M Mutual Limited

Morning Mutterings: Wednesday 17 February, 2021

Quote of the day…

"Would I rather be feared or loved? Easy. Both. I want people to be afraid of how much they love me" – ***Michael Scott ('The Office')***

"Parole hearing today, finger's crossed…"

- ***Overview*** – hopefully the last day writing this from cell-block 4 with our parole hearing later this morning. That's assuming Chairman Dan can find time between doing some online shopping at North Face and writing his acceptance speech for his potential Political Leadership Award. The papers this morning are indicating if we have no mystery cases pop up today, we're good to go, but with a few restrictions remaining….i.e. keep the masks on. Here's hoping we're released, my boys have a water-polo tournament in Geelong on the weekend. Cynicism aside, what's the story with markets? Not a helluva a lot. It was what they call a slow news day, where the most exciting thing to happen was Megan Gayle posted a 'how-to' video on Instagram for the 'easiest summer salad', OMG the dressing is to die for….yes, that was all said dripping with sarcasm. Stocks were moderately mixed on a session lacking data and lacking excitement. In bonds, well it was all about the reflation trade, which seems to be attracting a cult like following – US 10's hit one-year highs on the day after an adrenalin shot from higher oil prices (bit chilly around Texas way at the moment), vaccine optimism and fiscal stimulus also adding fuel to the reflation fire. That artic blast (sounds like a Slurpee flavour!) across key oil producing states in the US of A is causing havoc on supply at a time when demand is spiking. So, Economic 101 kids, what happens in this situation? That's right, price goes up.
- ***Offshore Stocks*** – as Van Halen once sang in their song 'Dreams', during that dark period with Sammy Hagar on vocals, markets went higher and higher…but only just, and then they came back down again, but also only just. US markets are looking to close off their intra-day highs, again the underpinning narrative remains "*optimism over the economic recovery*". The S&P 500 saw around 55% of its stocks down, while across the sectors four gains, led by Energy (+2.9%) and Financials (+2.0%), although the latter kept the broader index in the fight. Sector level losses on the day were modest. European markets were sporting a slight grumpy shade of red, again just over half stocks down on the day, and across sectors only Utilities made a statement, down -1.5%. Elsewhere the moves were modest in either direction. Despite the very modest moves, volatility made a sizeable jump higher, with the VIX +123 bpts to 21.2%.

"Protect yo-self…"

Source: www.hedgeye.com

	At a glance….	*Last*	*1D*	*7D*	*30D*
EQUITIES	ASX 200	6,917	0.7%	1.4%	2.6%
	DOW	31,520	0.2%	0.5%	1.9%
	S&P 500	3,934	0.0%	0.6%	3.6%
	NASDAQ	13,777	-0.2%	0.7%	6.0%
	STOXX	419	-0.1%	2.1%	2.8%
CREDIT	AusBond FRN (bps)	33.9	-0.05	0.15	-1.18
	AusBond Fixed (bps)	57.8	-0.15	-2.77	-8.32
	US Fin (OAS, bps)	66.2	0.00	-35.83	-7.67
	EU Fin (OAS, bps)	41.5	0.61	1.87	1.39
BONDS	ACGB (10Y, %)	1.321	0.00	0.09	0.23
	ACGB (3Y, %)	0.111	0.00	0.01	0.00
	UST (10Y, %)	1.304	0.10	0.15	0.22
	UST (2Y, %)	0.119	0.01	0.00	-0.01
FX & CMDTY	Oil (Brent, $/bbl)	63.48	0.3%	3.9%	13.6%
	Gold ($/oz)	1,795	-1.3%	-2.4%	-2.5%
	AUDUSD	0.78	-0.3%	0.3%	0.8%
	AUDEUR	0.64	-0.1%	0.3%	1.0%

Source: Bloomberg, Mutual Limited (data as at 8am)

- ***Local Stocks*** – a solid, but narrow rally yesterday with half of stocks up, and conversely half down. Again, it was Materials (+1.3%) and Financials (+0.5%) dominating the day, each accounting for a third of the ASX 200's daily gains. Other sectors had larger outright gains, such as Industrials (+1.9%) and Energy (+2.1%), but they have less impact on the market aggregate performance. Four sectors dragged their feet, Consumer Discretionary, Staples, Tech and Utilities…all in the red. NAB released its Q1 trading update yesterday, which shouldn't have moved the risk dial, but probably did a bit with NAB up +1.1% on the day vs a -0.5% drop by CBA and +0.5% and +1.0% gains from WBC and ANZ respectively. NAB's update was ok, although a late spike in arrears in

January (+17 bps) is something to watch. Everywhere else and numbers were more or less where we expected. BEN had a whopper of a day (+6.8%), two days in fact (+19.0%), aided today by announcing some dividends earlier in the week and then a slew of broker upgrades yesterday morning (between +15% to +18% from MS, UBS and JPM) put a rocket under the share price.

