Daily European Opening News

11th June 2021

- **Asian equity markets traded mixed as the region only partially benefitted from the momentum in the US**
- **In FX, DXY traded in a tight range on either side of 90.00, EUR/USD and GBP/USD remained sub-1.2200 and below 1.4200 respectively**
- **ECB sources said three policymakers wanted to cut PEPP purchases; some differed on bond-buying needs in thin summer markets**
- **UK PM Johnson is said to mull a four-week postponement before ending COVID-19 restrictions**
- **Crude was volatile after reports regarding US lifting sanctions on Iranian oil officials were downplayed as routine and unrelated to nuclear deal talks**
- **Looking ahead, highlights include the UK GDP Estimate, IEA MOMR, University of Michigan Prelim and the G7 Summit**

CORONAVIRUS UPDATE

US government halted new shipments of the Johnson & Johnson (JNJ) COVID vaccine, according to state and federal health officials, while reports noted that this is one of many steps federal agencies are taking that could help clear a backlog of unused doses before there expiration date. (WSJ)

Pfizer (PFE) CEO said the COVID-19 vaccine protects against all variants so far, while other reports noted that China's Sinovac and India's Covaxin vaccines were said to be more effective on the Delta strain of COVID-19. (Newswires)

UK PM Johnson is said to mull a four-week postponement before ending COVID-19 restrictions, with ministers considering such a delay to provide business with certainty and give more time for second vaccinations. In other news, PM Johnson's spokesman said the UK and US are keen to get travel up and running as soon as possible but when it is safe to do so. (Newswires/The Times)

UK said G7 is to provide 1bln vaccine doses to the world by end-2022, while the US said it would donate 500mln doses to 92 poor and lower-middle-income nations and UK is to donate at least 100mln surplus doses within the next year. (Newswires/AFP)

ASIA

Asian equity markets traded mixed as the region only partially benefitted from the momentum in the US where the Nasdaq outperformed, and the S&P 500 posted fresh record highs after a dovish ECB more than offset the hot US CPI print to pressure yields, which was conducive for risk appetite. **ASX 200 (+0.3%)** just about kept afloat with outperformance in gold miners and tech counterbalanced by losses in the largest-weighted financials sector and with a non-committal tone heading into the extended weekend. **Nikkei 225 (+0.1%)** mirrored the tentative mood in the domestic currency despite reports Japan is considering lifting the COVID emergency for Tokyo on June 20th and with Toshiba shares pressured on allegations the Co. and government officials had previously conspired to lean on foreign investors to back company management in a key vote, while the **KOSPI (+0.7%)** was underpinned following the early trade figures which showed Exports rising 40.9% Y/Y during the first ten days of June. **Hang Seng (+0.5%)** and **Shanghai Comp. (-0.3%)** were varied with participants tentative before the long weekend due to the Dragon Boat Festival across Greater China on Monday, and after China passed the legislation to counter foreign sanctions. IPO newsflow was also in the spotlight after China's largest ride-hailing company Didi filed for a US listing which is expected to be the world's largest IPO in 2021. However, this failed to significantly boost key stakeholders SoftBank (21.5% stake) and Tencent (6.8% stake). Finally, 10yr JGBs extended above the 152.00 level as the global bond bid persisted in the aftermath of the dovish ECB and with yields stateside remaining pressured in which both the US 10yr and 20yr yields declined to three-month lows in which the former briefly dipped beneath 1.4350.

PBoC injected CNY 10bln via 7-day reverse repos with the rate at 2.20% for a net neutral daily position. (Newswires)
PBoC set USD/CNY mid-point at 6.3856 vs exp. 6.3860 (prev. 6.3972)

US Commerce Secretary Raimondo, in a call with her Chinese counterpart, expressed concerns over China's unfair and market-distorting industrial policies, while they talked about the need to level the playing field for US companies in China and the importance of protecting US technology from unauthorised users. There were separate comments from US Treasury Secretary Yellen that she spoke to Chinese officials about raising Chinese participation in debt relief programmes for low-income countries. (Newswires)

China's Huawei Technologies has opened a new cybersecurity centre that allows independent parties to inspect its wares, although there were also reports that the US warned UAE regarding the use of Huawei equipment and wants Huawei removed from its networks in 4 years. (Newswires)

