

## Sunrise



Tuesday, 30 May 2023

# KBC Sunrise Market Commentary

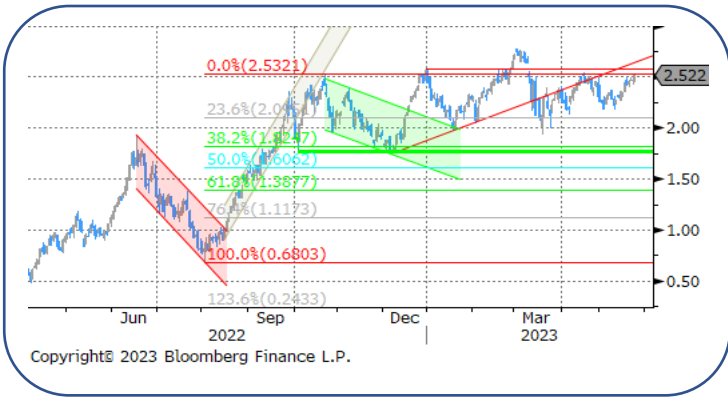
## Markets

- On Friday, strong US eco data (durable goods orders, spending and income data and, last but not least, PCE deflators) all supported the market repositioning that already dominated the price action earlier last week. Markets now acknowledge that with inflation holding stubbornly high (Core PCE 4.7% Y/Y) and no imminent signs of a US recession, the Fed will most likely be forced to raise its policy rate by 25 bps in June or July (fully discounted). The US 2y yield closed above the 4.50% mark (4.56%). In a further curve inversion, the 10-y closed marginally lower at 3.80%, still near the highest level since the financial turmoil in March. **US markets yesterday were closed for Memorial day.** However, during the weekend the White House and the US House Republicans reached a deal to lift/suspend the US debt limit till January 2025 in exchange for spending caps/cuts. The deal still has to obtain agreement from Congress and apparently there is still some lobbying to do, but both parties look convinced that they will find the necessary majority. **The US debt deal didn't bring any euphoria in the European markets that were open yesterday.** In low volume trading, German yields lost between 6.2 bps (2-y) and 10.6 bps (30-y). For now, we consider this as a correction on last week's protracted uptrend. European equities failed to build on the strong (tech-driven) momentum from end last week (Eurostoxx 50 close -0.4%). The dollar maintained recent gains (DXY close yesterday at 104.20). **The correction in European/German yields kept the euro in the defensive (EUR/USD close 1.071).**
- This morning**, Asian markets show a mixed picture, with Chinese indices mostly trading in red, but South Korea outperforming. The US 2-y yield (4.57%) is holding near recent highs. Yields at longer maturities are losing a few bps. The dollar remains well bid (DXY 104.4 area). EUR/USD is losing the 1.07 handle (1.069). **The eco calendar today** contains house price data and consumer confidence (Conference Board). A modest decline in in the headline confidence index (99.00 from 101.3) is expected. In Europe the EC confidence data will be released. Belgium and Spain will be the first EMU countries to release **May inflation data**. Later this week, we look out for the German/French and Italian CPI data tomorrow, with the first estimate of the EMU CPI to be released on Thursday. **In the US**, we keep an eye on the JOLTS job openings (Wednesday), the US manufacturing ISM and the ADP labour report on Thursday and the inevitable **US payrolls report on Friday**. Markets, just as is the case for central bankers, are in a data-dependent modus. **However, at least the technical graphs in US yields don't suggest a turnaround on last week's rise unless data would bring really nasty surprises.** The picture for German yields is a bit different, with both the 2-y and the 10-y yield near important resistance at 3.0% and 2.50/55% respectively. Here, this week's EMU (core) inflation data evidently have an important role to play. On FX markets, EUR/USD remains in correction modus. Except for the 1.06 big figure first really important support only comes in at 1.0516/1.0484.

