

The end (of the year) is nigh

Broad market trends look set to continue into the year-end but there are some potential trip hazards ahead



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Greetings from quarantine

I guess the fact that I am writing a note this morning is in no small part due to the fact that my jet-lag is beginning to wane. Having been on a rescue mission to the UK last week, I now believe that I am in day 4 of my enforced quarantine (have already lost count). Actually, being continually about four feet away from my bed when badly jet-lagged is not a bad thing, though I dare say I will grow bored of even that by day 14.

Main news of the day will be the ECB

The ECB will provide the day's main interest, and our Global Head of Macro, [Carsten Brzeski has written a helpful preview](#) of the main points which you can find on our Website, [Think](#).

The main points are these (cut and pasted from Casten's note):

- An increase in the PEPP programme by up to 500bn euro to extend this programme until the end of 2021
- An increase of the monthly APP purchases from 20bn euro to 40bn euro, open-ended
- An extension of the generous TLTRO interest rate by six to 12 months

- An increase in the tiering facility to exempt a greater part of the banks' liquidity from the negative deposit rate
- Potentially, including so-called Fallen Angels (corporate bonds downgraded during the crisis) into the corporate bond purchasing programme.

Together with what looks like a deal with Poland and Hungary on the EUR750bn fiscal support programme, and let's face it, this is the main story for Eurozone recovery, not the ECB's actions, then this could provide a more positive outlook for the region, though its impact on the EUR is harder to call. Our FX strategists, together with Cazrsten, [have a go at calling this in their crib sheet](#).

Don't ignore US inflation though

The other G-7 top pick today will be US inflation. I've noted since my return that the break-even rates for index linked bonds and the implied inflation rates from inflation swaps have been picking up sharply and now exceed pre-Covid levels at about 2.3% for the US (not so much of an EU story).

This has been accompanied by some inflation chat in the media, and the usual stuff about stagflation (about which, hopefully a new podcast will be published shortly).

If you read my stuff occasionally, you will probably know by now that I don't think all that much of the higher inflation argument. Sure, Covid will have delivered some bottlenecks in supply, but the demand side is still badly enough affected that I think after a one-off price level rise, which may not even be that impressive, the price trends will remain broadly muted, though I wouldn't rule out some short-term rise, in line with our house view.

Today's US CPI figures are expected by the consensus to confirm this muted inflation picture, with a dip in the headline and core CPI rates to 1.1% and 1.5% respectively. With PCE inflation also running at around 1.2%, the Fed remains well off its new "consistently higher than 2%" target, and markets may have to rethink this prospective "surging inflation" narrative at some point. If and when they do, and today might not be that day, then US Treasury yields, which have been pushing steadily higher, may stage a short reversal. The impact this has on the USD is less obvious, but I'd hazard a guess that it will play into the softer USD theme.

Anyway, keep watching those breakeven rates for a possible reversal as I think the market is getting ahead of itself here.

Asia news and views

We've already had Japan's Ministry of Finance business conditions release for 4Q this morning, and it surprised quite a bit on the upside, which suggests there may be some upside risk to next week's more widely watched Tankan figures from the Bank of Japan. The forecast Tankan index for large manufacturers (the headline figure) is for an improvement to -16 from -27, but these MoF numbers mean it may come in closer to -10 than to -20.

The other main Asia news today relates to October Philippine trade data. Our own Nicky Mapa in Manila thinks that both exports and imports will contract, though that imports will contract more sharply, as capital goods imports drop due to weak business sentiment and demand for heavy machinery. Nicky sees the trade gap remaining close to the \$2bn level, much tighter than the average in 2019, and that this, together with low corporate demand for dollars should see the PHP

continue to appreciate.

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