



AFS Insights

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Headline Sweep

- Powell Sees Hope and Uncertainties for Economy in Vaccines
- Temperature analysis shows UN goals 'within reach'
- Chinese embassy says Australia 'misread' offending social media post

Overnight Comment/The Day Ahead

- **As Fed Chair Powell would say, “markets are working” this morning.** In other words: risk assets are up while bond yields aren't showing much in the way of movement.
- **Investors are doubling down on the November gains this morning after Powell gave the all clear last eve that monetary policy will remain easy for a little while longer.** Signaling that he's in no rush to dial back QE from its current pace of 120 billion USD a month nor change the zero interest rate guidance, in his prepared testimony for Congress Powell called the vaccine news positive “for the medium term” while underscoring the challenges of a vaccination campaign.
- **Besides Powell, we also had positive trade data from South Korea overnight, which showed a modest increases in exports on an annual basis in November.** Furthermore, the Chinese semi-official manufacturing PMI published by Caixin rose to its highest level in a decade last month. And, of course, we're still elated from yesterday's vaccine announcement: Moderna asking the FDA to start the emergency approval process. That wasn't even news as the company had already said it would apply for approval around this time. But who cares when we're rallying this hard (or blowing the roof off if we include Crypto).
- **Turning to some market commentary, S&P 500 futures at 3,653 point to a record-high close today.** Asian markets are up, with gains ranging from 1.1% for Aussie shares to nearly 2% for Shanghai. US Treasury yields are as dead as the proverbial parrot, with the 10y frozen in the mid-0.80s on Powell's hold.
- **In FX EURUSD briefly touched 1.20 overnight, which will sure draw the ire of the batch of ECB-speakers that are scheduled to hit the mic this week.** It should be pointed out again that the overall trend in FX remains dollar weakness. On a trade-weighted basis the greenback is probably now back to 2018 levels, which still means it remains overvalued.
- **GBP isn't doing much (yet) even though Brexit headlines are all positive in the sense that we keep hearing that a deal is possible later this week.** But that still requires the UK and/or EU to blink. Remember that we're talking about how hard Brexit will become. Leaving the single market and customs union with a deal or with a modicum of a trade deal to cushion the blow.

- **Commodities are a bit softish this morning, with crude and copper down modestly from their recent highs.** Overall commodity pricing remains consistent with a moderate recovery in global growth.
- **The pandemic situation continues to improve on both sides of the Atlantic in the sense that case growth is slowing, especially in Europe.** However, because of travelling over the Thanksgiving weekend Federal Coronavirus task force members are all doom and gloom, worrying openly about a spike in US cases in the next several days and weeks. We expect the slowdown in European cases to slow down as infections in the Netherlands and Germany and a few others are bottoming out at levels that authorities will judge as still too high. So, overall levels of lockdowns in Europe will remain elevated until at least the end of January, when vaccine campaigns will be under way in the three biggest European nations: Germany, the UK and France.
- **If you want to look for signs of the pandemic in credit markets, you might need magnifying glasses.** The rally in credit has been so intense that IG cash and synthetic spreads are essentially flat for the year. Junk spreads are up only marginally despite all the gloom and doom.
- **Looking ahead, Fed Chair Powell will give testimony before Congress later in the afternoon (day 1 of 2), where he is expected to confirm the dovish hold.** Economic data reports include the Eurozone CPI, which should show that the region remains mired in modest deflation and with core CPI almost at zero. The ISM Manufacturing PMI should confirm that the US economy will show solid growth in Q4. The Atlanta Fed nowcast is tracking at 11% annualized (2.7% QoQ) while the Eurozone economy should shrink by 1% or perhaps 2% on a quarterly basis in Q4.

Calendar

TIME	REGION	EVENT	PERIOD	CONSENSUS	PRIOR
09:00	Netherl.	NEVI Manufacturing PMI	Nov	--	50.4
09:15	Spain	Markit Manufacturing PMI	Nov	50.7	52.5
09:45	Italy	Markit Manufacturing PMI	Nov	52.0	53.8
09:50	France	Markit Manufacturing PMI	Nov F	49.1	49.1
09:55	Germany	Markit/BME Manufacturing PMI	Nov F	57.9	57.9
09:55	Germany	Unemployment Change (000's)	Nov	8.0k	-35.0k
09:55	Germany	Unemployment Claims Rate SA	Nov	6.30%	6.20%
10:00	Eurozone	Markit Manufacturing PMI	Nov F	53.6	53.6
10:00	Greece	Markit Manufacturing PMI	Nov	--	48.7
10:00	Italy	GDP WDA YoY	3Q F	-4.70%	-4.70%
10:00	Italy	GDP WDA QoQ	3Q F	16.10%	16.10%
10:30	UK	Markit PMI Manufacturing SA	Nov F	55.2	55.2
10:45	Spain	Sells 189-Day; 371-Day Bills			
11:00		OECD Publishes Economic Outlook			
11:00	Malta	Sells 91-Day; 364-Day Bills			
11:00	Eurozone	CPI MoM	Nov P	-0.30%	0.20%
11:00	Eurozone	CPI Estimate YoY	Nov	-0.20%	-0.30%
11:00	Eurozone	CPI Core YoY	Nov P	0.20%	0.20%
11:30		ECB Main Refinancing Operation Result			
11:30		Belgium Cancels 98-day Bills Auction			
12:30		ESM Sells 3-Month Bills			
13:30		Riksbank Governor Stefan Ingves at SEB Online Event			
14:30	Canada	Quarterly GDP Annualized	3Q	--	-38.70%
14:30	Canada	GDP YoY	Sep	--	-3.80%
15:00		ECB Weekly Balance Sheet			
15:45	US	Markit Manufacturing PMI	Nov F	--	56.7
16:00		Fed's Powell Appears Before Senate Banking Committee			
16:00	US	ISM Manufacturing MI	Nov	58.0	59.3
16:00	US	Construction Spending MoM	Oct	0.80%	0.30%
16:20		Sweden's Riksbank Releases Targeted Corporate Bond Buys			
18:00	Italy	New Car Registrations YoY	Nov	--	-0.18%
18:00		ECB's Lagarde Speaks in Atlantic Council Event			
18:00		Fed's Brainard Discusses Community Reinvestment Act			
19:00	US	Sells 52-Week Bills			
19:15		Fed's Daly Speaks at Economic Forecast Event			
21:00		Fed's Evans makes Opening Remarks at Regional Conference			

Consensus data: Bloomberg News; All Times Are in Central European Time

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