



INSIDE DEBT

FRIDAY, FEBRUARY 5, 2021

U.S. stimulus hopes offset weak jobs report

TOP NEWS

Democrats clear path for approval of Biden's \$1.9 trln COVID package

President Joe Biden and his Democratic allies in Congress forged ahead with their \$1.9 trillion COVID-19 relief package as lawmakers approved a budget outline that will allow them to muscle Biden's plan through in the coming weeks without Republican support. By a party line vote of 219-209, the House of Representatives passed the budget plan, after the Senate approved it in a pre-dawn vote. Vice President Kamala Harris cast the tie-breaking vote in the Senate for the first time. Biden said he was open to compromise with Republicans as long as they did not slow things down.

Separately, **Heather Boushey**, a top White House economist, said the latest jobs report underscored how important it is to keep paying enhanced unemployment benefits, and the need for the stimulus package being considered in Congress.

Stalling U.S. labor market bolsters Biden's drive for big stimulus package

U.S. employment growth rebounded moderately in January and job losses in the prior month were deeper than initially thought, strengthening the case for a sizable relief package from the government to aid the recovery from the COVID-19 pandemic. The Labor Department's employment report showed job losses in manufacturing and construction, two sectors which have been propping up the economy. Nonfarm payrolls increased by 49,000 jobs last month. The unemployment rate dropped to 6.3% in January. The labor force participation rate dipped to 61.4%. Separately, **President Biden** is presenting his plan on how to get millions of out-of-work Americans back on the job.

German orders fall for the first time in eight months

Orders for German-made goods fell more than expected in December, ending a seven-month streak of positive data as restrictions to contain the coronavirus dragged down demand from other euro zone countries. The figures published by the Federal Statistics Offices showed orders for industrial goods dropped by 1.9% in seasonally adjusted terms, compared with a Reuters forecast for a decline of 1.0%. Figures from the Economy Ministry showed domestic orders fell by 0.9% on the month while orders from abroad decreased by 2.6%. Contracts from the euro zone tumbled by 7.5%.

Japan's Dec household spending falls as recovery stalls

Japan's household spending fell for the first time in three months in December, in a sign consumer sentiment was weakening even before the government called a state of emergency to control a new wave of the coronavirus in the country. Household spending fell 0.6% in December compared with the same month a year earlier, official data showed. For all of 2020, spending by households with at least two people fell 5.3%. It was down 6.5% for all households, the worst drop since 2001. In 2020, spending on accommodation fell 43.7%, while overseas and domestic tour travel expenditure slumped 85.8% and 61.9%, respectively.

UK house prices fall for first time since May – Halifax

British house prices fell last month for the first time since May as a boom in activity late last year started to lose steam, Halifax said. Halifax said house prices dropped 0.3% on the month in January, a weaker performance than the average 0.3% increase expected by economists in a Reuters poll. Compared with a year earlier, house prices in January were 5.4% higher. The tax break that offers a temporary exemption on purchase taxes for property costing up to 500,000 pounds expires on March 31, and Halifax said property sales agreed upon now were unlikely to complete soon enough to benefit. Separately, BoE's Deputy Governor **Sam Woods** said banks in Britain have been shielded from the worst effects of the COVID-19 pandemic by government relief measures and the toughest time has yet to come.

DEEP DIVE

ANALYSIS-As inflation expectations jump, analysts see further room to rise

U.S. Treasury investors are pricing for an uptick in inflation as the American economy recovers from devastating coronavirus-related business shutdowns. And, with the Fed welcoming the rise as price pressures stay benign, analysts say the increase in inflation expectations may still have further to run.

COLUMN-Volatility storm gives way to inflation gale

Whether it's durable or not, investors are bracing for several months of inflation angst that challenge the structure of world market positioning far more than January's amateur stock frenzy.

ANALYSIS-Europe in battle to overcome economic lag vs US, Asia

Europe's slow vaccine roll-out means its economic recovery could lag behind upturns in the United States and Asia unless it can get the programme back on track in the weeks ahead.

ANALYSIS-The other winners of the Reddit-fueled rallies: convertible bonds

Among the winners from the recent retail-driven frenzy in U.S. stocks are investors in the niche market of convertible debt, capping a year of gains for the securities and potentially drawing new interest.

GRAPHIC-Take Five: Dollar signs

Five big themes likely to dominate thinking of investors and traders in the coming weeks.

