



THE WEEK THAT WAS

	current	-1W	-1M	YTD
10-Year Bond Yields change (bps)				
US Treasuries	1.29	-7	-27	39
Bunds	-0.35	-6	-10	23
BTPs	0.70	-6	-8	18
OATs	-0.02	-7	-15	33
JGBs	0.02	-1	-3	0
Gilts	0.63	-3	-11	43
Spreads over Bunds change (bps)				
GIIPS	85	0	6	-3
Covered Bonds	53	1	1	9
EMU Corporates (OAS) change (bps)				
Non-Fin.	83	-1	0	-10
Fin.	84	-1	0	-8
Forex %change				
EUR/USD	1.18	-0.6	-1.6	-3.3
USD/JPY	110	-0.1	-0.5	6.6
EUR/GBP	0.86	-0.2	-0.4	-4.3
EUR/CHF	1.09	0.0	-0.4	0.4
Equities %change (total return)				
S&P500	4 327	-1.0	2.5	16.1
MSCI EMU	145.4	-0.8	-1.9	15.4
TOPIX	1 932	1.0	-2.1	8.3
FTSE	7 008	-1.6	-2.3	10.5
MSCI EM (\$)	1 340	1.7	-1.7	5.2

Current as of closing 16/7/2021

MARKET MOVES

- Key US data (CPI, PPI and Retail sales) surprised to the upside... but Powell still dovish and 10y Tsy yields down another 7bp. Ouch.
- US consumer sentiment down 5 points in July, but inflation expectations up to 4.8% (1y) and 2.9% (5-10y)
- Chinese data for June (IP, retail sales) rather solid, assuaging slowdown concerns.
- Soft start to earnings season, with companies "missing" being punished. EM catch up.
- Devastating floods put climate change at the heart of the German election. **Not funny.** EC announced "Fit For 55" package to cut carbon emissions 55% below 1990 levels by 2030.
- BoJ released ambitious green policy details.

TO THE CORE

ECB Lagarde: New mandate means July 22 GC will have "interesting variations and changes. Forward guidance will certainly be revisited... need to be very flexible, not start creating anticipation that the exit is in next few weeks, months."

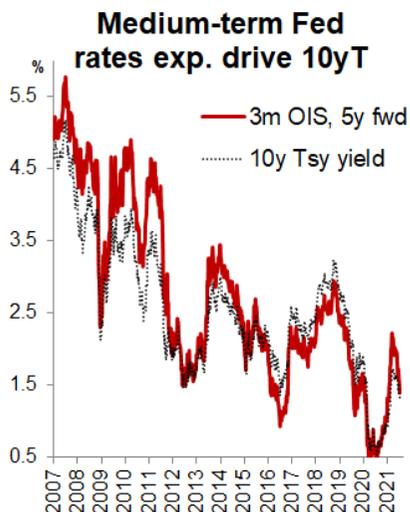
COMING UP!

KEY EVENTS

- OPEC+ finally reached deal on supply hikes over the weekend. World is still oil-dependent...
- Light week for data, except Friday. ECB GC will see key communication changes. Dovish.
- Bank of Indonesia & South Africa Reserve Bank on Thursday (on hold). CB of Russia on Friday (hike).
- US Senate vote on infrastructure package on Wednesday.
- Earnings include IBM (Monday), UBS, Netflix, Phillip Morris, United Airlines (T), J&J, Coca-Cola, Verizon, Daimler (W), Intel, AT&T, Blackstone, Twitter (T), and American Express (F).
- Let the games begin... Tokyo Summer Olympics opening ceremony on Friday (8pm Tokyo)

	Time	Market	Event	Period	Consensus	Previous	
	19-Jul	16:00	US	NAHB Housing Market Index	Jul	82	81
	20-Jul	14:30	US	Housing Starts MM	Jun	1.2%	3.6%
	20-Jul	08:45	FR	Production Outlook	Jul	28	27
	22-Jul	13:45	Euro Zone	ECB decision, followed by press conference			
	22-Jul	16:00	Euro Zone	Consumer confidence	Jul	-2.5	-3.3
	23-Jul	15:15	Euro Zone	Manufacturing PMI	Jul	62.5	63.4
	23-Jul	11:00	Euro Zone	Services PMI	Jul	59.5	58.3
	23-Jul	15:45	US	Manufacturing PMI	Jul	62.0	62.1
	23-Jul	15:45	US	Services PMI	Jul	64.5	64.6
Rating updates this week							
					Bulgaria (Fitch), Cyprus (Moody's)		

A CHART SPEAKS A THOUSAND WORDS



IGNORE AT YOUR PERIL

The bond puzzle, redux

When Treasuries rallied following the hawkish 16 June FOMC, it smelled of a reflation trade unwind. But the persistence of the rally suggests there is more to it than a mere positioning clean-up. Is 2021 a repeat of 2017, when real yields refused to rise? Concerns about the delta variant and **excess liquidity** are usual culprits. More worryingly, investors may be fretting about the triple peak (policy, growth, and inflation). Along with the pullback in bond yields, equity markets have seen a sharp snapback of Growth vs Value, and High vs. Low Quality. The commodity rally has stalled. US 3mth rates, 5y forward, have crashed from 2.20% by late Q1 to 1.40% now: investors seem to see policy normalisation as 'mission impossible'.

The three peaks are for real, but may be exaggerated. The removal of fiscal support will be slow (US infrastructure, EU Recovery Fund). Global growth will remain above potential in H2; US employment is set to boom. Supply constraints are starting to ease off, but US inflation pressure is unlikely to subside quickly as Services stay pressured. So we're not throwing the towel on our call for higher yields, but recommend caution over summer, until the technical picture clarifies (following break of key support line - see chart).