



AFS Insights

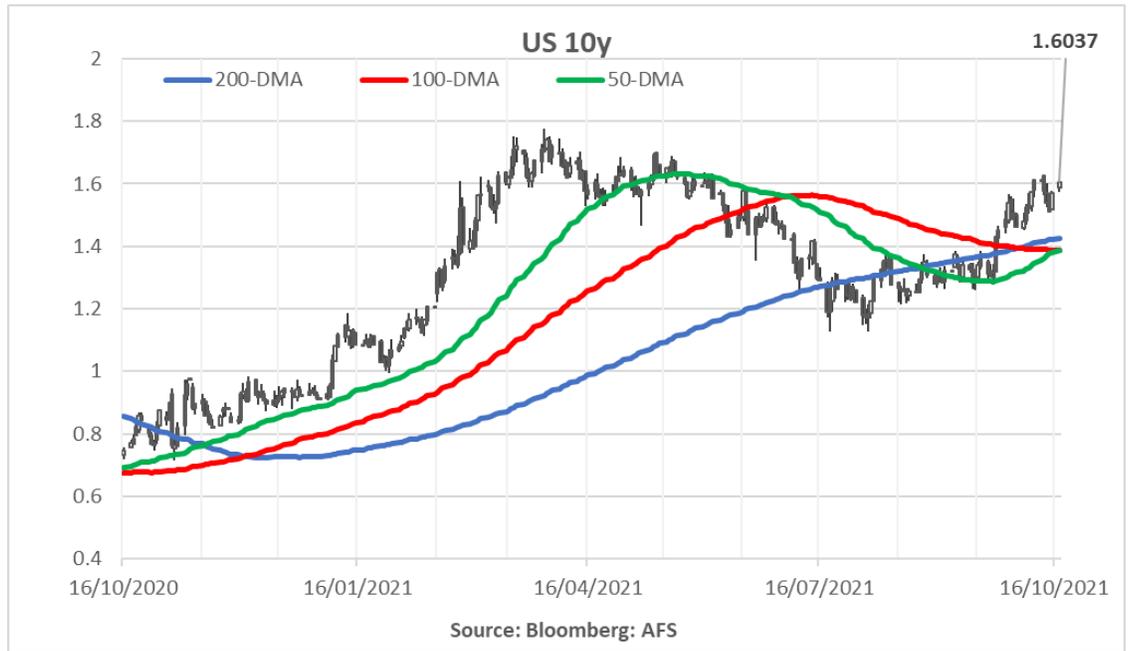
Arne Petimezas
Senior Analyst
+31 20 522 0244
a.petimezas@afsgroup.nl

Headline Sweep

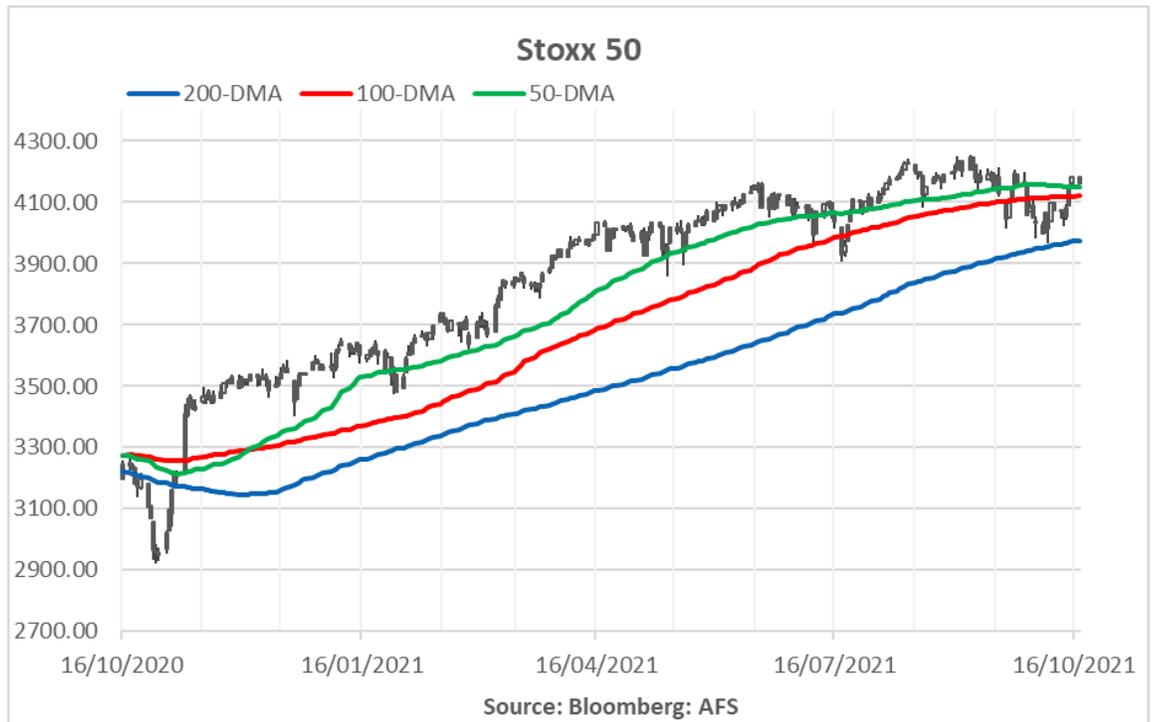
- ECB's Lagarde Says Inflation Spike Is 'Largely Transitory'
- ECB Mulls Raising Limit on Purchases of EU-Issued Bonds: FT
- Bailey Says Bank of England 'Will Have to Act' on Inflation
- PBOC's Yi Says China Can 'Contain' the Risk From Evergrande
- Japan PM Says Preemptive Military Capability an Option: Yomiuri
- Poland's Most Powerful Man Rules Out Nation's Exit From EU

