

## Sunrise



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Tuesday, 23 May 2023

# KBC Sunrise Market Commentary

## Markets

- The Fed's two biggest hawks yesterday coloured trading which until then turned out to be non-directional. **Kashkari from the Minneapolis Fed said it's a close call between a pause and a hike in June, adding that the former wouldn't mean tightening is over per se. St. Louis Fed president Bullard called US recession worries overstated and expects some 50 bps more rate hikes sooner rather than later this year.** SF's Daly and Atlanta's Bostic argued for caution but their comments were largely dismissed. US yields went from losing almost 5 bps to similar-sized gains at the front end of the curve. Longer tenors also added between 3.8-4.2 bps. German yields followed suit, adding 3.1-5.2 bps with the front underperforming. ECB's Villeroy warned about persistent underlying price pressures. Especially services inflation needs to be monitored as it is likely to become the dominant inflation source. Peripheral spreads narrowed with Greece hugely outperforming (-17 bps, to the lowest since Nov 2021) following incumbent PM Mitsotakis's election victory last Sunday. FX markets were stoic. EUR/USD (barely) held above 1.08 and EUR/GBP (0.869) tried to leave the recent lows behind. Stocks finished slightly lower in Europe. Wall Street closed mixed as investors awaited the outcome of another round of debt ceiling talks. Those concluded during Asian trading on a more upbeat note, even though there is no deal yet. Catching the eye this morning is **excess volatility in the Turkish lira** for a second day straight (see below). USD/TRY surged yesterday and this morning past 20 before paring gains back below in a sign how authorities are struggling to keep TRY-depreciation in check. The Japanese yen ekes out a tiny gain following strong May PMI business confidence (cf. infra). The US dollar in general trades a tad stronger.
- **PMIs are going from Japan this morning to Europe, the UK and US later today.** Expectations are for a slight easing in all of the three areas, mostly on the account of the services sector. At 53 (composite) or more that would, all in all, still mean solid economic growth. **The May edition will capture the effect, if any, of the March financial turbulence in full, suggesting risks today are tilted to the downside.** In this case it could temporarily mark an end to the core bond yield rebound over the past few days, especially in the US. The picture is more nuanced in Europe. As such it may also help EUR/USD find a bottom after the May decline. If, however, such a downward surprise doesn't materialize, we expect the turmoil and (credit crunch) worries related to it to move to the background, at least in the short run, allowing core bond yields and the USD to extend gains.

## News & Views

- **The Jibun Japan May PMI's indicated that growth in the economy continued at the fastest pace since October 2013.** The composite PMI, compiled by S&P, rose to 54.9 from 52.9 in April. **It was the fifth consecutive reading above the 50 mark** that separates growth from contraction. Growth still was mainly **driven by activity in the services sector**. The services PMI rose to a record rate for survey (56.3 from 55.4) reflecting sustained improvements in private consumption and international tourism post COVID-19. PMI data also indicates that service activity continues to fare strongly and **has yet to reach the end of the current boom cycle**. Employment levels within Japan's service sector also expanded at the second fastest pace on record. **Manufacturing output expanded at a slower pace, but, but also returned in positive territory** (50.8 from 49.5). The Flash PMI suggests that inflationary pressures eased from April, but stay elevated. Input cost inflation rose at its slowest rate for 17 months, but is still running well above the average level in May. Output price inflation eased to its 12-month average but remained consistent with Japan's CPI staying elevated in mid-year. The yen this morning rebounds marginally after touching the lowest levels since end November (USD/JPY 138.5 area).
- **Turkish President Erdogan received the support of Sinan Ogan, one of its contenders who won 5.2% in the first round of the presidential elections last week.** The support strengthens Erdogan's chances to secure a majority in the second round of the elections to be held on Sunday. The Turkish Lira again trades volatile at the start of trading this morning, with the currency holding near record low levels against the dollar and the euro.

# Graphs

## GE 10y yield

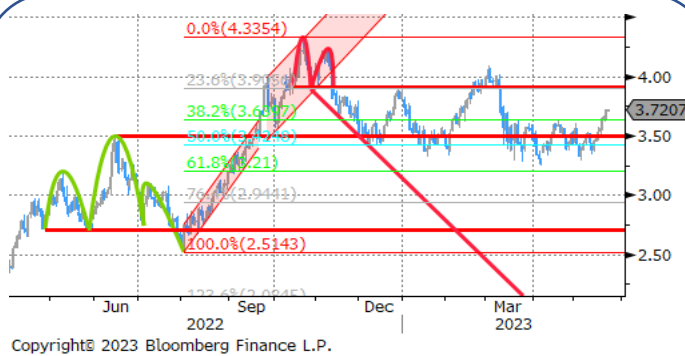
The ECB adopted a more gradual approach by slowing its tightening pace from 50 to 25 bps in May.

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.**



## US 10y yield

The Fed hinted at a pause after delivering a 25 bps hike in May. **The regional bank implosion is expected to additionally weigh on activity.** But elevated inflation ties the central bank's hands in terms of rapid rate cuts. Markets disregard Fed guidance and expect the cutting cycle to start in 2023 H2. Both short and long term yields recovered from the YtD lows to test the upper bound of the sideways trading range.



