

INSIDE DEBT

THURSDAY, FEBRUARY 4, 2021

[U.S. jobless claims drop; BoE sees risks if negative rates used in under 6 months](#)

TOP NEWS

Subsiding layoffs raise cautious optimism for U.S. labor market

The number of Americans filing new applications for unemployment benefits decreased further last week, suggesting the labor market was stabilizing as authorities started to loosen pandemic-related restrictions on businesses. The weekly jobless claims report from the Labor Department showed at least 17.8 million Americans were on benefits in mid-January. Initial claims for state unemployment benefits fell 33,000 to a seasonally adjusted 779,000 for the week ended Jan. 30. The claims report also showed the number of people receiving benefits after an initial week of aid dropped 193,000 to 4.592 million during the week ended Jan. 23. Economists were unperturbed by a separate report from the Labor Department showing worker productivity dropped at a 4.8% annualized rate in the fourth quarter. That was the deepest pace of decline since the second quarter of 1981.

BoE says negative rates option needs more time, focuses on recovery

The BoE gave British lenders at least six months' breathing space before negative interest rates are a possibility, focusing instead on the prospects for a post-lockdown rebound in a quarterly update on the economy. Britain's economy will probably contract again by 4% in the first three months of 2021, the BoE said. It lowered its forecast for British economic growth for 2021 to 5% but raised its forecast for 2022 to 7.25%. The BoE maintained its Bank Rate at 0.1% and left the size of its total asset purchase programme at 895 billion pounds. BoE Governor Andrew Bailey said the economy might perform better than expected with many richer households sitting on high levels of pent-up savings after spending so much time stuck at home. Separately, **banks told the BoE** they would need at least six months to work out how to respond to sub-zero rates.

U.S. Senate Democrats set for first step on road to new COVID-19 relief

Democrats in the U.S. Senate were poised to take a first step toward the ultimate passage of President Joe Biden's \$1.9 trillion COVID-19 relief proposal, in a marathon "vote-a-rama" session aimed at overriding Republican opposition. Senate Democrats and the Biden administration have left the door open to Republican participation but have said they want comprehensive legislation to move quickly to address a pandemic that has killed more than 450,000 Americans and left millions jobless. Republican lawmakers have said they could offer up to 20 amendments. Senate Minority Leader Mitch McConnell said Republicans would offer amendments to reverse the "job killing" cancellation of the Keystone pipeline and block a higher minimum wage, stimulus checks for illegal immigrants and tax hikes on businesses during the pandemic.

Bostic: Strong 2021 growth, but "not my expectation" Fed will change policy

Strong 2021 growth of perhaps 6% or more likely won't prompt the Fed to trim its bond purchases this year, Atlanta Fed's Raphael Bostic said, tempering earlier comments that robust growth might open the door to a bond "taper." Bostic noted that under the Fed's new strategy the intent is to let the economy "run hot" in hopes of driving employment higher, so the outcome would "have to be very strong" in terms of the job market to change the course of Fed policy. **Cleveland Fed's Loretta Mester** said more fiscal help may be needed in the short term to carry the economy through the pandemic. Separately, **Chicago Fed's Charles Evans** forecast a rapid economic rebound this year, but said monetary policy will need to remain super-easy to boost "too low" inflation.



Euro zone retail sales rebound more than expected in Dec

Euro zone retail sales rebounded more than expected in December as Christmas shopping for clothes and shoes caused a surge in sales compared to November, with France and Belgium recording double digit monthly jumps, data showed. Eurostat said retail sales in euro zone rose 2.0% month-on-month in December, beating consensus forecasts in a Reuters poll of a 1.6% increase. Measured against December 2019, retail sales were 0.6% higher, twice as much as expected by economists. The surge in retail sales was the most pronounced in France, where they rose 22.3% against November, and in Belgium, where they went up 15.9%, offsetting a 9.6% slump in Germany. Separately, **Britain's** IHS Markit/CIPS Construction PMI slipped to 49.2 in January, its lowest since May.