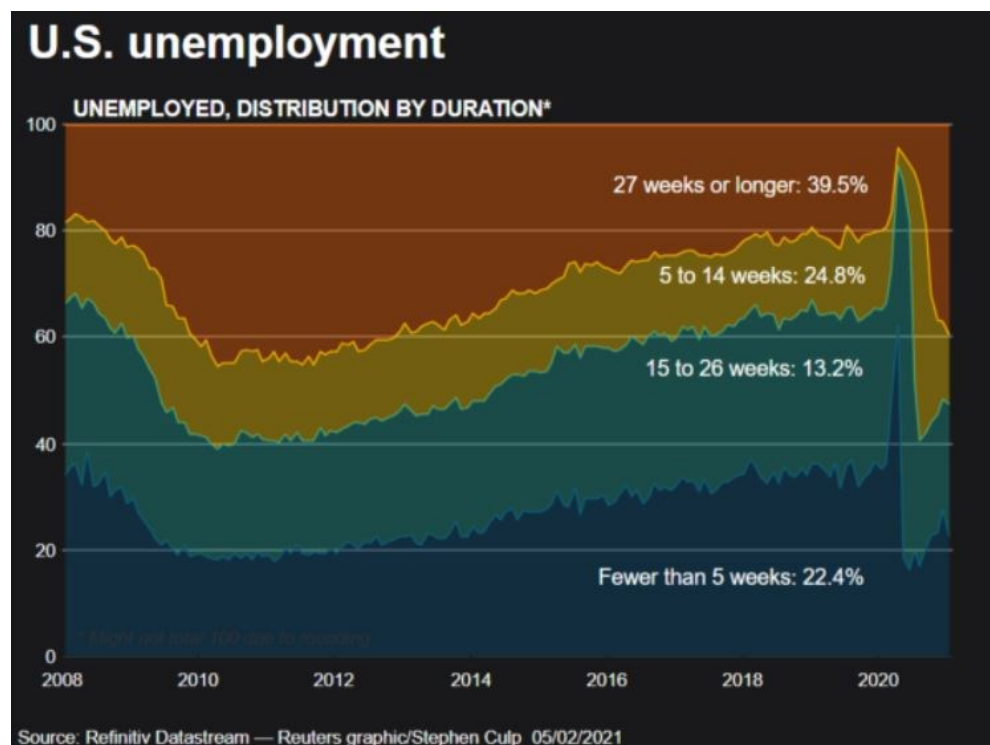
PROMOTION

LiveChats on the Reuters Global Markets Forum (Feb. 8)

The Reuters Global Markets Forum hosts a slate of guest speakers to discuss the future of Global Trade and Investment:

Priyanka Kishore, Head of India and South East Asia, Macro and Investor Services at Oxford Economics (0400 GMT/1200 HKT); **Deborah Elms**, Founder and executive director at the Asian Trade Centre (0530 GMT/1330 HKT). To join the conversation, [click here](#)

CHART OF THE DAY



MARKETS TODAY

TREASURIES: The Treasury yield curve steepened as yields on the benchmark 10-year note soared to levels not seen in nearly a year while two-year yields hit record lows after U.S. jobs data strengthened expectations of more stimulus spending from Washington. Benchmark 10-year notes dipped 10/32. They were up 3 basis points yielding 1.17%, after having earlier risen to 1.188%, their highest since March 20, 2020. 2-year notes rose 1/32. They were down a basis point to yield 0.105%, matching their all-time low last reached on May 8, 2020. The gap between yields on the two notes was at 106 basis points, their highest since April 2017. 30-year bonds fell 31/32 with a yield of 1.98%.

FOREX: The dollar lost out to the euro after U.S. jobs report suggested that some traders may have over-played a stronger American recovery from the coronavirus pandemic. The euro was up 0.71% at \$1.2047. The dollar index slipped 0.58% to 91.002. Sterling rose 0.49% to \$1.3737. Against the Japanese yen, the dollar lost 0.15% to 105.38 yen.

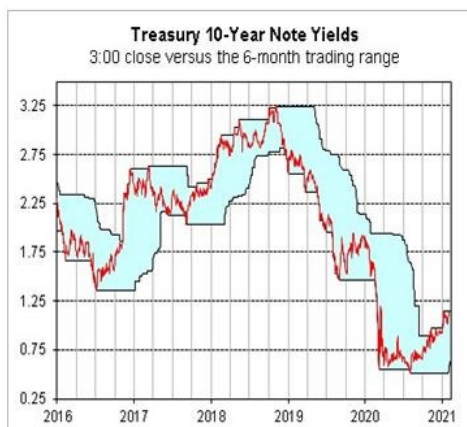
CORPORATES: Corporate bond spreads tightened as investor expectations of further stimulus from Washington and economic revival hopes eked out the weakness in U.S. jobs data. The CDX-IG.35 index tightened by 1 bps to 51 bps.

STOCKS: U.S. stocks rose and the S&P and Nasdaq indexes registered their biggest weekly percentage gains since the U.S. elections in early November, boosted by optimism over earnings, stimulus talks and progress in vaccine rollouts. Johnson & Johnson rose 1.63% after it said it had asked U.S. health regulators to authorize its single-dose COVID-19 vaccine for emergency use. GameStop added 16.86%. The Dow rose 87.45 points, or 0.28%, to 31,143.31, the S&P 500 gained 15.06 points, or 0.39%, to 3,886.8 and the Nasdaq added 78.55 points, or 0.57%, to 13,856.30. For the week, the Dow added 3.89%, the S&P 500 gained 4.65% and the Nasdaq rose 6.01%.

