



AFS Insights

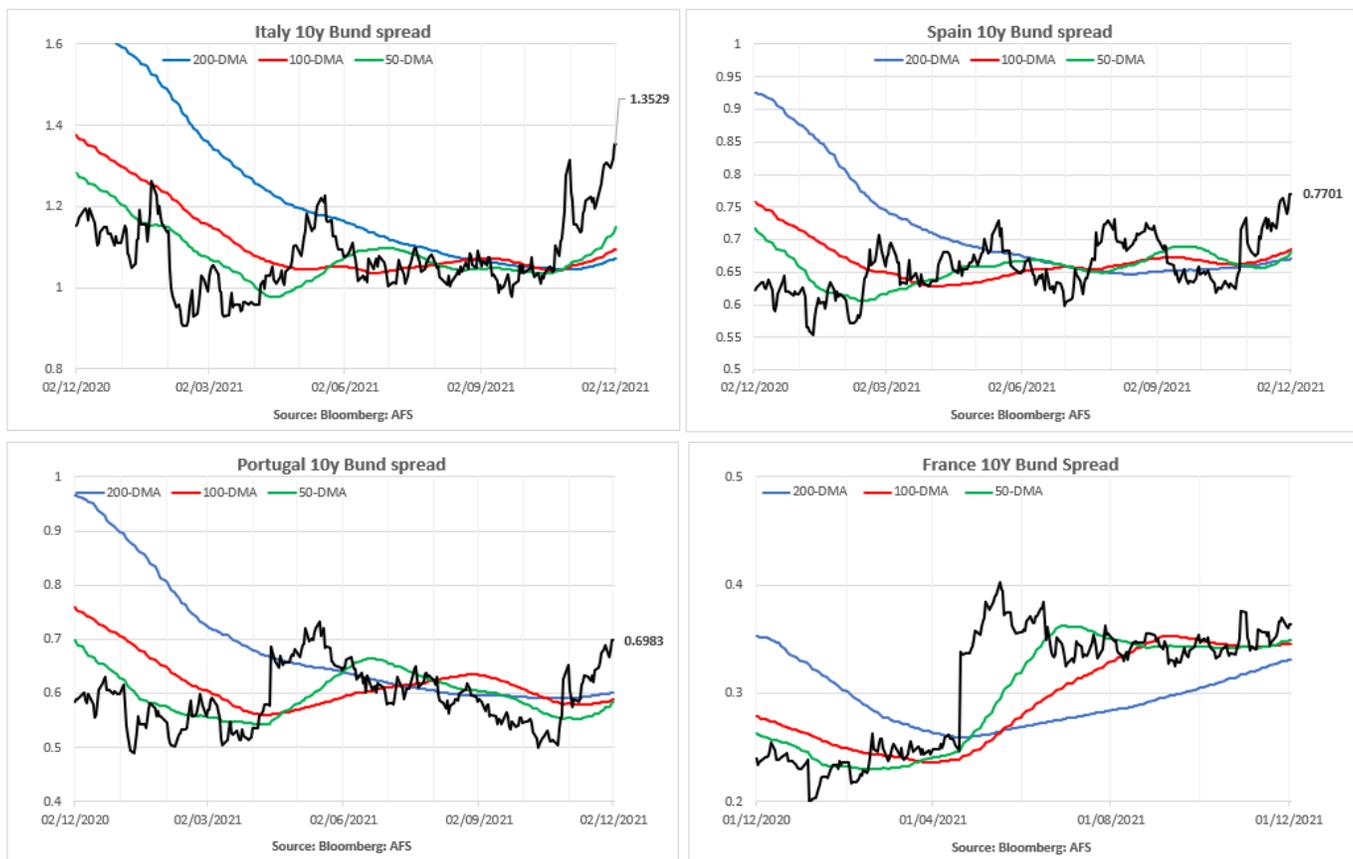
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Headline Sweep

- Others punish, Slovakia incentivises elderly to get vaccinated
- Powell Stresses Vigilance on Inflation, Says Policy to Adapt
- Ukraine Asks EU for Financial Aid With Russian Troops at Border
- China, U.S. Set for Meeting of Top Military Officials, SCMP Says
- Erdogan Replaces Finance Minister as Rate Cuts Deepen Rifts