DEEP DIVE

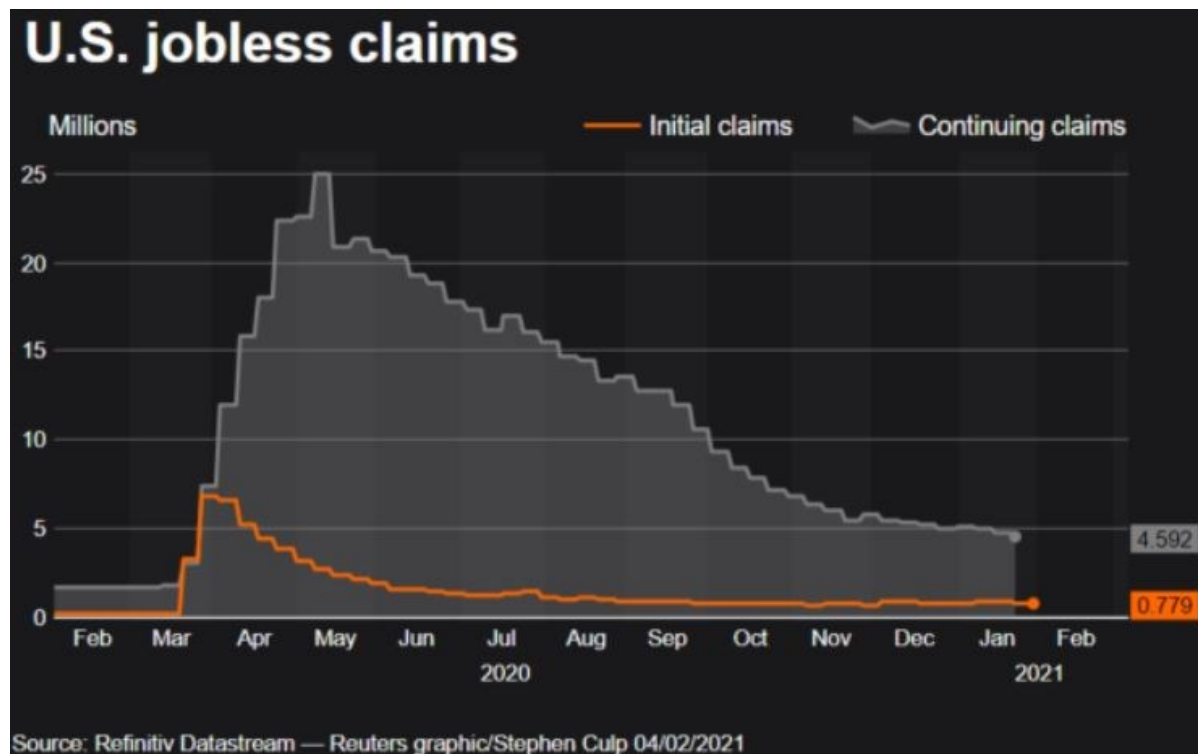
GRAPHIC-What price to fix the COVID-stricken U.S. economy? It's complicated

Judged from Idaho, Utah, Kansas or Alaska, home to U.S. senators arguing for a smaller next round of federal spending to fight the coronavirus recession, the country's economic situation might seem less dire as the distribution of vaccines gathers pace and a possible end to the pandemic approaches.

ANALYSIS-"Dollar smile" meets "dollar short"; greenback bounce threatens bears

An unexpected dollar bounce and some indications of a broader resurgence are confounding market players who took bearish positions on the U.S. currency on a bet that it was headed for a multi-year downtrend.

CHART OF THE DAY



MARKETS TODAY

TREASURIES: Longer-term yields were higher as investors positioned for a large pandemic relief package from Washington and a stabilizing U.S. labor market. The gap between yields on two- and 10-year Treasury notes reached 104 basis points during the session, the most since May 2017. 2-year notes were unchanged with a yield of 0.12%. Benchmark 10-year notes were down 3/32, yielding 1.14%. 30-year bonds slipped 16/32 to yield 1.94%.

