

# Daily European Opening News

14th June 2021

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- Asian equity markets began the week quiet amid holiday-thinned conditions with the absence of key markets; US equity futures traded flat with a mild upside bias
  - In FX, DXY remained above 90.50; EUR/USD printed on either side of 1.2100; GBP/USD tested 1.4100 to the downside
  - White House said the G7 agreed to a new global infrastructure initiative named the Build Back Better World or B3W to rival China's Belt & Road initiative
  - UK government approves a four-week delay to the removal of the lockdown that was scheduled for June 21st, with a review to take place in two weeks
  - EU noted that progress was being made in Iranian nuclear talks, but negotiations are intense and a number of issues remain
  - Looking ahead, highlights include EZ Industrial Production, ECB weekly purchases, ECB's Schnable and BoE's Bailey
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## G7/GLOBAL NEWS

**US President Biden stated that China has to act more responsibly on human rights and that the G7 explicitly agreed to call out human rights in the Communiqué**, while he added that they are going straight forward in dealing with China and that China needs to be more transparent. Furthermore, President Biden stated there has not been access to the laboratories in Wuhan to reach a conclusion regarding the origins of the virus and that access is needed to ensure there will not be another type of pandemic. (Newswires)

**White House said the G7 agreed to a new global infrastructure initiative named the Build Back Better World or B3W to rival China's Belt & Road initiative**, while it was also reported that Canadian PM Trudeau led a G7 discussion regarding China in which he called for building consensus for a unified approach to the challenges from China and said there are some areas where we need to contest China directly, particularly in the area of human rights. (Newswires)

UK PM Johnson said we were clear that we all need to build back better and that the G7 needs to demonstrate the benefits of democracy and freedom to the rest of the world. Furthermore, PM Johnson said there has been harmony at the G7 including on Brexit but noted that the vast majority of conversations the UK had at the G7 were about other subjects instead of Brexit. (Newswires)

IMF Managing Director Georgieva said richer economies can use loans and other means to achieve USD 100bn target for most vulnerable countries in addition to lending SDR reserves. Georgieva also stated that China and some middle-income countries expressed interest in a new SDR trust, while she welcomes G7 action to accelerate vaccinations as a key step to ending the pandemic and looks to the G20 for additional steps. (Newswires)

## CORONAVIRUS UPDATE

**UK government approves a four-week delay to the removal of the lockdown that was scheduled for June 21st and PM Johnson will appeal for the country to be patient today. However, this will be reviewed in two weeks and will be data-dependant.** (Newswires/FT)

German Health Ministry demanded that Johnson & Johnson (JNJ) must deliver 6.5mln vaccine doses to Germany next month to make up for the shortfall in June. (Newswires)

Italian PM Draghi stated that there is no fear that their vaccination plan will be hampered by decision not to use the AstraZeneca (AZN LN) shot on people under the age of 60, while he added that Italy could reimpose mandatory quarantines for travellers from England if COVID-19 cases keep increasing there. (Newswires)

EMA stated the PRAC concluded that a causal relationship between the use of Gilead's (GILD) remdesivir and adverse event of bradycardia is at least, a reasonable possibility. (Newswires)

Novavax (NVAX) announced positive data from three complementary studies of the COVID-19 Beta variant strain vaccine and will initiate further human testing this autumn. (Newswires)

Celltrion (068290 KS) Phase 3 trial showed its antibody COVID-19 treatment Rekirona is safe and effective, while the treatment slowed severe symptoms of COVID-19 in more than 70% of patients. (Newswires)

## ASIA

**Asian equity markets began the week quiet amid holiday-thinned conditions with the absence of key markets** in the region as Australia was closed in observance of the Queen's Birthday and with mainland China, Hong Kong and Taiwan on an extended weekend for the Dragon Boat Festival. In addition, participants got to digest last week's G7 meeting where leaders called out China on human rights and agreed to a new global infrastructure initiative dubbed the Build Back Better World to rival China's Belt & Road initiative. Furthermore, this week's busy slate of central bank updates, including the FOMC and BoJ further contributed to the tentative mood. US equity futures traded with incremental gains overnight, and the NQ reclaimed a 14k handle. **Nikkei 225 (+0.6%)** moved above the 29k level after it coat-tailed on the recent upside in USD/JPY, which has resulted in outperformance among Japan's exporters and with firm gains also in Toshiba after it ousted four executives in the fallout from the recent probe findings regarding collusion with government officials against foreign investors. The **KOSPI (Unch.)** was flat with the largest automakers lacklustre despite a near 58% jump in South Korea's auto exports last month led by Hyundai Motor and Kia Motors, with their shipments higher by 73.8% and 70.8%, respectively. However, Hyundai also announced to temporarily suspend output in its US plant for three weeks due to chip shortages and maintenance. Conversely, Celltrion shares outperformed after its Phase 3 trial showed its antibody COVID-19 treatment Rekirona was safe and effective whereby it slowed severe symptoms of COVID-19 in more than 70% of patients. India's **NIFTY Index (-0.5%)** underperformed on a pullback from record highs and with heavy pressure on Adani Group companies after the National Securities Depository froze three foreign accounts that have exposure to the group, which could be due to disclosure issues. Finally, 10yr JGBs traded sideways on both sides of the 152.00 level after it plateaued late last week, with demand hampered as Japanese stocks remained afloat due to the lack of BoJ bond purchases in the market with the central bank only seeking Treasury Discount Bills and Commercial Paper.