## EUR/USD

**The euro profited from subsiding energy concerns and the ECB's policy stance.** Even as the latter downshifted the tightening pace, it retains a hawkish upper hand vs. the Fed. Combined with local financial stability concerns, a sustained dollar comeback is unlikely. Failure to break the EUR/USD 1.1095 YtD high triggered a correction action lower.



## EUR/GBP

The usually risk-sensitive **pound proved surprisingly resilient during the banking turmoil.** The BoE raised rates by 25 bps. A next move higher is still conditional but in any case priced in already. Divergency within the BoE about the way forward contrasts **with ongoing hawkish ECB rhetoric.** It adds to the already weak structural GBP cards (weaker growth prospects, twin deficits, long term brexit consequences...), but sterling tries to fight back.



# Calendar & Table

Tuesday, 23 May		Consensus	Previous
<b>US</b>			
14:30	Philadelphia Fed Non-Manufacturing Activity (May)	--	-22.8
15:45	S&P Global US Manufacturing PMI (May P)	50.0	50.2
15:45	S&P Global US Services PMI (May P)	52.5	53.6
15:45	<b>S&amp;P Global US Composite PMI (May P)</b>	<b>53.0</b>	<b>53.4</b>
16:00	New Home Sales Total/MoM (Apr)	665k/-2.60%	683k/9.60%
16:00	Richmond Fed Manufact. Index (May)	-8	-10
<b>Japan</b>			
02:30	<b>Jibun Bank Japan PMI Composite (May P)</b>	<b>54.9A</b>	<b>52.9</b>
02:30	Jibun Bank Japan PMI Mfg (May P)	50.8A	49.5
02:30	Jibun Bank Japan PMI Services (May P)	56.3A	55.4
07:30	Nationwide Dept Sales YoY (Apr)	--	9.80%
<b>UK</b>			
10:30	S&P Global/CIPS UK Manufacturing PMI (May P)	48.0	47.8
10:30	S&P Global/CIPS UK Services PMI (May P)	55.3	55.9
10:30	<b>S&amp;P Global/CIPS UK Composite PMI (May P)</b>	<b>54.6</b>	<b>54.9</b>
<b>EMU</b>			
10:00	HCOB Eurozone Manufacturing PMI (May P)	46.0	45.8
10:00	<b>HCOB Eurozone Composite PMI (May P)</b>	<b>53.5</b>	<b>54.1</b>
10:00	HCOB Eurozone Services PMI (May P)	55.5	56.2
<b>Germany</b>			
09:30	HCOB Germany Manufacturing PMI (May P)	45.0	44.5
09:30	HCOB Germany Services PMI (May P)	55.0	56
09:30	<b>HCOB Germany Composite PMI (May P)</b>	<b>53.4</b>	<b>54.2</b>
<b>France</b>			
09:15	<b>HCOB France Composite PMI (May P)</b>	<b>52.0</b>	<b>52.4</b>
09:15	HCOB France Manufacturing PMI (May P)	46.0	45.6
09:15	HCOB France Services PMI (May P)	54.0	54.6
<b>Hungary</b>			
14:00	<b>Central Bank Rate Decision</b>	<b>13.00%</b>	<b>13.00%</b>
<b>Events</b>			
09:15	ECB's Guindos Speaks		
10:00	<b>ECB's Muller Speaks</b>		
11:15	<b>BOE's Bailey testifies on monetary policy</b>		
12:30	<b>Riksbank's Thedeen on monetary policy and financial stability</b>		
15:00	Fed's Logan Gives Welcoming Remarks at Conference		
16:45	<b>BOE's Haskel speaks at Fed event</b>		
17:00	ECB's Villeroy Speaks		
19:00	U.S. To Sell 2-Year Notes		
19:50	<b>ECB's Nagel Speaks</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.71	0.04		US	4.32	0.05	DOW	33286.58	-140.05
DE	2.46	0.03		DE	2.81	0.05	NASDAQ	12720.78	62.88
BE	3.16	0.03		BE	2.89	0.02	NIKKEI	30981.5	-105.32
UK	4.06	0.07		UK	4.05	0.09	DAX	16223.99	-51.39
JP	0.39	0.00		JP	-0.06	0.00	DJ euro-50	4385.63	-9.67
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.36	4.13	4.50	Ester	3.1500	-0.0010			
5y	3.16	3.83	4.22	Euribor-1	3.1350	0.0010	Libor-1	5.1397	0.0000
10y	3.10	3.73	3.95	Euribor-3	3.4120	-0.0030	Libor-3	5.3927	0.0000
				Euribor-6	3.7140	0.0070	Libor-6	5.4666	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0813	0.0008		EUR/JPY	149.87	0.88	CRB	261.58	-0.55
USD/JPY	138.6	0.62		EUR/GBP	0.8694	0.0013	Gold	1995.70	-4.60
GBP/USD	1.2437	-0.0008		EUR/CHF	0.9708	-0.0013	Brent	75.99	0.41
AUD/USD	0.6653	0.0002		EUR/SEK	11.4202	0.0341			
USD/CAD	1.3505	0.0000		EUR/NOK	11.7786	0.0161			

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