FOREX: The dollar climbed toward a fifth straight daily gain on confidence in the U.S. economic outlook and the possibility that Friday's jobs report will be stronger than expected. The dollar index gained 0.39% to 91.524. The euro fell 0.57% to \$1.1965. Sterling rose 0.23% to \$1.3676. Against the Japanese yen, the dollar was up 0.50% to 105.54 yen.

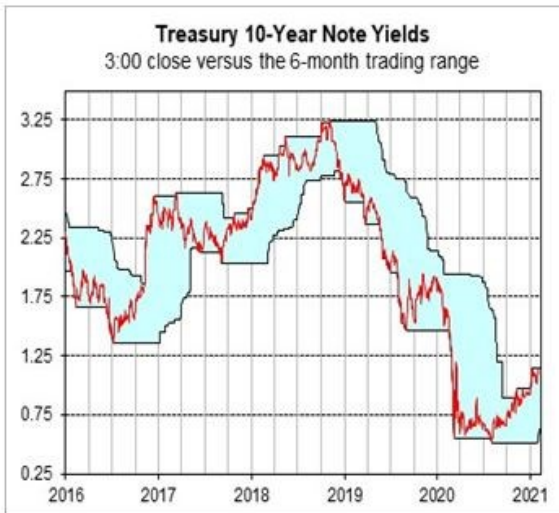
CORPORATES: Corporate bond spreads tightened on stronger-than-expected jobs report and expectations that Democrats in Washington would pass a \$1.9 trillion COVID-19 relief package without Republican support. The CDX-IG.35 index tightened by 1 bps to 51 bps.

STOCKS: U.S. stocks ended solidly higher and the S&P 500 and Nasdaq posted record closing highs after another batch of upbeat earnings and data suggesting the labor market may be stabilizing. GameStop fell 39.98%. AMC slipped 21.85%. EBay rose 5.24% as it topped quarterly earnings estimates. PayPal was up 6.80%. The Dow rose 332.2 points, or 1.08%, to 31,055.8, the S&P 500 gained 41.57 points, or 1.09%, to 3,871.74 and the Nasdaq added 167.20 points, or 1.23%, to 13,777.74.

C&E: Oil ticked up on strong U.S. economic data, falling inventories and the OPEC+ decision to stick to its output cuts, but a stronger U.S. dollar limited the gains. Brent was up 0.7% at \$58.87 a barrel, after hitting its highest level since Feb. 21 at \$59.04 during the session. U.S. crude rose 1.10% to \$56.30 a barrel. Gold slipped 2.17% to \$1793.96 an ounce.

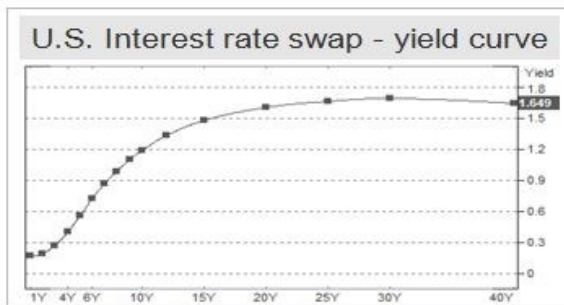
NEX DATA

TREASURIES		(as of 3:20 pm EST)		
	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.035	0.035	0.035	-0.009
2-Mo Bill	0.050	0.045	0.051	-0.009
3-Mo Bill	0.070	0.065	0.071	-0.006
6-Mo Bill	100.000	100.039	0.125	0.002
1-Year	99.805	99.844	0.192	0.000
2-Year	99.578	99.625	0.461	0.035
3-Year	99.594	99.641	0.81	0.063
5-Year	97.555	97.617	1.14	0.016
7-Year	93.914	93.977	1.74	-0.078
10-Year	93.070	93.133	1.932	-0.070
20-Year	105.040	105.050	0.736	0.000
30-Year	104.261	104.265	1.358	0.000



