

Monday, 23 November 2020

KBC Sunrise Market Commentary

Markets

- Markets ended last week on a rather dull note. The rift between the US Treasury and the Fed – **which ended in the Fed abiding to USTS Mnuchin's call to return unused funds** – sparked slight risk-off during Asian dealings. Its impact was minimal on the European session, which saw equities rise about 0.5%. Wall Street ended in red still, the Dow Jones underperforming (-0.75%). Core bonds traded choppy but closed more or less unchanged. The US yield curve bull flattened with the very long end shedding 2.6 bps. German yields bull steepened marginally, falling up to -1.6 bps at the short end. EUR/USD performed another test of last week's highs at around 1.19 but failed once more to push through. A volatile session afterwards ended at 1.186, slightly down from 1.875 the day before. USD/JPY remained below the 104 big figure. Sterling edged higher. PM Johnson is said to consider more targeted but stricter lockdowns next month instead of a nationwide lockdown. Markets also continue to anticipate a Brexit deal and looked forward to minister of finance **Sunak's budget increase announced this Wednesday**. EUR/GBP fell from 0.895 to 0.892.
- Asian-Pacific shares trade in green this morning. Japan is shut for a holiday. Focus again shifted to the longer-term economic prospects rather than the current lockdown situation. **According to the head of the US' Warp Speed vaccine development programme, the country could administer the first vaccine shots as soon as December 11 or 12**. The constructive environment hurts the dollar, sending EUR/USD higher towards 1.1876. USD/JPY edges lower towards 103.75. Core bonds hover near opening levels.
- European November PMIs** take centre stage today. Having re-imposed many restrictions, the indicators are expected to decline, especially in the services sector. The more targeted nature of the measures as well as the relatively weak starting point last month (activity in the sector is still subdued compared to pre-pandemic levels) will prevent a steep drop to the levels seen back in March and April. However, we still see risks tilted to the downside for today's outcome. We're very keen to see the impact on markets. The narrative changed recently from an economy hijacked by lockdowns to a gradual return to normal. In this respects, the US planning the first vaccines in less than three weeks could well be more important from a market's point of view than today's (outdated) PMIs. The German yield gradually declined last week as vaccine euphoria ebbed. **However, disappointing PMIs failing to push yields lower still, is a sign the bottoming out process might restart. We then look for EUR/USD to finally steam ahead beyond the 1.19 resistance area**. Sterling remains well bid with both the UK and EU upbeat about reaching a deal in the near future. Talks in any case continue this week.

News Headlines

- Rating agencies Moody's and Fitch pushed South Africa further into junk status. **Moody's cut the country's rating to Ba2 from Ba1. Fitch reduced its rating to BB- from BB. Both also kept a negative outlook**. South African Finance Minister Mboweni said that there is an urgent need for the government to implement structural reforms to avoid further rating reductions. For now the impact of the downgrade on the rand remains limited (USD/ZAR 15.36 area).
- Singapore authorities turned more positive on the economy and the outlook for next year**. The Ministry of Trade and Industry expects the economy to expand by 4%-6% next year as it expects an improved outlook for key external economies as well as an easing of global travel restrictions and public health measures. GDP in the third quarter also declined less than previously expected (-5.8% Y/Y from -7.0% Y/Y).
- The US government is close to declaring that 89 Chinese companies have military ties**. This will strip them from buying US good and technology. The list is said to be included in a draft rule that identifies Chinese and Russian companies that the US considers 'military end users'.

Graphs



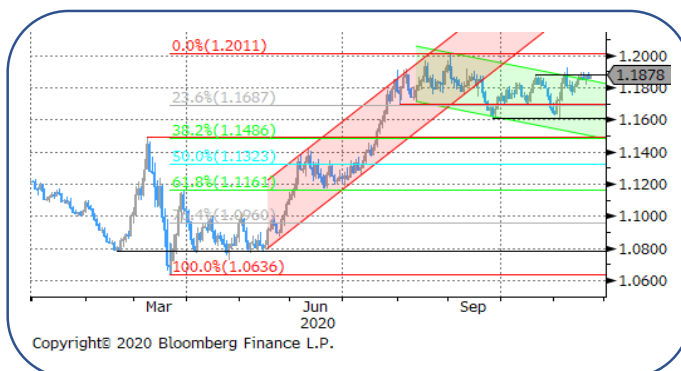
GE 10y yield

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 after hitting lower bound of upward trading range** 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** continue to bounce off from summer lows.



EUR/USD

EUR/USD develops an inconclusive trading pattern within **1.16/1.19 sideways range**. Upside tests have failed several times but suggest the euro is still in the driver's seat.



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 is solid support.