Overnight Comment/The Day Ahead

- **The bond market remains very, very jittery as liquidity is probably at rock-bottom levels.** In overnight market action long(er) end US Treasury yields re-tested the Omicron lows after the AP reported that the first case of the new variant has been detected in the US of A. Inevitable of course, but the headlines still triggered a slide in yields on the long(er) end. Markets are giving Powell & Co little rope for tightening as the 2y10y yield spread is in the high 80bps now (before Omicron and the hawkish pivot in the 100-110bps range), which means less room for rate hikes before the yield curve flips.
- **And while Treasury and Eurozone govies sold off earlier this week on Powell's taper speed up talk, in our book Powell's hawkish pivot is the best thing for bonds since the Volcker shock.** If there was a time to inflate record debt levels away, now would be it. Clearly, the Fed is managing to avoid the temptation.
- **The ECB is feeling more pressure by the day to pivot hawkish too on inflation.** What punters seem to be forgetting is that wage growth is lacking in the Eurozone, while at least in the US it is keeping up to some extent with inflation. With no wage growth, it is very hard for Lagarde & Co to turn hawkish.
- **Elsewhere in markets Eurozone peripheral bond spreads are at their widest in more than a year as punters correctly reason that no matter how the ECB will cut back on QE in 2022, the support for the periphery will always become less:**



- **USD OIS are reloading Fed rate hike bets, with the 1-year forward rate at 81bps, just 7bps lower than last Thursday's close.** Asian equities are flattish this morning as punters start to overcome the Omicron scare. Note that the Euro Stoxx 50 and the S&P 500 are down just by 4%-5% from their ATHs on the new variant. Most Asian markets and EM markets had a bad or even terrible year anyway. So, no biggie. Commodities have seen stiff losses, with crude down 15% and overall commodities down 8% over the past five days.
- **In FX EM currencies are still in a world of hurt against the dollar (near an all-time low in fact) driven by confetti moves in TRY.** Against the majors the dollar is only down modestly since Omicron. One of the strongest currencies these days remains CNH, which has nearly erased the Trump trade war losses and on a broad trade-weighted basis is trading at a multi-year high.
- **Regarding the newsflow, geopolitical tensions continue to dominate.** We got more worrisome headlines on Ukraine; China is making no friends in the world of tennis because of the disappearance of Peng Shuai. However, we finally did had some relatively positive headlines as top US and China military brass are set to talk over arms control and avoiding accidents according to the South China Morning Post.
- **Looking ahead, expect a quiet day if the calendar is any guide.** We only have a handful of Fed-speakers on tap. Tomorrow will be busier, with US labor market data, ISM services PMI and key ECB-speakers (chief economist Lane and Lagarde herself). Fun fact: Lagarde's former chief of staff was handed a 1-year suspended prison sentence this week. No mention of that in the press! Those with good memories will remember that Lagarde was already found guilty for negligence in the Tapie case. And then there was of course the biggest and baddest bail out in

IMF history, namely Argentina. Madame Lagarde has such a great resume. In March of 2022 Argentina has to pay the IMF. And its government wants to default (i.e. ask for a net present value reduction of the debt). We wonder how long it will take for these scandals to reach the journals at the ECB press conferences.

Calendar

TIME	REGION	EVENT	PERIOD	CONSENSUS	PRIOR
01:30	Australia	Trade Balance	Oct	A\$11000m	A\$12243m
01:30	Australia	Exports MoM	Oct	-1%	-6%
01:30	Australia	Imports MoM	Oct	2%	-2%
02:30		BOJ Board Suzuki Speech in Hyogo			
09:00	Spain	Unemployment Change	Nov	--	-0.7k
10:00	Italy	Unemployment Rate	Oct	--	9.20%
10:30	Spain	Sells Bonds			
10:50	France	Sells Bonds			
11:00	Eurozone	PPI MoM	Oct	--	2.70%
11:00	Eurozone	PPI YoY	Oct	--	16.00%
11:00	Eurozone	Unemployment Rate	Oct	7.40%	7.40%
11:50	France	Sells I/L Bonds			
12:00	Czech Rep.	Sells Up to 5 Billion Koruna of 28-day Bills			
14:30		Fed's Bostic Discusses the High Cost of Housing			
14:30	US	Initial Jobless Claims	Nov-27	--	199k
14:30	US	Continuing Claims	Nov-20	--	2049k
17:00		Fed's Quarles Shares His Departing Thoughts			
17:30		Fed's Bostic Takes Part in a Reuters Event			
17:30	US	Sells 4-Week; 8-Week Bills			
17:30	US	U.S. Sells 8-Week Bills			
17:30		Fed's Daly and Barkin speak at Peterson Institute			
		OPEC and Non-OPEC Ministerial Meeting by Videoconference			
		Federal Reserve Weekly Balance Sheet			

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

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