## UK/EU

UK employers' groups, such as the Federation of Small Businesses and UK Hospitality and the British Chambers of Commerce, have suggested an extension to UK COVID restrictions will be devastating for firms and that they were poised to ask for further aid such as loan forbearance, generous furlough terms and an extension to an eviction ban and business rates holiday. (Times)

**UK PM Johnson said he thinks there will be pragmatic solution with the EU on Northern Ireland and that the UK would do whatever it takes to ensure that trade flows freely with Northern Ireland, while he thinks it can be sorted out and suggested it is up to EU to understand that the UK will do whatever it takes but also thinks that if the protocol continues to be applied in this manner, the UK will obviously not hesitate to invoke Article 16. Furthermore, UK PM Johnson stated that he now feels less optimistic about reopening the country than he was in May. (Newswires)**

UK Foreign Minister Raab stated that the UK wants to ease tensions regarding Northern Ireland and that the EU needs to show respect for Northern Ireland, while he noted that various EU figures have incorrectly characterised Northern Ireland as a separate country which he suggested creates deep consternation and is a failure to understand the facts. Raab also stated the UK is willing to be flexible but need reciprocal good will and that the EU needs to step up with proposals. (Newswires)

French President Macron told UK PM Johnson that there needs to be a reset of Franco-British relations but added that bilateral ties can only improve if the UK keeps its word regarding the Brexit agreement. Macron also stated that we cannot create controversies on issues such as sausage wars when we have such serious issues to resolve, while he added that they want the Brexit treaty to be respected and that inconsistencies from the British side should not be blamed on the EU. (Newswires)

Irish Foreign Minister Coveney said he wouldn't read too much into British rhetoric at the G7 summit and that we have to be open to flexibility and pragmatism but must be within parameters of the current protocol, while he warned that unilateral action from the UK would be problematic. (Newswires)

UK manufacturing is expected to grow at twice the speed for 2021 than was predicted at the start of the year with Make UK upgrading its forecasts for manufacturing growth to 7.8% from 3.9% after a surprisingly strong recovery in output. (FT)

## FX

In FX, the **DX** remained above the 90.50 level and held on to the spoils from Friday's outperformance. Nonetheless, price action for the Greenback was quiet at the start of the week amid the absence of key markets in Asia and as participants looked ahead to the FOMC on Wednesday, which Goldman Sachs anticipates as too early for a hint on tapering. Meanwhile, on the stimulus front, an Axios article suggested that President Biden's Plan B for infrastructure looks like a bust as getting 51 Democratic votes would be a long, uphill battle with moderates in the party opposed to the costs of the spending. **EUR/USD** was subdued by the recent strength in the Greenback with the single currency attempting a breakdown of support at 1.2100, and **GBP/USD** found a floor near 1.4100 but remained lacklustre after the Brexit-related verbal jousting on the side-lines of the G7 and with the UK government also said to approve a four-week delay to the final stage of the lockdown lifting. USD/JPY extended on Friday's USD-driven advances amid the positive mood in Japanese stocks, while antipodeans were quiet in the absence of participants in Australia and the Greater China region

Turkish President Erdogan stated the CBRT agreed with China's PBoC to raise the existing their existing swap facility to USD 6bln from USD 2.4bln which could boost their foreign reserves. (Newswires)

Israel's parliament has voted in favour of a new coalition government, ending Benjamin Netanyahu's 12-year consecutive tenure as premier. Naftali Bennett will take power for two years before handing the position to Yair Lapid in 2023 for two years. (Sky News)

## COMMODITIES

**WT** crude futures marginally extended on Friday's gains after it reclaimed the USD 71.00/bbl level and Brent crude traded circa USD 73.00/bbl, but with gains moderated by a lack of newsflow and with the latest Baker Hughes rig count showing an increase in the number of oil rigs in the latest week. Nonetheless, there were comments from the Iraqi Oil Minister, who sees oil prices at 68.00-75.00/bbl in H2, and the IEA recently forecast oil demand to surpass pre-COVID levels by end-2022. Meanwhile, there wasn't much commentary from the resumption of Iran nuclear deal talks on Saturday, whereby EU representative Matton noted that progress was being made. Still, negotiations are intense, and several issues remain. **spot gold** extended on its retreat beneath the USD 1900/oz level as the greenback held on to recent gains and with some pre-FOMC positioning, while **copper** prices were also subdued amid the absence of its largest purchaser China.