## News & Views

- Spanish prime minister Sanchez will dissolve parliament and call snap elections for July 23**, about five months earlier than the one expected for December. The surprise decision followed **Sunday's heavy setback in local and regional elections**. Sanchez' Socialist Party share fell to 28% while the centre-right Partido Popular won 31.5% of the votes, up from 22% in 2019. The far-right Vox more than doubled its votes to 7%. The PP, in some places with Vox support, is set to control eight out of the 12 regions that were being polled. **Sanchez said the outcome called for clarifications of the will of the people.** Political analysts label it an "all or nothing" move with Sanchez trying to consolidate votes on the scrambled left that has been struggling to resolve a dispute over whether they can and should unite under a single flag.
- British Retail Consortium data showed shop price inflation accelerating to 9% y/y (0.5% m/m) in May**, up from 8.8% in April and **a new record in the series which started tracking in 2005**. The numbers follow up on last week's much stickier headline and even rising core inflation. They also defy expectations back in April that shop price inflation may have peaked. Food prices rose 15.4%, only marginally lower than the 15.7% in April. **Non-food inflation picked up from 5.5% to 5.8%**. According to Watkins, head of retailer and business insight of the company that produces the data, UK shoppers are trying to save money by looking for promotions and taking advantage of price reductions offered by supermarket loyalty schemes.

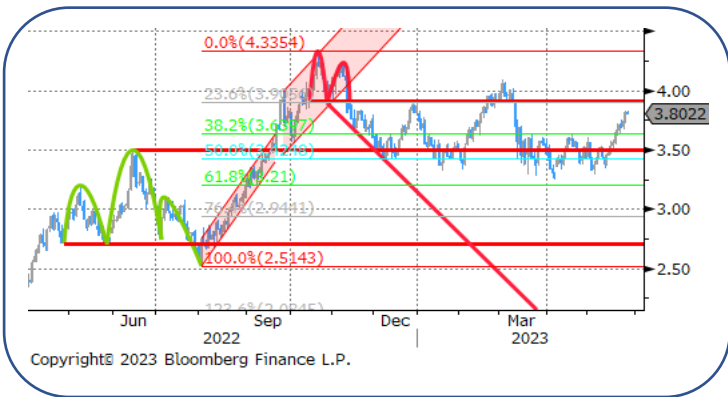
# Graphs



## GE 10y yield

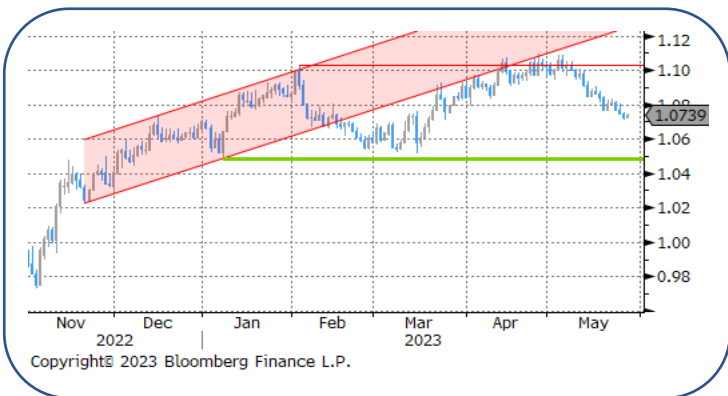
The ECB adopted a more gradual approach by slowing its tightening pace from 50 to 25 bps in May.

It stated that in the base scenario rates will be brought to sufficiently restrictive levels (i.e. more hikes to follow) and will stay there for as long as necessary. Combined with APP reinvestments fully stopping from 2023H2 on, we expect a solid bottom below European/German yields. The German 10-y is nearing the 2.50%/2.57% resistance area.



## US 10y yield

The Fed hinted at a pause after a 25 bps hike in May. The regional bank implosion is expected to weigh on activity but elevated inflation prevents the Fed from rapid rate cuts. Markets still expect them in 2023H2, but systematically push the start further in time amid easing banking and recession concerns. They even are discounting another hike first. Yields staged an impressive comeback. The 10-y surpassed 3.60% resistance, eyeing 3.90% next.



## EUR/USD

The US dollar struck back in May. Local financial stability concerns moved to the background and market focus returned to monetary policy. Rebounding US yields brought EUR/USD to the 1.0727/1.0735 support zone. A break lower paves the way towards 1.06 in first instance. 1.0484/1.0516 is the hard lower bound as the ECB still retains a hawkish upper hand vs. the Fed.