C&E: Oil prices rose about 1%, after hitting their highest in a year and closing in on \$60 a barrel, supported by economic revival hopes and supply curbs by producer group OPEC and its allies. Brent jumped 1.07% to \$59.47 a barrel, after hitting its highest since Feb. 20 at \$59.79. U.S. crude added 1.33% to \$56.98 a barrel, after reaching \$57.29, its highest since Jan. 22 last year. U.S. crude futures gained about 9% this week, the biggest percentage gain since October. Brent rose about 6% for the week. The U.S. oil rig count rose by four to 299, the highest since May, according to Baker Hughes. Gold was up 1.01% at \$1810.41 an ounce.

NEX DATA

TREASURIES (as of 3:20 pm EST)				
	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.030	0.025	0.03	0.002
2-Mo Bill	0.045	0.04	0.046	-0.004
3-Mo Bill	0.065	0.055	0.066	-0.005
6-Mo Bill	100.016	100.055	0.117	0.021
1-Year	99.820	99.859	0.186	0.008
2-Year	99.531	99.578	0.47	-0.035
3-Year	99.500	99.547	0.824	-0.086
5-Year	97.297	97.359	1.169	-0.227
7-Year	93.227	93.289	1.783	-0.555
10-Year	92.195	92.258	1.973	-0.703
20-Year	105.015	105.021	0.765	0.000
30-Year	104.220	104.220	1.387	0.000



ICAP DATA

IR SWAPS (as of 3:20 pm EST)				
	SPREAD		RATE	
2-Year	7.25	11.25	0.18	0.22
3-Year	8.00	12.00	0.26	0.30
5-Year	10.00	14.00	0.57	0.60
7-Year	6.00	10.00	0.88	0.91
10-Year	5.38	9.38	1.22	1.24
30-Year	-22.88	-18.88	1.74	1.76



LATAM NEWS

Brazil says it could cut fuel taxes, still hit budget deficit goals

Brazil may use any increase in federal tax revenues generated by a rebounding economy this year to pay for tax cuts, especially on fuel, rather than targeting it solely to reduce the budget deficit, Economy Minister Paulo Guedes said. Guedes said such a move would still be consistent with the government's commitment to getting public finances back on track after the deficit and debt blew out to record highs last year. He said the government is considering reducing levies on fuel and the electricity sector, and added that he would like fuel taxes to be cut before Brazil's congress approves a wider tax reform bill.

New Colombia central bank board members may back rate cuts

The announcement this week that Viviana Taboada and Mauricio Villamizar will join Colombia's central bank board generated not only confusion over the spelling of Taboada's first name, but predictions that interest rate cuts may be on the horizon. Seventeen of 22 analysts polled by Reuters said the chances of a rate cut grew following the appointments of Taboada and Villamizar. The remaining four ruled out any effect. The central bank does not say how policymakers vote but a majority of those surveyed agreed Finance Minister Alberto Carrasquilla and policymaker Arturo Galindo, appointed by Duque last year, were most likely to have backed a cut.

LATAM MARKETS

EQUITY	Close	Pct Change
MSCI Latin American Index	2364.08	-1.09
Brazil's Bovespa Index	120174.1	0.77
Mexico's IPC Index	44081.71	-0.19
Argentina's Merval Index	51052.73	0.73

CURRENCIES	Last	Pct Change
Brazilian Real	5.3729	-0.99
Mexican Peso	20.1	-1.33
Chile Peso	738.76	0.46
Colombian Peso	3553.75	-0.08
Argentina Peso	87.824	-0.1

EYE ON ASIA

India holds rates steady, RBI assures markets of liquidity support

RBI kept rates steady at record low levels and said it would maintain support for the economy's recovery from the pandemic by ensuring ample liquidity for markets to absorb a massive government borrowing programme. The repo rate was held at 4% while the reverse repo rate was left unchanged at 3.35%. RBI Governor Shaktikanta Das said the economy's growth outlook had improved and that inflation was expected to remain within the RBI's targeted range over the next few quarters.

Indonesia's economy suffers first full-year slump in over two decades in 2020

Indonesia's economy suffered its first full-year contraction in over two decades in 2020, shrinking slightly more than expected in the fourth quarter. It shrank 2.19% on an annual basis in October-December, the statistics bureau data showed. GDP fell 2.07% from a year earlier. The government will focus on accelerating spending and attracting investment to further boost the economic recovery, Indonesia's top economics minister Airlangga Hartarto said, giving a forecast for 1.6% to 2.1% growth in the first quarter of 2021.

ASIA ECON WATCH

Feb 7

China Jan FX Reserves (Monthly) USD: Expected 3.200 trln, Prior 3.217 trln

Feb 8

Japan Dec Current Account NSA JPY: Expected 1,040.0 bln, Prior 1,878.4 bln



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INSIDE DEBT is produced by Reuters in partnership with NEX and ICAP.

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