



THE WEEK THAT WAS

	current	-1W	-1M	YTD
10-Year Bond Yields				
			change (bps)	
US Treasuries	1.56	-3	-3	65
Bunds	-0.21	-3	3	37
BTPs	0.87	-4	5	35
OATs	0.16	-2	4	50
JGBs	0.09	1	0	6
Gilts	0.79	-1	-1	60
Spreads over Bunds				
			change (bps)	
GLIPS	83	-1	-2	-5
Covered Bonds	52	2	1	8
EMU Corporates (OAS)				
			change (bps)	
Non-Fin.	85	1	1	-8
Fin.	86	-1	-1	-6
Forex				
		%-change		
EUR/USD	1.22	-0.2	1.3	-0.4
USD/JPY	110	-0.3	0.1	6.1
EUR/GBP	0.86	-0.1	-1.0	-4.1
EUR/CHF	1.09	-0.2	-0.3	1.2
Equities				
		%-change (total return)		
S&P500	4,230	0.6	1.7	13.3
MSCI EMU	146.3	0.6	5.1	16.0
TOPIX	1,959	0.7	3.3	9.6
FTSE	7,069	0.7	2.5	11.3
MSCI EM (\$)	1,382	1.6	3.7	7.8

Current as of closing 4/6/2021

MARKET MOVES

- Financial markets could hardly benefit from an overall strong data flow last week. Several sentiment indicators surprised on the upside but risky assets inched up only slightly.
- The EA inflation rate (May) was slightly above expectations but government yields retreated again as the US labour market (May) was moderately weaker than expected.
- Ahead of this week's ECB meeting public and private spreads remained in a range and hardly moved on balance.
- In the wake of the OPEC+ meeting the oil price has risen to a fresh 2.5 year high. OPEC+ provided an upbeat view on demand and maintained plans to increase production, but gave little indication on how much.

KEY EVENTS

- The ECB meeting (Thu) will be in the focus of markets this week. After a series of dovish comments by ECB officials a PEPP reduction is far from a done deal. While acknowledging reduced risks we expect the central bank to refrain from giving a clear indication about QE pace in Q3.
- In several European countries the release of industrial output (April) is due. Data is expected to confirm the positive from March.
- US CPI (May) is due on Thursday. Core CPI is forecast to have accelerated to 3.4% (from 3.0%), headline CPI should even reach 4.6% (up from 4.2% and highest level since 09/2008). The preliminary Univ. Michigan consumer survey (Fri) is seen to climb again (to 83.8, up from 82.9).

	Time	Market	Event	Period	Consensus	Previous
8-Jun	08:00	Germany	Industr Output MMYY WDA	Apr	-0.5%/29.5%	2.5%/5.1%
8-Jun	11:00	Germany	ZEW Economic Sentiment	Jun	85.0	84.4
8-Jun	16:00	US	JOLTS Job Openings	Apr		8.123M
10-Jun	08:45	France	Ind Output MMYY	Apr	0.5%	0.8%/13.7%
10-Jun	10:00	Italy	Ind Output MM SA/YY WDA	Apr	0.0%	-0.1%/37.7%
10-Jun	13:45	Euro Zone	ECB Refinancing/Depo Rate	Jun	0%/-0.5%	0%/-0.5%
10-Jun	14:30	US	CPI MM, SA/YY	May	0.4%/4.6%	0.8%/4.2%
11-Jun	08:00	UK	Industrial Production MMYY	Apr	2.0%	1.8%/3.6%
11-Jun	16:00	US	U Mich Sentiment Prelim	Jun	83.8	82.9
11-Jun	Rating updates	Spain (Fitch), Netherlands, Austria (Moody's)	Slovenia, Serbia (S&P)			

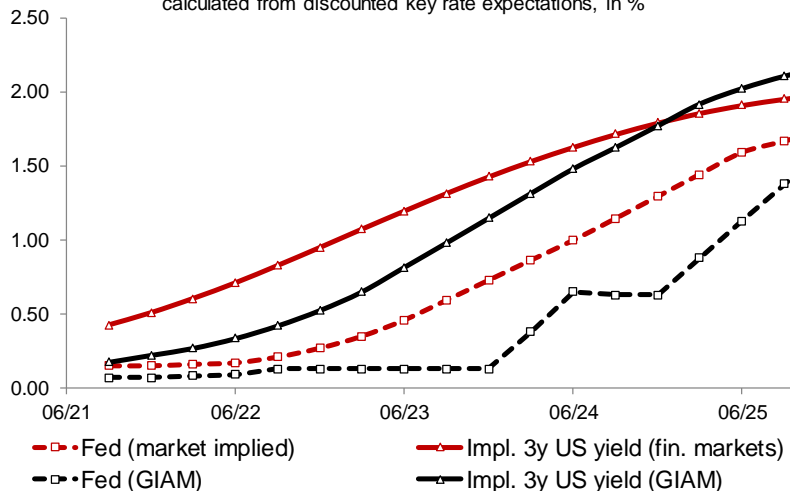
TO THE CORE

Despite the increase in recent months, more than half (54%) of all euro area sovereign bonds still yield below zero. In terms of outstanding amount it is even almost two-thirds (62%).

A CHART SPEAKS A THOUSAND WORDS

Fed Fund Rate and implicit US yields

calculated from discounted key rate expectations, in %



IGNORE AT YOUR PERIL

International bond yield curves to steepen

Short-dated yields have hardly risen year-to-date - amid already aggressively priced key rate hikes this is unlikely to change. In the US, the lift-off (by 25 bps) is priced for Q1 2023 and in the EA a deposit rate hike (by 10 bps) is discounted by Q3 2023. We consider this to be about a year too early. While short-dated yields will inch up on the recovery and slowly approaching key rate hikes, the already priced steps will cap any significant upward movement.

Despite the rise in recent months there is more leeway at the long end of the curve. The inflation risk premium is not at excessive levels (neither in the US nor in the EA) and genuine inflation expectations have risen only moderately. Additionally, thanks to central banks' communication efforts real yields are still at unsustainably low levels. This applies even more as supply will remain on a very high level going forward and central banks will slowly withdraw from bond markets. All in, 10-year US and EA yields are seen to rise more on a one-year horizon (2.15% and 0.20%, respectively).

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IMPORTANT INFORMATION

Sources for charts and tables: Bloomberg, GIAM

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