



AFS Insights

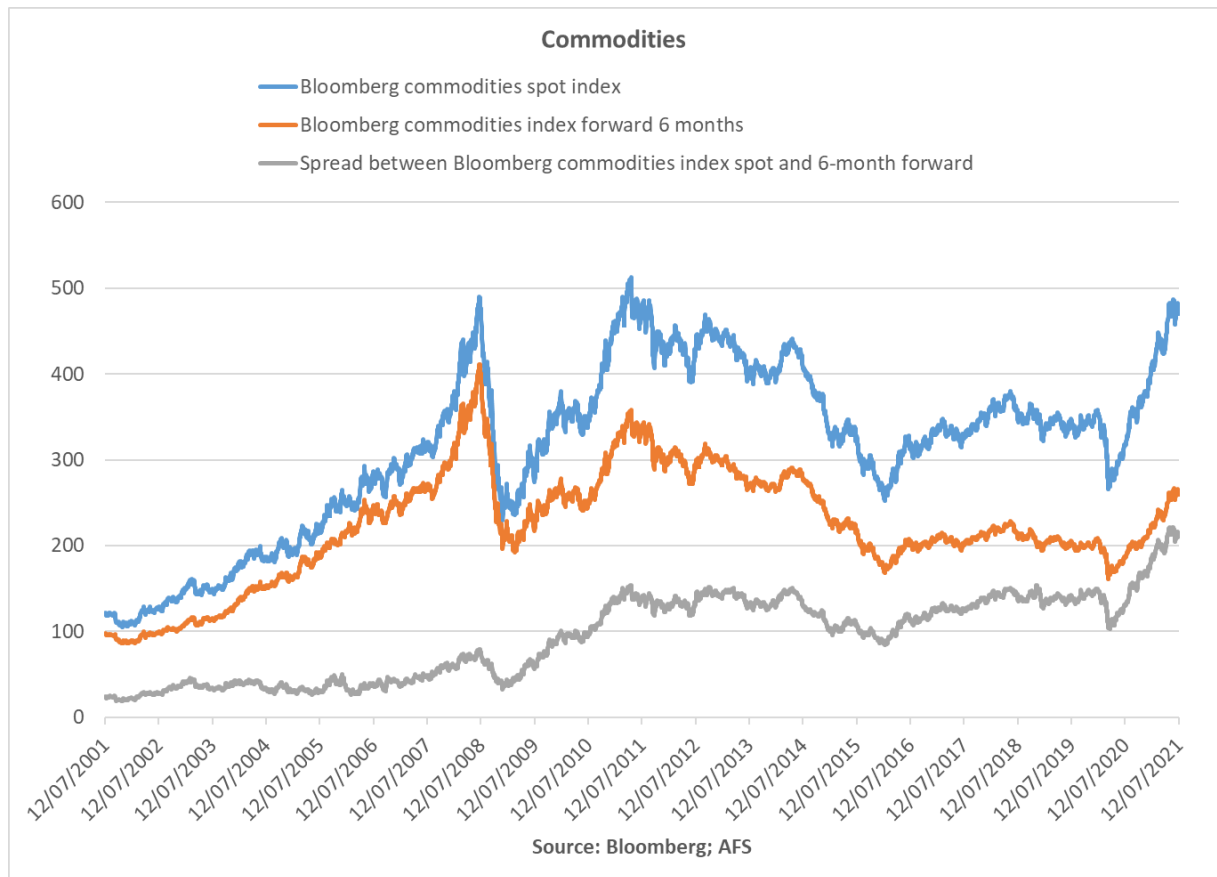
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Headline Sweep

- ECB's Lagarde Sees Policy Change in July, Possible 2022 Measures
- French Minister Rules Out New Lockdown as Delta Spreads
- U.K.'s Johnson to Urge Caution as Covid Restrictions Are Lifted
- Pfizer, U.S. health officials to discuss COVID boosters on Monday
- Analysts Say China Economic Growth to Slow in 2H: Sec. Journal

Overnight Comment/The Day Ahead

- **A couple of several things are drawing our attention.** US Treasury yields have erased about half of last week's declines – yield decreases that were attributed to a short-covering rally. At pixel time the 10y yield was trading at 1.35bps, up 12bps or so from last week's low. The Treasury rally caught us off guard for sure. We were only dabbling with yield curve flattening on the prospect of tighter Fed policy, and not a growth scare (there were whiffs of a growth scare last week on China, see below) or a short squeeze.
- **The rebound in Treasury yields is coinciding with reports that Beijing is already getting worried about the growth slowdown that we discussed several times in these Comments.** Last Friday the PBOC took the rare action of cutting reserve requirements for banks. Over the weekend Bloomberg quoted Chinese media as reporting that in the second half local government borrowing and spending on investments is set to accelerate as growth is set to slow. Growth fears or not: commodities have not gotten the message and continue to trade at inflationary boom levels:

