

Sunrise



Wednesday, 24 May 2023

KBC Sunrise Market Commentary

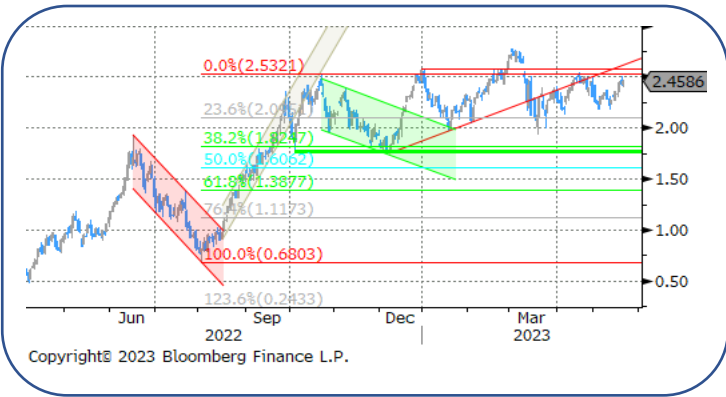
Markets

- Yesterday's PMIs for the UK, Europe and US all showed similar characteristics: **the manufacturing sector is under (intensifying) pressure but the all-important services economy is booming**. Core bonds (initially) slipped with a massive underperformance from UK gilts. Yields on the British island shot up between 8.2 and 9.4 bps. Both German yields and US yields eased from their intraday highs. The former still rose around 1 bp across the curve. Rates in the latter ended 1.2-2.6 bps in the red after having risen up to 6 bps higher initially. The turnaround came as sentiment around debt ceiling talks took a hit. Speaker of the Republican House McCarthy said a deal is not close yet. Meanwhile, more and more House Republicans aren't buying USTS Yellen's warning that the so-called X-date could come as soon as June 1. **T-bills with an expiry around that assumed X-date deepen**. Stock markets slid 1% in Europe and between 0.7-1.2% in the US. The risk-off supported the dollar, pushing EUR/USD towards a two-month low at 1.077. DXY neared recent highs around 103.5. Sterling experienced some post-PMI volatility but in the end inched higher, keeping EUR/GBP firmly near the May/YtD lows in the high 0.86 area. Scandinavian currencies and the ones Down Under were under pressure with commodities including iron ore and copper being sold. Oil (+1.1% to \$76.3/b) wasn't very impressed by the Saudi energy minister warning short-sellers ahead of an OPEC-meeting next week. The kiwi dollar is even taking a turn for the worse this morning after the RBNZ signaled its rate hike was the last one (see headline below). Sterling tries to push through recent highs following **much higher-than-expected UK CPI** data this morning. Headline eased only to 8.7% (from 10.1%) vs 8.2% expected and core even accelerated to 6.8% vs the 6.2% status quo expected. **Consider the BoE's condition for further rate hikes - more evidence of persistent inflation - checked**. The economic calendar has little additional to offer in terms of data. We do keep an eye at the **Fed meeting minutes from the May meeting as well as a whole range of central bank speeches** (including from ECB's Lagarde and BoE's Bailey) that could influence trading. In the meantime, the US dollar is consolidating near recent highs. Core bond yields' recent upward momentum showed signs of easing yesterday but re-found support from the UK CPI. The US 10-y yield holds above the sideways trading range while Germany's 10-y is readying for a new test of the 2.5% resistance.

News & Views

- The Reserve Bank of New Zealand raised its policy rate by 25 bps to 5.50%** as expected. Still markets clearly sees the move as a dovish hike. **The Committee discussed the option of leaving the policy rate unchanged at 5.25%**. In the end, a majority of five votes to two agreed to raise the policy rate to 5.50%. The Monetary Policy Committee reached a consensus that interest rates will need to remain at a **restrictive level for the foreseeable future**, to ensure consumer price inflation returns to the 1 to 3% target range while supporting maximum sustainable employment. New Zealand inflation is expected to continue to decline from its peak and with it measures of inflation expectations. Core inflation pressures will remain until capacity constraints ease further. While employment is above its maximum sustainable level, there are now **signs of labour shortages easing and vacancies declining**. In its monetary policy statement, **the RBNZ indicates that current 5.50% level might be the peak of the cycle and that rate cuts are possible from H2 next year**. Before today's decision, interest rate markets took into account that at least two additional interest rate hikes were possible. The New-Zealand 2-y government bond yield dropped about 30 bps to currently 4.8%. The Kiwi dollar tumbled from the NZD/USD 0.6255 area to currently trade near 0.617.
- Comments from members of the Czech central bank showed the division within to MPC on whether or not to raise rates further. **Jan Kubicek in an interview indicated that current level of the policy rate (7.0%) is adequate** to bring inflation down and that it might be possible for CNB to start lowering rates in Q4 this year or early next year, even as he admitted that rates should be longer at current level than forecasted by the CNB's model. At the same time, **hawkish member Holub indicated that the risk of a wage spiral is partially materializing**. In this context, with double digit inflation, it's the central banks job to prioritize inflation over potential negative consequences of higher interest rates on the real economy. Holub at the early May meeting in the first round of the vote even supported the case for a 50 bps hike (final vote 4-3 for unchanged).