- ***Offshore Credit*** – a relatively modest start to the primary week in the US IG space, with four deals for just under $4bn priced. Demand solid, deal metrics also solid. Secondary spreads are flat. In EU IG markets, very dull and boring, unless of course you like the green stuff, a solitary bond issued, for €300m, and it was a green bond. Demand weas strong with a book 3.7x oversubscribed and spreads compressing -15bps from launch to pricing. CDS is little changed in CDX (US), while MAIN is +1.3 bps wider, with Snr Fins +1.8 bps and Sub Fins +2.4 bps wider.

- ***Local Credit –*** Suncorp-Metway (A+/A1) launched their 5-year senior deal yesterday at +50 bps, which was bang on the curve. Like seagulls onto a hot chip, investors pounced with a strong book build, up to $1.8bn with 89% for the floater. In the end they priced a $750m deal, floater only, no fixed, at +45 bps, the bottom of my expectations. Only small switching seen against the new deal, which was expected given cash levels seem healthy. On the break and then into close the deal was a touch tighter, +44 / 42.5 bps. Elsewhere in secondary "*constructive flows again and out rights trading a tight range. Spreads flat to slightly tighter, again Tier 2 outperforming, - 2bps across the curve*"…trader's tapes. The most recent major bank tier 2 deal, the WBC Jan-26 calls are now down to +132 bps after pricing at +155 bps. I'd say we have a little way's to go with the tightening momentum, and I'd say the floor is somewhere in the vicinity of +110 – 120 bps over the coming month or two. Realistically that's a random range plucked out of thin air, a gut feel, nothing more. Some movement in the senior curve (majors) with 1 year and 2-year paper a basis point tighter to +8 bps and +12 bps respectively. Three-year remains stagnant at +18 bps and the Jan-25's stubbornly hugging +24 bps.

- ***Bonds & Rates*** – firstly offshore markets overnight, rates on the benchmark US 10's rose as much as +8 bps to 1.287%, while 30-year yields pushed further above 2.000% as global bonds extended the worst start to a year since 2013. Locally, RBA January meeting minutes were released yesterday. While no surprises were expected, there was the odd nugget of gold in the comments. Through sheer laziness, I borrow from my old alma mater…"*while longer dated government bond yields have risen since early December the Minutes note that the spreads to US government bonds have largely been stable. RBA analysis also finds that "longer term Australian Government bond yields were around 30 basis points lower than otherwise as a result of the bond purchase program." These comments suggest that the RBA is comfortable that the bond purchase so far have "worked*". Further into their commentary on the commentary, CBA suggest the RBA will drop the 3-year yield target sometime around the August meeting, largely on the premise that local labour market conditions will continue to improve, and inflation will gain some momentum, moderating the need for such an easy broad policy stance. Having said that, don't panic, monetary policy will remain highly accommodative for the next 2 -3 years. Minimal movement on the day across the curve, closing largely unchanged…but the curve has steepened +35 bps YTD with the 3s10s at their steepest in 7 years. The ACGB's closed at 1.33% yesterday, well ahead of where the collective market brains-trust forecasts it to be, although a few prominent readers of the interest rate tea-leaves do have targets in the 1.45% - 1.50% area. Momentum and prevailing narrative would suggest we'll get there.

- ***Macro*** – local weekly payroll data out yesterday, which showed some favourable trends, just 0.1% below pre-pandemic levels, i.e. a year ago. Drilling through the data down to the state level and we see some states are ahead of where they were this time last year, mainly all states bar NSW (-0.1%) and not Victoria (-1.7%). From NAB "*although difficult to interpret weekly moves, it does suggest the virus outbreak from mid-December that impacted NSW, VIC and QLD did not hamper the ongoing recovery. We would also expect this to be the case with the current 5-day lockdown in VIC*". Labour data is due out tomorrow with consensus expecting +30K vs +50K last month, the range of forecast is wide, +10K up to +67K, with the bulk of estimates around +30K – 40K. Unemployment is forecast to drop from 6.6% to 6.5%. Briefly on inflation, there is rising concern that the genie is out of the bottle and there is nothing the central banks of the world can do to contain it. The narrative has extended from left field thinkers and academia into the more mainstream market commentators.