Overnight Comment/The Day Ahead

- **Markets moving on central banks tightening policy sooner than later to stamp out inflation remains all the rage these days.** With long end bond yields still mostly range-bound, the more explosive moves we see in 2-year government bond yields these days. At the same time, the moves in OIS forwards for 12 months ahead (or there about) gives plenty of food for thought for us central bank watchers.
- **The 2-year US Treasury yield spiked later on Friday, and at pixel time we're now trading at a post-outbreak high of 0.42.** The 10y can't keep up and was at 1.60, which makes for a flatter yield curve. In fact, the 5y/30y spread (trading at 90bps) has flattened aggressively and is now at levels that we reached late in the last business cycle, when Fed interest rate hikes were well under way. Expect the flattening trend to hold. Past precedent has shown that when Fed rate hikes come into view, the cyclical high for spreads like the 2y10y and 5y30y have been reached. By definition, that will put the brakes on further increase in long end yields.
- **In OIS-space, a Fed rate hike is priced for November 2022; and ECB-hike around the same time; and about a 66% chance of a BOE hike by the end of this year.**
- **In overnight market action Chinese sovereign yields spiked after PBOC rate setters talked down the prospect of reserve ratio cuts or other forms of monetary easing.** According to wire reports the PBOC sees inflation as "controllable" and the Evergrande situation as contained. Over the past week the Chinese 10y sovereign yield has jumped 10bps, meaning that Chinese sovereign debt has finally joined the global sell off.