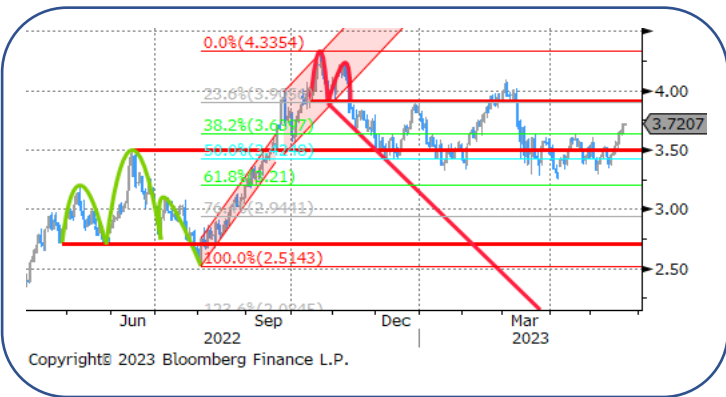
Graphs



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 around 3.60%.



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. Support kicks in at 1.0727.



EUR/GBP

The **pound is showing much resilience.** The BoE raised rates by 25 bps. A next move higher is 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 weak structural GBP cards (weaker growth prospects, twin deficits, long term brexit consequences). Short term however, sterling is fighting back and holding near the YtD highs.

Calendar & Table

Wednesday, 24 May		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	--
20:00	FOMC Meeting Minutes		
UK			
08:00	CPIH YoY (Apr)	7.30%	8.90%
08:00	CPI MoM/YoY (Apr)	0.70%/8.20%	0.80%/10.10%
08:00	CPI Core YoY (Apr)	6.20%	6.20%
08:00	RPI MoM/YoY (Apr)	1.20%/11.10%	0.70%/13.50%
08:00	RPI Ex Mort Int.Payments (YoY) (Apr)	10.20%	12.60%
08:00	PPI Output NSA MoM/YoY (Apr)	0.20%/5.80%	0.10%/8.70%
08:00	PPI Input NSA MoM/YoY (Apr)	0.20%/4.80%	0.20%/7.60%
10:30	House Price Index YoY (Mar)	1.5.0%	5.50%
12:00	CBI Trends Total Orders (May)	-19	-20
12:00	CBI Trends Selling Prices (May)	21	23
Germany			
10:00	IFO Business Climate (May)	93.0	93.6
10:00	IFO Current Assessment (May)	94.7	95
10:00	IFO Expectations (May)	91.6	92.2
Belgium			
15:00	Business Confidence (May)	--	-7.8
New Zealand			
04:00	RBNZ Official Cash Rate	5.50%A	5.25%
Events			
24MAY	ECB Non-Policy Meeting in Frankfurt		
04:00	RBNZ Monetary Policy Statement		
07:45	Riksbank's Jansson at LO seminar		
11:30	BOE's Bailey speaks at Net Zero event		
09:10	RBA's Jacobs-Speech		
13:00	Riksbank's Floden on economic situation		
15:00	BOE Governor Andrew Bailey speaks to WSJ event		
18:10	Fed's Waller Discusses the Economic Outlook		
19:00	U.S. To Sell 5-Year Notes		
19:45	ECB's Lagarde Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.69	-0.02		US	4.32	0.00	DOW	33055.51	-231.07
DE	2.47	0.01		DE	2.82	0.01	NASDAQ	12560.25	-160.53
BE	3.17	0.01		BE	2.91	0.02	NIKKEI	30728.89	-228.88
UK	4.16	0.09		UK	4.14	0.08	DAX	16152.86	-71.13
JP	0.41	0.00		JP	-0.06	-0.01	DJ euro-50	4342.38	-43.25
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.38	4.12	4.58	Ester	3.1570	0.0070			
5y	3.17	3.82	4.31	Euribor-1	3.1420	0.0070	Libor-1	5.1269	0.0000
10y	3.11	3.71	4.05	Euribor-3	3.4220	0.0100	Libor-3	5.3747	0.0000
				Euribor-6	3.7320	0.0180	Libor-6	5.4549	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0770	-0.0043		EUR/JPY	149.27	-0.60	CRB	261.21	-0.37
USD/JPY	138.59	-0.01		EUR/GBP	0.8676	-0.0018	Gold	1992.80	-2.90
GBP/USD	1.2413	-0.0024		EUR/CHF	0.9709	0.0001	Brent	76.84	0.85
AUD/USD	0.661	-0.0043		EUR/SEK	11.4394	0.0192			
USD/CAD	1.3504	-0.0001		EUR/NOK	11.8003	0.0217			

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