BoK Governor Lee suggested they will normalize policy if the recovery is certain and that a recovery will be more clearer in H2, while he also noted that household debt has become more serious recently and that they will communicate sufficiently with markets on policy. (Newswire)

South Korea's June 1st-10th Exports rose 40.9% Y/Y and Imports rose 31.0% Y/Y. (Newswires)

UK/EU

ECB sources said three policymakers wanted to cut PEPP purchases at Thursday's meeting, while sources also said some policymakers noted upside risks to inflation and that some differed on bond-buying needs in thin summer markets. (Newswires)

ECB's Villeroy said there is no need to alter monetary policy, which is working. Inflation is increasing but remains below target. (Newswires)

UK PM Johnson stated he is optimistic about finding common ground to make sure of peace in Northern Ireland, while it was also reported that UK and US are to develop a new landmark bilateral technology partnership in 2021/22 and commit to the quick settlement of the large civil aircraft dispute, according to a joint statement. Furthermore, the sides committed to deepening and strengthening their crucial economic and trading partnership. (Newswires)

French President Macron warned UK PM Johnson that he would veto any Brexit renegotiations on Northern Ireland. (Times)

UK said it concluded a 2021 deal with the EU on fishing catch which covers catch limits for 70 shared fish stocks worth approximately GBP 333mln in fishing opportunities to the UK fleet. (Newswires)

UK mortgage borrowers interest payments in the 12 months to April was at GBP 31.6bln which was the lowest in 20 years. (FT)

FX

In FX, the **DXY** was lacklustre overnight and eventually gave up the 90.00 level to the downside amid a softer yield environment after the dovish ECB meeting overshadowed the firmer than expected US CPI, while the other data releases stateside were varied. On the infrastructure front, the US bipartisan group of Senators reached an agreement on infrastructure valued at USD 1.2tln over eight years which will be fully paid for and does not include tax hikes, although the White House noted that questions need to be addressed and that the admin will work with the bipartisan Senate group in the days ahead. **EUR/USD** traded slightly firmer but remained in the prior day’s range after price action calmed from the post-ECB volatility, while source reports noted three policymakers wanted to cut PEPP purchases at the meeting and that some differed on bond-buying needs in thin summer markets. **GBP/USD** was relatively flat overnight as it took a breather from yesterday’s recovery, and with the pair kept afloat after the UK concluded a 2021 deal with the EU on fishing worth approximately GBP 333mln in fishing opportunities for the UK fleet. **USD/JPY** lacked direction, and **antipodeans** also conformed to the mostly uneventful picture across the major currencies amid a light calendar, mixed commodity prices and cautious overnight risk tone.

BoC's Lane stated that signs of moderation in the housing market have appeared in recent weeks, but the level of activity remains very high and that inflation is expected to fade later in the year in the year as economic slack exerts downward pressure. Lane also said inflation over the next few months will likely be higher than projected in April MPR largely due to base effects and strong commodities, while he noted that risks to the inflation outlook noted in April remain relevant. Furthermore, BoC's Lane suggested it is possible an increase in underlying inflation indicates there is less slack in economy than the Bank is forecasting and that it is important to make sure the economy is well on its way to a full recovery before we start scaling back stimulus. (Newswires)

COMMODITIES

WTI crude futures were subdued in the aftermath of the volatile performance seen in the prior session, where prices briefly tumbled beneath the USD 70/bbl level as reports that the US lifted sanctions on Iranian oil officials stoked expectations for a return to the nuclear deal and of Iranian oil supply. **However, most of the downside was then retraced after a US official clarified that the Treasury action was routine, and had nothing to do with Iran nuclear deal talks**. It was also reported US Treasury sanctioned members of the network helping Iran's IRGC and Yemen's Houthis. Furthermore, yesterday saw the latest OPEC MOMR, which raised oil demand growth forecast for this year by 100k BPD. It was also reported that Iran, Iraq and Kuwait increased prices for July oil shipments to Asia by between USD 0.10-0.20/bbl. A recent note from Goldman Sachs reaffirmed its bullish forecasts in which it expects **Brent** to reach USD 80/bbl this summer. **Gold** prices held onto recent gains amid the softer yields and lacklustre greenback but with precious metal contained overnight by resistance at the USD 1900/oz level and copper traded marginally alongside the strength in Chinese commodity prices whereby Dalian **iron** ore futures surged by over 4% shortly after the open.