Calendar & Table

| Monday, 23 November | | Consensus | Previous |
|---------------------|--|-----------|----------|
| US | | | |
| 14:30 | Chicago Fed Nat Activity Index (Oct) | 0.27 | 0.27 |
| 15:45 | Markit US Manufacturing PMI (Nov P) | 53.0 | 53.4 |
| 15:45 | Markit US Services PMI (Nov P) | 55.0 | 56.9 |
| 15:45 | Markit US Composite PMI (Nov P) | -- | 56.3 |
| UK | | | |
| 10:30 | Markit UK PMI Manufacturing SA (Nov P) | 50 | 53.7 |
| 10:30 | Markit/CIPS UK Services PMI (Nov P) | 42.9 | 51.4 |
| 10:30 | Markit/CIPS UK Composite PMI (Nov P) | 42.5 | 52.1 |
| EMU | | | |
| 10:00 | Markit Eurozone Manufacturing PMI (Nov P) | 53.3 | 54.8 |
| 10:00 | Markit Eurozone Services PMI (Nov P) | 42.0 | 46.9 |
| 10:00 | Markit Eurozone Composite PMI (Nov P) | 45.6 | 50 |
| Germany | | | |
| 09:30 | Markit/BME Germany Manufacturing PMI (Nov P) | 56.0 | 58.2 |
| 09:30 | Markit Germany Services PMI (Nov P) | 46.3 | 49.5 |
| 09:30 | Markit/BME Germany Composite PMI (Nov P) | 50.5 | 55 |
| France | | | |
| 09:15 | Markit France Manufacturing PMI (Nov P) | 49.9 | 51.3 |
| 09:15 | Markit France Services PMI (Nov P) | 39.0 | 46.5 |
| 09:15 | Markit France Composite PMI (Nov P) | 39.5 | 47.5 |
| Events | | | |
| 10:30 | BOE's Haldane Speaks | | |
| 11:30 | Belgium to Sell 0.8% 2025 Bonds and 1.25% 2033 Bonds | | |
| 14:10 | ECB's Schnabel Speaks at Money Market Conference | | |
| 16:30 | BOE's Bailey, Haldane, Tenreyro, Saunders Speak | | |
| 17:30 | US to Sell USD56 Bln 2-Year Notes | | |
| 19:00 | US to Sell USD57 Bln 5-Year Notes | | |
| 20:00 | Fed's Daly Discusses the Future of Cities | | |
| 21:00 | Fed's Evans Takes Part in Moderated Q&A on the Economy | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|------------|--------|---------|------|------------|---------|---------|-------------|----------|---------|
| US | 0.82 | -0.01 | | US | 0.16 | 0.00 | DOW | 29263.48 | -219.75 |
| DE | -0.58 | -0.01 | | DE | -0.75 | -0.02 | NASDAQ | 11854.97 | -49.74 |
| BE | -0.39 | -0.01 | | BE | -0.72 | -0.01 | NIKKEI | 25527.37 | 0.00 |
| UK | 0.30 | -0.02 | | UK | -0.04 | -0.01 | DAX | 13137.25 | 51.09 |
| JP | 0.01 | 0.00 | | JP | -0.14 | 0.00 | DJ euro-50 | 3467.6 | 15.63 |
| | | | | | | | | | |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | -0.52 | 0.29 | 0.14 | Eonia | -0.4720 | 0.0000 | | | |
| 5y | -0.47 | 0.44 | 0.25 | Euribor-1 | -0.5430 | 0.0130 | Libor-1 | 0.1501 | 0.0046 |
| 10y | -0.26 | 0.82 | 0.47 | Euribor-3 | -0.5280 | -0.0010 | Libor-3 | 0.2049 | -0.0078 |
| | | | | Euribor-6 | -0.5090 | 0.0030 | Libor-6 | 0.2488 | -0.0068 |
| | | | | | | | | | |
| | | | | | | | | | |
| Currencies | Close | -1d | | Currencies | Close | -1d | Commodities | Close | -1d |
| EUR/USD | 1.1857 | -0.0018 | | EUR/JPY | 123.16 | -0.03 | CRB | 156.16 | 1.13 |
| USD/JPY | 103.86 | 0.12 | | EUR/GBP | 0.8925 | -0.0029 | Gold | 1878.20 | 11.30 |
| GBP/USD | 1.3275 | 0.0014 | | EUR/CHF | 1.0804 | -0.0010 | Brent | 44.96 | 0.76 |
| AUD/USD | 0.7302 | 0.0014 | | EUR/SEK | 10.2227 | 0.0136 | | | |
| USD/CAD | 1.3095 | 0.0022 | | EUR/NOK | 10.6834 | -0.0055 | | | |

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