ICAP DATA

IR SWAPS		(as of 3:20 pm EST)		
	SPREAD	RATE		
2-Year	6.75	10.75	0.18	0.22
3-Year	7.50	11.50	0.26	0.30
5-Year	9.88	13.88	0.55	0.59
7-Year	5.63	9.63	0.86	0.89
10-Year	5.13	9.13	1.19	1.21
30-Year	-23.75	-19.75	1.69	1.71



LATAM NEWS

ANALYSIS-Ecuador heads to the polls with IMF relationship in focus

Six months after a swift and smooth restructuring, Ecuador's sovereign bonds are being pummeled by fears that Sunday's election outcome could derail ties with the IMF and trigger another debt crisis. Principal repayments on the country's dollar bonds will kick in from 2026 onwards. But with bonds yielding over 15%, Ecuador is currently shut out of the market. That need not be a problem, but it could be under a government that spends its way out of the crisis. Many

of Sunday's voters have never used local currency, since Ecuador has been dollarized for over 20 years. Dollarization remains popular among Ecuadorians, but it also makes for a fangless central bank just when those have become the first line of defense against the economic toll of the pandemic.

U.S. stimulus to boost Mexico; LatAm stocks to outperform in short term - UBS

Increased U.S. infrastructure spending and fresh rounds of economic stimulus will bolster Mexico's manufacturing-oriented economy, Alejo Czerwonko, chief investment officer for UBS' wealth management business in Latin America said. While Czerwonko expects Latin America to grow at more than 4.5% in 2021, he cautioned that economic activity in many countries in the region might not return to levels seen in the fourth quarter of 2019 until at least 2022, likely lagging other emerging economies. He said Brazil's government would protect investor confidence and public accounts by "bending but not breaking" its spending cap limit, even under public pressure to extend stimulus measures.

LATAM MARKETS

EQUITY	Close	Pct Change
MSCI Latin American Index	2390.25	0.82
Brazil's Bovespa Index	119143.8	-0.49
Mexico's IPC Index	44187.62	0.52
Argentina's MERVAL Index	50682.71	1.66

CURRENCIES	Last	Pct Change
Brazilian Real	5.4341	1.51
Mexican Peso	20.384	0.99
Chile Peso	735.4	0.41
Colombian Peso	3556.44	0.64
Argentina Peso	87.91	0.13

EYE ON ASIA

Australia's exporters weather China squall, find new harbours

Australia's trade surplus rose to a six-month high in December as iron ore exports to China easily weathered diplomatic squalls between the two countries, while coal shipments found new buyers. Data from the Australian Bureau of Statistics showed goods exports to China jumped 21% in December to a six-month high of A\$13.3 billion, with iron ore up sharply by both value and volume. That helped Australia's trade surplus swell to A\$6.8 billion in December. The surplus for the December quarter widened by 28% to A\$17.4 billion. For all of 2020, exports climbed 12%. Shipments of hard coking coal jumped 28% in December, from the previous month, while thermal coal rose by a quarter.

Thai consumer mood hits 9-month low after new virus outbreak

Thai consumer confidence dropped for a second straight month in January, hitting a nine-month low. The consumer index of the University of the Thai Chamber of Commerce fell to 47.8 in January, its survey showed. Consumer spending would remain low until early in the second quarter, but sentiment could improve as the government rolled out new stimulus to help a tourism-reliant economy hit by the outbreak, university president Thanavath Phonvichai said. While seeing growth of 2.8% this year, Thanavath said the latest government stimulus, if effectively implemented, could help the economy expand 3.4% this year.

ASIA ECON WATCH (For Feb 5)

Japan Dec All Household Spending YY: Expected -2.4%, Prior 1.1%

India 5 Feb Repo Rate: Expected 4.00%, Prior 4.00%

Indonesia Q4 GDP YY: Expected -2.00%, Prior -3.49%

Thailand Jan CPI Core Inflation YY: Expected 0.20%, Prior 0.19%

Philippines Jan CPI YY: Expected 3.5%, Prior 3.5%



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