



Morning Comment

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AFS Insights

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Headline Sweep

- Fed’s Brainard Says Curbing Inflation Is ‘Most Important Task’
- Fed’s Daly Joins Camp That Sees Rate Liftoff as Early as March
- China Banks Curb Property Loans to Local Government Firms
- Ukraine tensions: US says Russia faces stark choice

Overnight Comment/The Day Ahead

- **Meanwhile in markets, with the Fed not being hawkish enough and no unexpected blowout in US CPI figures yesterday, we get a familiar picture of a softer dollar, stable US Treasury yields and Fed rate hike bets, and a reprieve for emerging markets.**
- **After literally falling out of bed at the start of the year, US Treasury yields have been stable this week.** Bunds are taking their cue from Treasuries, with the 10y still failing the pierce the psychological level of zero. Meanwhile Lagarde & Co at the ECB are just relieved that peripheral spreads didn’t blow out during the bond market carnage at the start of the year.

GERMANY	-0.59	0.00	0.01	0.10	-0.38	0.00	0.02	0.21	-0.06	0.00	0.00	0.31	0.25	0.00	-0.02	0.32
NETHERLANDS	-0.52	0.00	0.12	0.20	-0.27	0.00	0.09	0.30	0.05	0.00	0.01	0.28	0.35	0.00	-0.03	0.28
FRANCE	-0.62	0.00	0.03	0.04	-0.18	0.00	0.03	0.21	0.32	0.00	0.06	0.34	0.95	0.00	-0.01	0.31
FINLAND	-0.60	0.00	-0.03	0.01	-0.28	0.00	0.02	0.20	0.17	0.00	0.01	0.28	0.57	0.00	-0.01	0.31
AUSTRIA	-0.57	0.00	0.03	0.06	-0.25	0.00	0.04	0.22	0.17	0.00	0.01	0.28	0.69	0.00	-0.03	0.31
BELGIUM	-0.63	0.00	0.01	0.04	-0.30	0.00	0.03	0.21	0.26	0.00	0.00	0.28	0.94	0.00	-0.03	0.31
IRELAND	-0.53	-0.01	0.05	0.06	-0.28	-0.02	0.05	0.17	0.34	-0.03	0.06	0.27	0.94	-0.03	0.02	0.26
ITALY	-0.11	0.00	-0.05	0.15	0.46	0.00	-0.01	0.27	1.26	0.00	-0.01	0.33	2.09	0.00	-0.04	0.33
SPAIN	-0.51	0.00	0.08	0.05	-0.09	0.00	0.04	0.19	0.63	0.00	0.00	0.30	1.42	0.00	-0.02	0.34
PORTUGAL	-0.11	0.00	0.05	0.12	-0.19	0.00	0.03	0.18	0.57	0.00	0.03	0.30				
SLOVENIA	-0.52	-0.01	0.04	0.11	-0.10	-0.03	0.04	0.20	0.36	-0.06	-0.02	0.19				
US	0.91	-0.01	0.05	0.26	1.51	-0.01	0.04	0.28	1.74	0.00	0.02	0.30	2.08	0.00	0.01	0.25