Baker Hughes US Rig Count (w/e June 11th): Oil +6 at 365, Nat gas -1 at 96, Total +5 at 461. (Newswires)

Iraq Oil Minister said he expects oil prices to be at USD 68.00-75.00/bbl in H2 due to commitment to the OPEC+ output cut. (Newswires)

Ukraine is ready to take legal action against Gazprom to unblock supplies of natgas from central Asia in a move that could ensure sufficient supply and transit revenues even if the Nordstream 2 pipeline begins operation this year. (FT)

## GEOPOLITICAL

White House said that US President Biden will reaffirm the transatlantic bond at the NATO summit and underscore US Commitment with Article 5, while it added that the US will continue to stand with allies and partners in NATO's non-combat advisory mission in Iraq. **White House also stated that allies will revise NATO's strategic concept in which it will focus on Russian aggression and challenges posed by China, as well as endorse new cyber defence policy.** (Newswires)

US President Biden reportedly said he is open to exchanging cybercriminals with Russian President Putin, although White House National Security Adviser Sullivan separately commented that President Biden did not talk about exchanging cyber criminals but about accountability, while Sullivan also commented that President Biden is willing to show cyber criminals are held accountable in US if Russian President Putin offers the same for Russia. (Newswires)

**EU negotiators suggested that international talks regarding an Iran nuclear deal that resumed on Saturday, were on track to revive the agreement as EU representative Matton noted that progress was being made but negotiations are intense and a number of issues remain,** while he added that the EU will continue discussions with all participants and the US to find ways to move very close to a final agreement in the approaching days. (Politico)

US President Biden congratulated the new Israeli government which the US is committed to work and said the US remains unwavering in its support for Israel's security, after Naftali Bennett was sworn in as the new Israeli PM. (Newswires)

An explosive-laden drone fell on a school in Saudi Arabia's Aseer province although there were no injuries reported. (Newswires)

## US

Treasuries were subdued after overnight strength faded into the weekend in lack of major catalysts with profit-taking cited. By settlement, 2s +0.0bps at 0.151%, 3s +1.1bps at 0.313%, 5s +1.8bps at 0.750%, 7s +1.2bps at 1.154%, 10s +0.5bps at 1.464%, 20s +0.3bps at 2.077%, 30s -0.1bps at 2.153%; TYU1 volumes were softer than average. 5yr TIPS +5.9bps at -1.706% 10yr TIPS +3.2bps at -0.876% 30yr TIPS +0.5bps at -0.141%. SOFR and EFRF unchanged at 1bp and 6bps, respectively. Yields climbed gently off lows into the US session, with two-way trade on the release of the UoM preliminary survey for June after the solid rise in the headline sentiment survey was offset by the fall in consumer inflation expectations, particularly the 1yr-ahead figure that fell to 4.0% from 4.6%. That decline fits nicely into the thesis of "peak inflation fears", something which some are leaning towards more after May's CPI print given the M/M figure increase was less pronounced than the prior month, although still high historically. To summarize the week in bonds, price action (10yr cash yield down around 15bps on the week) and positioning (decline in open interest in interest rate futures) indicates a nasty unwind of some bearish rates bets - which have been the trade du jour in H1 until recently - into quiet summer markets as runaway inflation concerns lose some momentum. Being short USTs is akin to swimming upstream given its a negative carry trade, so as the back-up higher in yields loses momentum, shorts begin to lose patience when they could be picking up pennies in front of the (for now static) steam roller via carry and rolldown. However, should the second half of this year work against the transitory inflation narrative (i.e. continued hot M/M inflation readings), while labour supply shortages ease (decent NFP reports), that would likely embed some more term premia into the US rates curve. Traders should also be cognizant of exogenous impulses from Europe, where many analysts are calling for higher EGB yields into the continent's summer reopening, while ECB PEPP purchase tapering discussions are still a possibility despite no dice at the June meeting. T-note (U1) settled 3 ticks lower at 132-27.

**Fed's Quarles (voter)** said LIBOR is over and there is no reason for firms to delay moving derivatives and capital markets products to SOFR. (Newswires)

**US President Biden's Plan B for infrastructure reportedly looks like a bust as getting 51 Democratic votes would be a long, uphill battle with moderates in the party opposed to the costs of the spending. (Axios)**

US Democrats released a bill aimed at "Big Tech monopolies" that would ban dominant platforms from self-preferencing. (Newswires)

Tesla (TSLA) CEO Musk said Co. offloaded about 10% of Bitcoin holdings to confirm that Bitcoin could be liquidated easily without impacting the market and the Co. will resume Bitcoin transactions when there is confirmation of reasonable clean energy usage by miners with a positive future trend. (Newswires)

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