## EUR/GBP

The BoE's conditional rate hike approach comes back to haunt them after May CPI delivered a nasty surprise. UK money markets expect several more rate hikes this year, keeping sterling near Ytd highs. We hold our MLT bearish sterling bias for now. Divergency within the BoE about the way forward contrasts with unisono hawkish ECB rhetoric. It adds to the weak structural GBP cards (weaker growth prospects, twin deficits, brexit consequences).

# Calendar & Table

Tuesday, 30 May		Consensus	Previous
<b>US</b>			
15:00	House Price Purchase Index QoQ (1Q)	--	0.30%
15:00	FHFA House Price Index MoM (Mar)	0.20%	0.50%
15:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Mar)	0.00%/-1.70%	0.06%/0.36%
<b>16:00</b>	<b>Conf. Board Consumer Confidence (May)</b>	<b>99.0</b>	<b>101.3</b>
16:00	Conf. Board Present Situation (May)	--	151.1
16:00	Conf. Board Expectations (May)	--	68.1
16:30	Dallas Fed Manf. Activity (May)	-18.0	-23.4
<b>Japan</b>			
01:30	Jobless Rate (Apr)	2.60%A	2.80%
01:30	Job-To-Applicant Ratio (Apr)	1.32A	1.32
<b>EMU</b>			
11:00	Consumer Confidence (May F)	--	-17.4
<b>11:00</b>	<b>Economic Confidence (May)</b>	<b>98.8</b>	<b>99.3</b>
11:00	Industrial Confidence (May)	-4.0	-2.6
11:00	Services Confidence (May)	10.3	10.5
<b>Italy</b>			
10:00	PPI MoM/YoY (Apr)	--/--	-2.00%/3.00%
11:00	Industrial Sales MoM/WDA YoY (Mar)	--/--	1.30%/7.20%
<b>Belgium</b>			
<b>30MAY</b>	<b>CPI MoM/YoY (May)</b>	<b>--/--</b>	<b>-0.67%/5.60%</b>
<b>Spain</b>			
<b>09:00</b>	<b>CPI EU Harmonised MoM/YoY (May P)</b>	<b>0.20%/3.30%</b>	<b>0.50%/3.80%</b>
09:00	CPI Core YoY (May P)	6.40%	6.60%
<b>Sweden</b>			
<b>08:00</b>	<b>GDP QoQ/WDA YoY (1Q)</b>	<b>0.20%/0.10%</b>	<b>-0.50%/-0.20%</b>
<b>Events</b>			
<b>09:00</b>	<b>Riksbank hearing on monetary policy at parliament</b>		
<b>15:00</b>	<b>ECB's Holzmann Speaks</b>		
<b>15:30</b>	<b>ECB's Centeno Speaks in Barcelona</b>		
<b>17:45</b>	<b>ECB's Villeroy speaks in Paris</b>		
<b>19:00</b>	<b>Fed's Barkin Speaks on Monetary Policy, Outlook</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,80	0,00		US	4,56	0,00	DOW	33093,34	0,00
DE	2,43	-0,10		DE	2,88	-0,06	NASDAQ	12975,69	0,00
BE	3,12	-0,11		BE	2,96	-0,06	NIKKEI	31306,62	73,08
UK	4,33	0,00		UK	4,49	0,00	DAX	15952,73	-31,24
JP	0,44	0,00		JP	-0,06	0,00	DJ euro-50	4320,01	-17,49
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,44	4,35	4,98	Ester	3,1470	-0,0050	Libor-1	5,1537	0,0000
5y	3,19	4,02	4,63	Euribor-1	3,2130	0,0140	Libor-3	5,4757	0,0000
10y	3,08	3,83	4,26	Euribor-3	3,4830	0,0210	Libor-6	5,5810	0,0000
				Euribor-6	3,7810	0,0210			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0708	-0,0015		EUR/JPY	150,37	-0,47	CRB	260,70	0,00
USD/JPY	140,45	-0,15		EUR/GBP	0,8668	-0,0019	Gold	1963,10	0,00
GBP/USD	1,2355	0,0011		EUR/CHF	0,9685	-0,0023	Brent	77,07	0,12
AUD/USD	0,6539	0,0022		EUR/SEK	11,5747	-0,0137			
USD/CAD	1,3592	-0,0023		EUR/NOK	11,8955	0,0077			

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