Goldman Sachs forecasts the oil rally to continue with Brent crude to reach USD 80/bbl this summer and it believes a narrowing of the WTI-Brent spread through its USD 2.50/bbl forecast is noteworthy. Goldman Sachs stated that despite OPEC upstream and refinery downstream excess capacity, it expects OPEC+ to fall behind the demand rebound and it anticipates the demand recovery to persist with global demand to reach 99mln bpd in August. Furthermore, it views WTI returning to its pre-shale role as a leading indicator of upcoming tightness in the Atlantic basin and ultimately the global oil market, at least for this year. (Newswires)

GEOPOLITICAL

US lifted sanctions on Iranian oil officials although there were later comments from a US official that the Treasury action is routine and has nothing to do with Iran's nuclear deal talks, while it was also reported US Treasury sanctioned members of the network helping Iran's IRGC and Yemen's Houthis. (Newswires)

French President Macron said Iran's nuclear programme still represents a threat and that France should be neither the vassal of China nor automatically aligned to the US position on China. (Newswires)

US

The relentless Treasury rally extended as participants looked through both a hot CPI print and a disappointing 30yr bond auction, while a dovish ECB provided tailwinds. By settlement, 2s -0.4bps at 0.151%, 3s -0.8bps at 0.305%, 5s -0.9bps at 0.736%, 7s -1.9bps at 1.147%, 10s -2.5bps at 1.464%, 20s -1.8bps at 2.078%, 30s -1.1bps at 2.157%; TYU1 volumes were average. 5yr TIPS -4.9bps at -1.759%, 10yr TIPS -5.1bps at -0.899%, 30yr TIPS -2.2bps at -0.137%. SOFR and EFFR both unchanged at 1bp and 6bps. The dovish ECB statement struggled to ignite a meaningful rally in EGBs, probably given the on-hold position largely being discounted heading into the meeting. Attention soon moved onto US CPI, which printed another hot print for May, seeing a kneejerk lower in T-Notes, which saw cash 10s hit intra-day peaks of 1.54%. Yields then fell into the afternoon, seeing the curve flip richer, and seeing levels not seen since early March after breaking through the post-April NFP low of 1.47%. There were some brief upticks in long-end yields in wake of the disappointing 30yr bond auction from the Treasury, but that soon abated into settlement. On the auction, The USD 24bln reopening saw tepid demand, as opposed to the stop-through for Wednesday's 10yr offering. The B/C ratio was also below the six-auction average (2.29x vs avg. 2.39x). The silver lining from the auction was the continued decent participation from the non-dealer community, particularly Indirects, which continue to show appetite at Treasury auctions over recent months. T-note (U1) futures settled 5+ ticks higher at 132-30.

US bipartisan group of Senators reached an agreement on infrastructure which will be fully paid for and does not include tax hikes, with the infrastructure deal said to cost USD 1.2tln over eight years and includes USD 579bln of new spending in the first five years. There were later comments from the White House that questions need to be addressed especially regarding details of policy and pay-fors, among other matters, while it added that senior White House staff and cabinet members will work with the bipartisan Senate group on the infrastructure deal in the days ahead. (Newswires/Twitter)

US Republican and Democrat Senators said Thursday that they were open to considering altering national gasoline tax to help fund a bipartisan infrastructure spending package including indexing the gasoline tax to a measure of inflation, although it was later reported that the White House is said to be against any EV mileage tax or indexing gasoline taxes to adjust for inflation as part of an infrastructure deal, according to a source familiar with US President Biden's thinking. (Newswires)

US Senate Commerce Committee are set to unveil a USD 78bln bipartisan surface transportation bill which would authorize USD 25bln over five years for intercity passenger rail, while the bill includes USD 19bln in grants for passenger railroad Amtrak over five years, compared to the average USD 2bln/year Amtrak received in government funding before COVID-19. (Newswires)

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