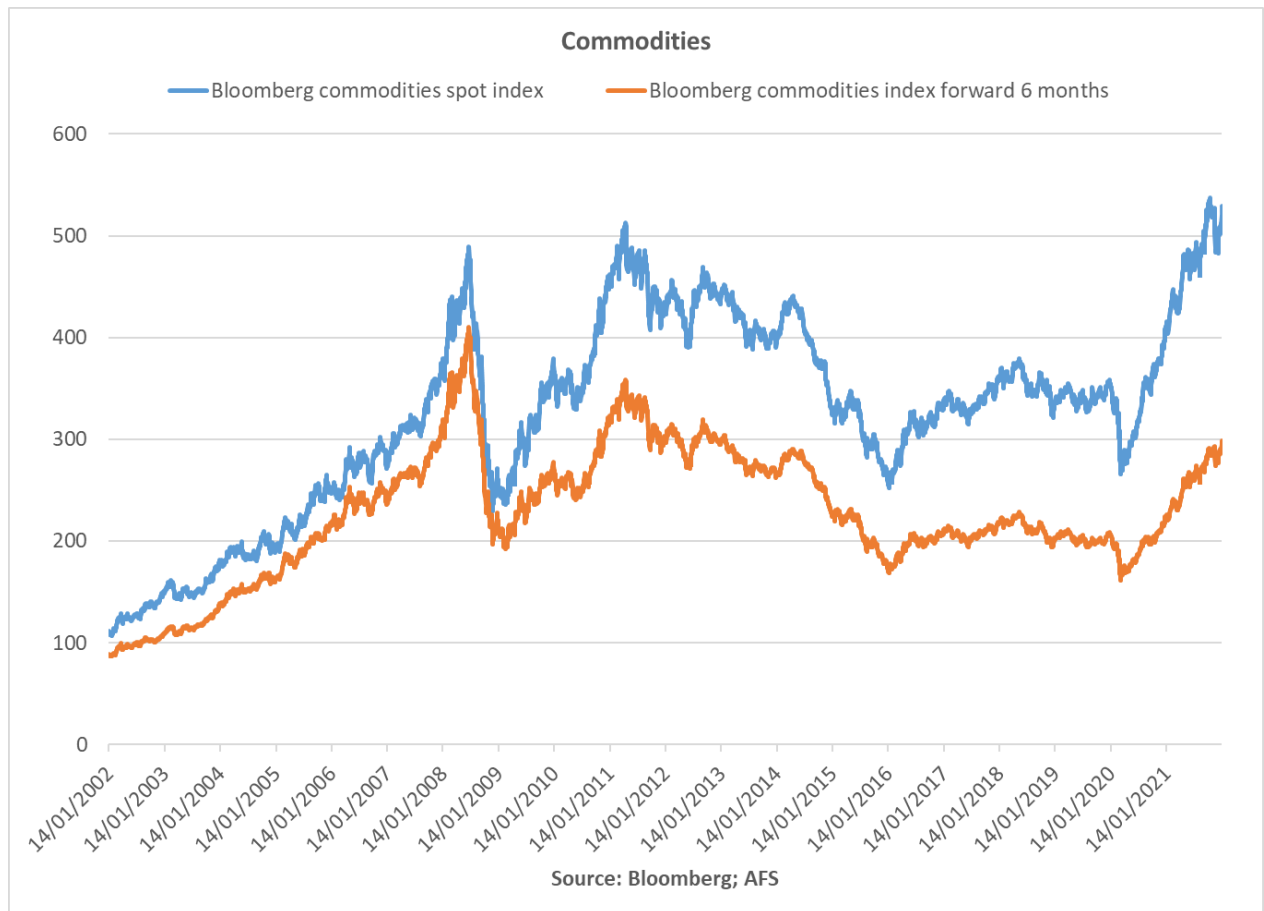
- **A major theme for us this year is that central banks will soon run out of road when they start to tighten policy to squeeze the inflation out of the economy.** Inflation they created when the monetized the unprecedented fiscal deficits by the way. The US 2y10y Treasury yield spread is trading in the low 80bps, while it was at 140bps when former Chair Yellen started the prior rate hike cycle as far back as 2015. The Canadian equivalent spread is just at 60bps; the UK equivalent at 30bps; and the Czechs, which have been hiking aggressively, have massively

inverted their yield curve with a 60bps inversion in the 2y10y spread. And mind you, Czech inflation at 6.6% is still not at its peak.

- **Since no one cares about Czech yield curves, here's something to keep in mind.** For every Fed rate hike, the 2y10y spread will narrow by about 15bps. When it inverts, and is substantially inverted for months – which is likely to happen if the Fed wants to purge inflation – a recession is all but ensured. This isn't a reason to go doom and gloom on risk assets though. Mechanically speaking, an inversion in the yield curve is a 2023 story based on current OIS pricing. And then it usually takes another 12 to 18 months for a recession to start.
- **Resuming with some market commentary, Asian equities are mostly lower this morning for no particular reason.** US equities were up modestly yesterday, but we're still looking at a bad start of the year for the US. Eurozone equities are outperforming their US counterparts for a change.

	price		1d Δ	5d Δ	1m Δ	YTD	1y Δ
DAX	16010.32	→	0.00%	→ -0.26%	↗ 3.45%	→ 0.79%	↗ 14.45%
CAC	7237.19	→	0.00%	→ -0.17%	↗ 4.47%	→ 1.18%	↗ 27.39%
Stoxx 50	4316.39	→	0.00%	→ -0.19%	↗ 3.77%	→ 0.42%	↗ 18.54%
eur Stoxx bnks	108.41	→	0.00%	↗ 2.26%	↗ 11.29%	↗ 7.94%	↗ 39.38%
Stoxx 600	486.20	→	0.00%	→ -0.40%	↗ 3.28%	→ -0.33%	↗ 18.01%
AEX	790.44	→	0.00%	→ 0.58%	↗ 1.93%	→ -0.94%	↗ 20.37%
FTSE MIB	27714.26	→	0.00%	→ 0.21%	↗ 3.93%	→ 1.34%	↗ 22.43%
IBEX	8770.30	→	0.00%	→ -0.22%	↗ 5.99%	→ 0.65%	→ 4.75%
FTSE 100	7551.72	→	0.00%	↗ 1.36%	↗ 5.31%	→ 2.26%	↗ 11.02%
SMI	12670.47	→	0.00%	→ -0.95%	↗ 1.11%	→ -1.59%	↗ 16.77%
S&P 500	4726.35	→	0.00%	→ 0.65%	→ 0.35%	→ -0.84%	↗ 24.52%
Nasdaq	15188.39	→	0.00%	→ 0.71%	→ 0.05%	→ -2.92%	↗ 15.69%
Nikkei	28489.13	↘	-0.96%	→ 0.00%	→ 0.10%	→ -1.05%	→ -0.73%
HangSeng	24360.59	↘	-0.17%	↗ 5.58%	↗ 4.01%	→ 4.12%	↘ -15.11%
SHCOMP	3561.66	↘	-0.99%	→ -0.68%	↘ -2.36%	→ -2.15%	→ -0.12%
S&P/ASX 200	7474.40	↗	0.48%	↗ 1.58%	↗ 2.01%	→ 0.40%	↗ 11.30%
MSCI EM	1267.34	→	0.00%	↗ 4.13%		→ 2.87%	
VIX	17.62	↘	0.00%	↘ -10.15%		→ 2.32%	
VSTOXX	18.30	→	0.00%	→ -0.40%		↘ -5.01%	

