFME) yesterday published its Q3 Government Bond Data Report. **The outstanding amount of green government bonds surpassed €60bn with the highest quarterly issuance (€10.8bn) on record**. Total amount of sovereign ESG-bonds (Environmental, Social and Governance) reached €80bn, especially thanks to €17bn of EU SURE bond issuance. Total Q3 European sovereign bond/bill issuance (€985bn) fell by over a quarter compared to Q2 2020 with debt agencies clearly favouring to extend maturity profiles.
- The **Japanese composite PMI declined from 48 to 47 in November** with both manufacturing (48.3) and services (46.7) coming off recovery highs and remaining below the 50 boom/bust mark. Lockdown – at home and abroad – dampen sentiment. IHS Markit, which compiles the survey, especially warns **for weaker global activity which puts the strain on Japanese exporters**. October Japanese inflation (ex fresh food) declined to -0.7% Y/Y, the fastest fall in a decade, as the boost from last year's sales tax hike petered out. However, even after stripping out one-off effects, Japanese inflationary trends remain very subdued.

Graphs



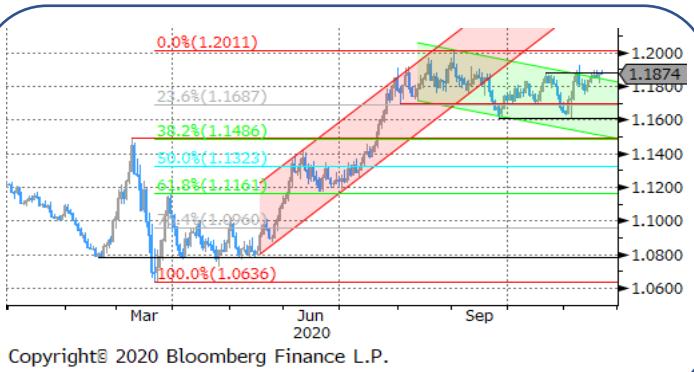
GE 10y yield

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** and **more upside in the medium term.**



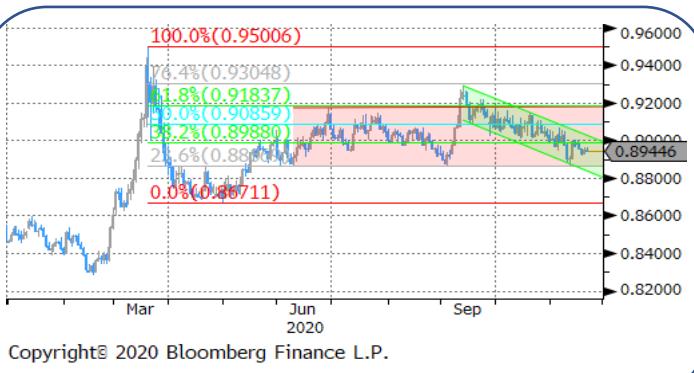
US 10y yield

US 10-yr yield set new recovery high last week. Volatile swings within upwardly sloping trend channel. **US real yields** gradually rebounds off summer lows.



EUR/USD

EUR/USD develops an inconclusive trading pattern within **1.16/1.19 sideways range**. The dollar recently received interest rate support. On the other hand, a declining chance of a further ECB rate cut is euro supportive.



EUR/GBP

Hope on a Brexit deal and a **positive risk sentiment** propelled sterling last week. **EUR/GBP 0.8864 support** was tested but no break occurred. Poor UK eco performance might cap a protracted sterling rally.

Calendar & Table

Friday, 20 November			Consensus	Previous
Japan				
00:30	Natl CPI YoY (Oct)		-0.40%A	0.00%
00:30	Natl CPI Ex Fresh Food YoY (Oct)		-0.70%A	-0.30%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Oct)		-0.20%A	0.00%
01:30	Jibun Bank Japan PMI Mfg (Nov P)		48.3A	48.7
01:30	Jibun Bank Japan PMI Services (Nov P)		46.7A	47.7
01:30	Jibun Bank Japan PMI Composite (Nov P)		47.0A	48
UK				
01:01	GfK Consumer Confidence (Nov)		-33A	-31
08:00	Public Finances (PSNCR) (Oct)		--	31.5b
08:00	Retail Sales Ex Auto Fuel MoM / YoY (Oct)		0.00%/5.9%	1.60%/6.4%
08:00	Retail Sales Inc Auto Fuel MoM / YoY (Oct)		-0.30%/4.1%	1.50%/4.7%
EMU				
16:00	Consumer Confidence (Nov A)		-18.0	-15.5
Germany				
08:00	PPI MoM / YoY (Oct)		0.10%/-0.8%	0.40%/-1%
Belgium				
11:00	Consumer Confidence Index (Nov)		--	-17
China				
02:30	1-Year Loan Prime Rate		3.85%A	3.85%
02:30	5-Year Loan Prime Rate		4.65%A	4.65%
Events				
09:15	ECB's Lagarde Speaks at European Banking Congress			
10:45	ECB's Guindos Speaks in Panel Discussion			
14:00	ECB's Weidmann Speaks at European Banking Congress			
14:30	Fed's Kaplan Gives Speech at Fed Energy and Economy			
19:30	Fed's George Gives Speech at Fed Energy and Economy			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
US	0,83	-0,04	US	0,16	-0,01	DOW	29483,23	44,81
DE	-0,57	-0,02	DE	-0,74	-0,01	NASDAQ	11904,71	103,11
BE	-0,38	-0,01	BE	-0,71	-0,01	NIKKEI	25527,37	-106,97
UK	0,32	-0,01	UK	-0,03	0,00	DAX	13201,89	68,42
JP	0,01	-0,01	JP	-0,15	-0,02	DJ euro-50	3451,97	-30,20
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d
3y	-0,52	0,29	0,15	Eonia	-0,4720	0,0000		
5y	-0,46	0,44	0,26	Euribor-1	-0,5560	-0,0100	Liber-1	0,1465
10y	-0,24	0,83	0,50	Euribor-3	-0,5270	0,0000	Liber-3	0,2238
				Euribor-6	-0,5120	0,0010	Liber-6	0,2569
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1875	0,0022	EUR/JPY	123,19	0,11	CRB	155,03	-0,69
USD/JPY	103,74	-0,08	EUR/GBP	0,8953	0,0022	Gold	1861,50	-12,40
GBP/USD	1,3261	-0,0012	EUR/CHF	1,0813	0,0012	Brent	44,20	-0,14
AUD/USD	0,7288	-0,0017	EUR/SEK	10,2091	0,0135			
USD/CAD	1,3073	-0,0008	EUR/NOK	10,6889	0,0002			

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