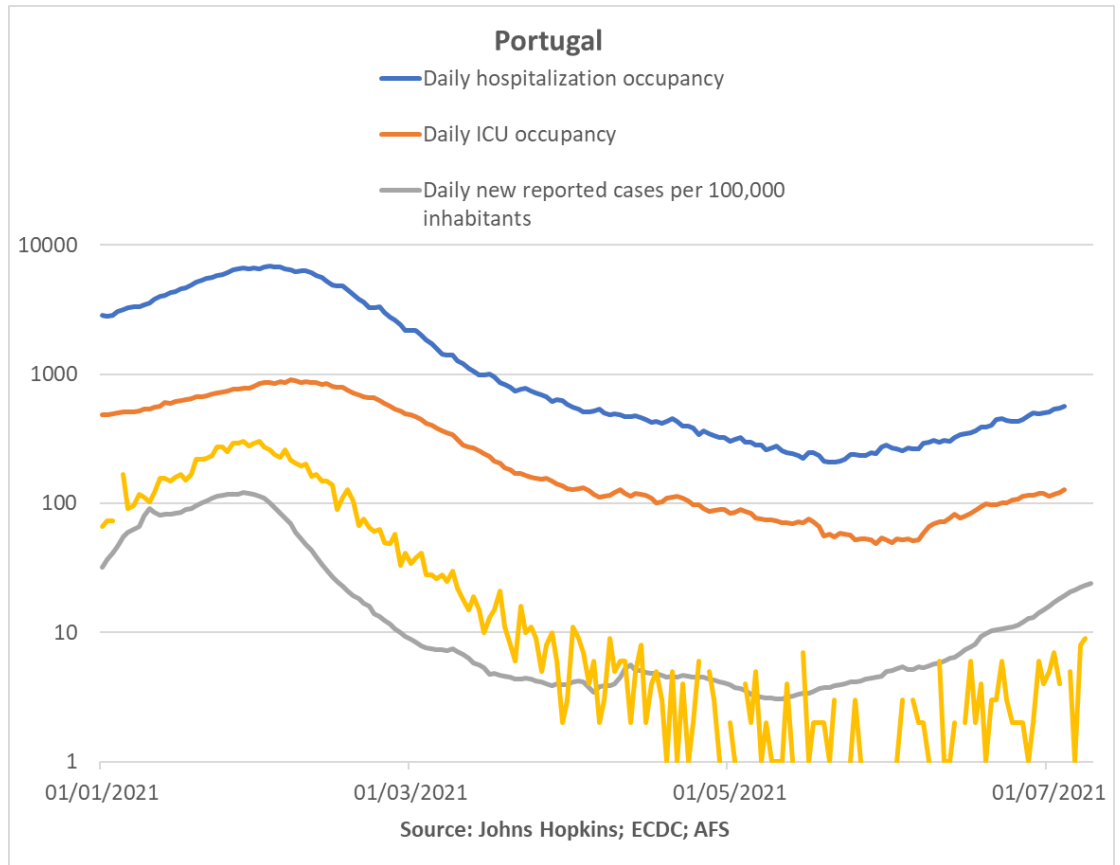


- Last week's ECB strategy review was widely ignored by the market, analysts and the media.** President Lagarde doesn't like to be ignored and she tried to inject some life into next week's Governing Council meeting. She hinted that there will be a guidance change, given the tweak to the inflation target. With pandemic QE set to end in March 2022, Lagarde suggested some the program's free-wheeling aspects could live on in the 'conventional' QE program. The obvious candidate is the soft yield curve and peripheral spread control. Our thinking about post-pandemic QE involved simply boosting purchase volumes from their current monthly level of 20 billion euros, not yield/spread targeting. Furthermore, the interest rate guidance will also be overhauled, though for logistical reasons only, given the tweaked inflation target. For the near term, nothing will change.
- And speaking of rates guidance, opportunities remain in 2-year forward periods for EONIA/ESTR OIS.** We have a hard time imagining a scenario two years from now where there is a deposit rate hike and/or changes in excess liquidity levels that would see a meaningful move in the settlement of ESTR:



We understand the forward rate doesn't represent conviction on an ECB rate hike. But still.

- The Coronavirus situation in Europe bears close attention once again.** As our Coronavirus chart packs shows, the Delta variant is spreading fast in Europe. Furthermore, the effectiveness of vaccines against symptomatic disease from the Delta variant remains strong but is clearly waning. Hence Pfizer/BioNTech are pushing for regulatory clearance for their booster shot. More importantly, there remains a clear link between rising cases and hospitalizations. The chart below shows new cases, hospitalizations and ICU occupancy on a log scale:



- **We'll refine the data further this week and include more countries with new cases/hospital-ICU ratio.** More importantly, we are still trying to find data on hospitalizations/ICU occupancy of vaccinated citizens.
- **Looking ahead, our central bank overlords aren't enjoying their vaccinations yet as the calendar for the week is chockful of central bank-speakers.** The main event is Fed Chair Powell's two-day testimony before Congress on Wednesday and Thursday. Key economic reports include US retail sales and Eurozone CPI on Friday. Central banks in our universe that will announce rates are the PBOC tomorrow (medium term rate announcement) and the Bank of Korea on Thursday.

Calendar

| TIME | REGION | EVENT | PERIOD | CONSENSUS | PRIOR |
|-------|----------|---|--------|-----------|--------|
| 09:30 | | Riksbank Publishes Minutes From June 30 Meeting | | | |
| 10:00 | | SNB Domestic Sight Deposits CHF | Jul-09 | -- | 632.8b |
| 10:00 | | SNB Total Sight Deposits CHF | Jul-09 | -- | 712.1b |
| 11:00 | | ECB Vice President De Guindos Speaks | | | |
| 11:30 | Germany | Sells 4 Billion Euros of 189-day Bills | | | |
| 12:00 | Portugal | CPI EU Harmonized MoM | Jun F | -- | 0.20% |
| 12:00 | Portugal | CPI EU Harmonized YoY | Jun F | -- | -0.60% |
| 14:50 | France | Sells Bills | | | |
| 15:45 | | ECB Weekly QE Overview | | | |
| 17:30 | US | Sells 13-Week; 26-Week Bills | | | |
| 18:00 | | Fed's Kashkari Speaks at Townhall | | | |
| 19:00 | US | Sells 3-Year Notes | | | |
| 19:00 | US | Sells 10-Year Notes Reopening | | | |
| | | ECB's Lagarde, Panetta at Eurogroup Meeting | | | |
| | | UK G'ment Decides on Ending most Covid Restrictions | | | |
| | | Ukraine President Meets Merkel in Berlin | | | |

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

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