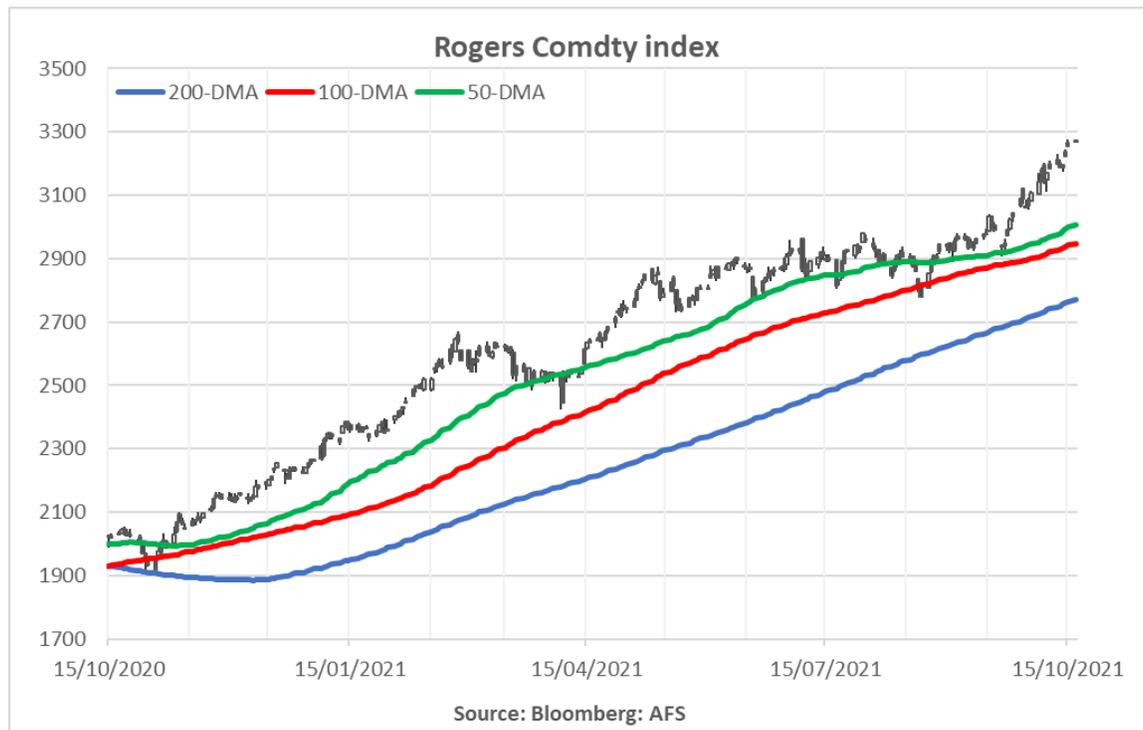


- **Asian equities started the week with moderate losses, ranging from 0.2% for the Nikkei to more than 1% for the Shanghai Composite.** European and US equities, which are our main focus, have mostly recouped their early autumn levels. Which means that prices and valuations remain very high.



- **In FX space the greenback was on the backfoot against the major and EM currencies last week, which means that is now up just 4.6% YTD against a broad swathe of currencies on a trade-weighted basis.** On the charts, the commodities rally doesn't look like it's running out of steam. This month commodities advanced

another 11% as measured by the Rogers index, which is now up a chunky 44% for the year.



- **Looking ahead, the calendar for the week is mostly about central bank speak, and ECB-speak in particular.** We count no less than nine ECB-speakers scheduled to hit the mic in the next several days. Don't expect the ECB brass to change its tune on inflation.
- **So far, ECB talking heads are sticking to the line that the inflation surge is largely transitory.** Even the hawks, probably mindful of the 2008 and 2010/2011 policy mistakes, have toed the party line so to say. Furthermore, ECB leaks to the press on the central bank's next policy step pertain tweaks to bond buying and not a wholesale withdrawal of stimulus. To be more precise, the Governing Council is in unison that pandemic QE will end as guided for in March of 2022. The leaks suggest the 'old' QE program will continue to run at its current pace of 20 billion euros for a while after March 2022. And with no end date in sight, mind you. The program's modalities are likely to be eased a bit so that the ECB could make an attempt to quash a spread widening in the periphery if necessary. A 10bps rate hike, which is priced in a year from now, clearly isn't on the ECB's radar.
- **Fed-speak is also represented this week with half a dozen or so FOMC members on the calendar scattered throughout the week.** OIS have priced in a late autumn rate hike. We don't see much pushback from the Fed here as a majority on the FOMC will wholeheartedly support such a move as we learned from the September FOMC meeting and subsequent Fed-speak.
- **While the Bank of England is outside of our reservation, we do keep an eye on the central bank across the pond that is leading the pack these days.** Markets have sort of priced in a BOE hike by December. While the hike is no done deal, we notice no pushback from Governor Bailey against market pricing when he spoke over the weekend. Notice that he will hit the mic later today.

- **The main economic data report is Friday's Markit's Eurozone and US PMIs for October.** While the PMIs continue to soften consistent with the global growth slowdown narrative, they should still print solidly in expansion territory. Nastier details of the PMIs will include even stronger inflationary pressures, longer lead times and inventories running low or even depleted.

Calendar

TIME	REGION	EVENT	PERIOD	CONSENSUS	PRIOR
10:00		SNB Domestic Sight Deposits CHF	Oct-15	--	638.4b
10:00		SNB Total Sight Deposits CHF	Oct-15	--	714.1b
11:00	Slovakia	Sells 1% 2030; 0% 2024; 0.375% 2036 Bonds			
11:30	Germany	Sells 3 Billion Euros of 154-day Bills			
11:30	Germany	Sells 3 Billion Euros of 336-day Bills			
11:30	Netherl.	Sells Up to 2.5 Billion Euros 161-day Bills			
11:30	Netherl.	Sells Up to 2.5 Billion Euros 100-day Bills			
11:30		Fed's Quarles Discusses Financial Stability Board			
14:50	France	Sells Bills			
15:15	US	Industrial Production MoM	Sep	0.20%	0.40%
15:15	US	Capacity Utilization	Sep	76.50%	76.40%
15:15	US	Manufacturing (SIC) Production	Sep	0.30%	0.20%
16:00	US	NAHB Housing Market Index	Oct	75	76
16:30		BOE's Jon Cunliffe speaks on digital currencies			
17:30	US	Sells USD48 Bln 13-Week; USD45 Bln 26-Week Bills			
20:15		Fed's Kashkari Discusses Improving Financial Inclusion			
22:00	US	Total Net TIC Flows	Aug	--	\$126.0b
22:00	US	Net Long-term TIC Flows	Aug	--	\$2.0b
	US	Monthly Budget Statement	Sep	-\$180.0b	-\$124.6b

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

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