- **Central bankers won't like it that commodities have resumed their advance this year, with crude nearly matching the 2021 peaks.** Overall commodities, as measured by the Bloomberg index, are just a smidgen below last year's record-high:



- **In FX the greenback is holding to its recent stiff losses against both EM currencies and developed market currencies.** For the year the greenback is down a chunky 5% against the major currencies and no less than 7.6% against EM currencies. ‘
- **In the overnight newsflow we had another regional Fed President joining the hawks in calling for a March rate hike.** The top brass – Powell, Brainard and Williams – have shown no real inclination for a March hike yet. In any case, we will need to do a headcount soon on preferences on the timing for the first rate hike.
- **Yesterday evening’s US-Russia meeting on Ukraine appears to be inconclusive, with neither the US side and its NATO minions nor the Ruskis retreating from their red lines.** The best thing that can be said, is that both sides agree to keep talking. A few more remarks here are in order though.
- **The talks between the US and Russia on the security of European didn’t involve any European nation (let alone the EU and its impotent boast driven by the French of strategic autonomy) nor the Ukraine.** All very *realpolitik*. To deter Moscow from doing funny things in the Ukraine or to the Ukraine, the US has threatened with supposedly crippling economic and financial sanctions. We have also seen threats of making Europe’s neutrals members of NATO (Austria, Sweden, Finland), though it’s not clear to us if this is the position of the US. The question if Moscow will call the US’ bluff. In this regard, it is worth pointing out that President Putin sent the White House a message with the rapid deployment of troops in Kazakhstan to quell the unrest: we have boots on the ground in the blink of an eye. Finally, while we don’t see how Moscow can retreat from its outlandish demands of making the eastern NATO members second tier members (or

completely sacrificing them to appease Moscow) without losing face, we also fail to see which lever the US can pull to force Moscow to back down. Putin and his hawks are ready for another landgrab, but no one believes the US will go to war over Ukraine.

- **Looking ahead, we have a smattering of ECB-speakers and Fed-speakers lined up. The main economic data event is the US PPI report. Producer price inflation usually get glossed over by markets. Don't expect this time to be different.**

Calendar

TIME	REGION	EVENT	PERIOD	CONSENSUS	PRIOR
09:45		BOE's Catherine Mann speaks on European economy			
10:00		ECB Releases Economic Bulletin			
10:00	Italy	Industrial Production MoM	Nov	0.40%	-0.60%
10:00	Italy	Industrial Production WDA YoY	Nov	3.70%	2.00%
11:00	Italy	Sells Bonds			
11:00	Greece	CPI EU Harmonized YoY	Dec	--	4.00%
11:30		ECB Vice President De Guindos Speaks			
12:00	Czech Rep.	Sells Up to 10 Billion Koruna of 28-day Bills			
14:30	US	PPI Final Demand MoM	Dec	0.40%	0.80%
14:30	US	PPI Ex Food and Energy MoM	Dec	0.50%	0.70%
14:30	US	PPI Final Demand YoY	Dec	9.80%	9.60%
14:30	US	PPI Ex Food and Energy YoY	Dec	8.00%	7.70%
14:30	US	Initial Jobless Claims	Jan/08	200k	207k
14:30	US	Continuing Claims	Jan/01	1760k	1754k
15:30		ECB Board Member Frenk Elderson Speaks			
16:00		Senate Banking Cmte holds Brainard nomination hearing			
17:30	US	Sells 4-Week; 8-Week Bills			
18:00		Fed's Barkin Discusses the Economic Outlook			
19:00	US	Sells USD22 Bln 30-Year Bonds Reopening			
19:00		Fed's Evans Discusses Economy and Monetary Policy			
		Federal Reserve Weekly Balance Sheet			

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

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