Weekly Fixed Income

" Don't be afraid to give up the good to go for the great "

- Thomas Jefferson

AFRASIA bank different

Wednesday, September 23, 2020

International Sovereign Debt Market

Country	U.S.	Germany	U.K.	Japan	Australia	South Africa
Central Bank Reference Rate*, (%)	0.25	-0.50	0.10	-0.10	0.25	3.50
2-yr Yield, (%)	0.13	-0.71	-0.07	-0.15	0.15	4.59
10-yr Yield, (%)	0.67	-0.51	0.18	0.01	0.80	9.44
Inflation Rate, (%)	1.30	0.00	0.20	0.20	-0.30	3.20
GDP Growth Rate, (%)	-31.70	-11.30	-20.40	-28.10	-6.30	-52.32
Unemployment Rate, (%)	8.40	6.40	4.10	2.90	6.80	30.10

Source: Bloomberg

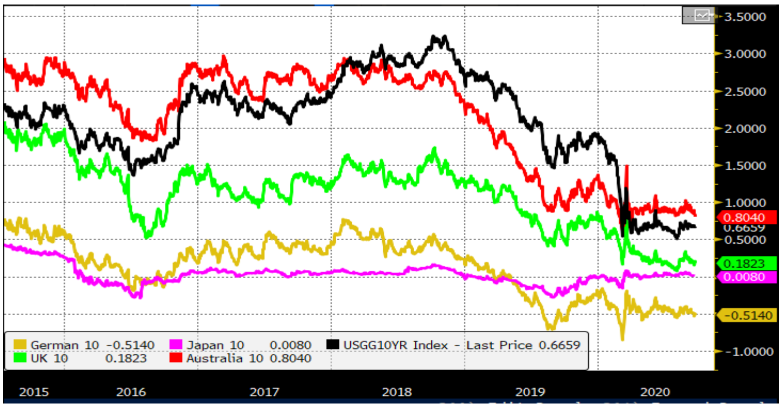
* Rates used for Central Bank Policy may differ by definition: (Deposit Facility Rate for EU or Upper Bound of Fed Funds Target Rate for US)

As at today, the number of cases has exceeded 30 million worldwide, while the number of deaths is nearing 1 million. The numb er of daily cases continues to be on the rise, partly due to the infamous 2nd wave and also due to an increase in testing, therefore also identifying asymptomatic cases. Ho wever, the number of daily deaths worldwide seems to plateau, which is comforting certain agencies that herd immunity is taking place (like the case of Sweden) and that treatments at early stages are helping.

Digging deeper in economic segments, while certain sectors such as airlines, retailers, energy and commercial real estate are facing debt servicing issues, some segments have been thriving such as consumer staples, gaming and other online services. However the spotlight remains on Big Pharma – billions of dollars have poured in this industry as companies race to find a vaccine. Some drugmakers are even teaming up in an unprecedented way, with the benefits expected to last for years. The corporate finance industry is preparing itself to face a wave of M&A transactions as firms will look to restructure, expand or seek bail-outs.

In the UK, PM Johnson announced new measures including pubs and bars restricted to table service, limits on guests at wedding s reduced to 15 and increased fines for not wearing masks or following other relevant rules. It has also been instructed that people should work from home as much as pos sible. The FTSE 100 remains down 21% YTD due to restrictions imposed by the Covid and uncertainty due to Brexit, while the GBP is the 2nd worst performer versus the USD, after the NOK, in the G10 universe.

In the US, President Trump is lagging versus his competitor in polls for the elections in November as the population is judgi ng him on his way of dealing with the outbreak since the initial stages. Previous measures put in place by the Fed helped "Wall Street" rebound from the lows in March, however "M ain Street" remains in a somewhat dire situation as evidenced with the annualized GDP growth expected to fall by more than 30% for Q2'2020.



Major 10yr global sovereign yields. Source: Bloomberg

Economic Calendar

Date	Time (MU)	Event	Prior
24-Sep	3:50	JP BOJ Minutes of July meeting	n.a.
24-Sep	12:00	EU ECB Publishes Economic Bulletin	n.a.
24-Sep	12:00	GE IFO Business Climate Sep	92.6
24-Sep	18:00	US New Home Sales Aug	901k
25-Sep	16:30	US Durable Goods Orders Aug P	11.40%
28-Sep	12:00	UK Nationwide House Px NSA YoY Sep	3.70%
29-Sep	3:30	JP Tokyo Core-CPI YoY Sep	-0.30%
29-Sep	16:00	GE CPI YoY Sep	0.00%
29-Sep	18:00	US Conf. Board Consumer Confidence	84.8
30-Sep	3:50	JP Industrial Production MoM Aug P	8.70%
30-Sep	10:00	UK GDP QoQ 2Q F	-20.40%
30-Sep	13:00	EU CPI MoM Sep P	-0.40%
30-Sep	16:30	US GDP Annualised QoQ 2Q T	-31.70%

Weekly Theme: " Market Sentiment on US Treasuries " - Technical v/s Fundamental

Evolution of the Generic 5yr US Treasury; Source: Bloomberg

After having reviewed our stance a few weeks back, that yields could see a last leg down after the swift downward move in March (shifting our interpretation of this move to be a Wave 5 instead of a Wave 3), we believe that the big downward move (1-2-3-4-5) since end-2018 catalysed by the US-China trade war is nearing its end, maybe coinciding with the US elections in November.

From an Elliot Wave perspective, we see UST 5yr completing the 5th subwave of the wave 5, thereby ending the stretched bull market. We do not expect the extent of this last move to be marginally greater than 0.25%, thereby limiting any trading opportunity.

However, the latest comments from the Fed are quite pessimistic and dovish with expectations skewed towards a Fed rate cut versus a rate hike, amplified by the latest Fed Dot plot showing members expect rates to remain unchanged going through 2023.

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