

Sunrise



Moving forward together.

Wednesday, 31 May 2023

KBC Sunrise Market Commentary

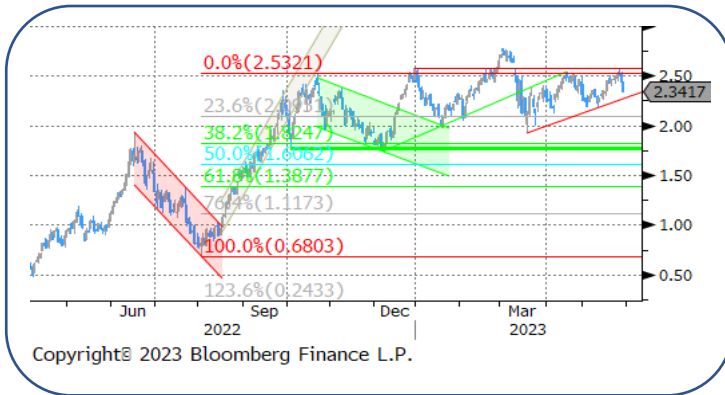
Markets

- Correction time yesterday on the EMU and US yield markets after last week's hawkish repositioning.** The trend was already visible on Monday in thin European trading and deepened. A further easing of Spanish inflation (HICP -0.2% M/M and 2.9% Y/Y from 3.8%; core CPI declining from 6.6% to 6.1%) and Belgian headline inflation (5.2% Y/Y from 5.6% Y/Y) were a good enough reason for investors to pick up bonds after their recent setback. **German yields ceded between 10.4 bps (5-y) and 6.9 bps (30-y).** **US data provided less of a reason for a rebound in Treasuries.** US house prices rose more than expected and consumer confidence (conference board) held up better than feared (102.3 from an upwardly revised 103.7). Fed's Barkin repeated that inflation stays too high. US yields early in US dealings tried to row against the downtrend in Europe, but finally succumbed. US yields lost between 12 bps (5-y) and 7 bps (30-y), mainly driven by **a correction in real yields (10-y: -8 bps).** The proposal to suspend the US debt ceiling was cleared by the House rules committee and sent for approval to the House. Equities showed no clear directional trend. US indices closed mixed (Dow -0.15%, Nasdaq +0.3%). The DXY dollar index intraday reversed an early up-tick to close modestly lower at 104.16 (from 104.3). However, this move was at least partially due to an intraday decline in USD/JPY as **Japanese authorities (BOJ, MOF, FSA) held an unscheduled meeting to discuss recent yen weakness.** USD/JPY declined from an intraday top just below 141 to close at 139.79. USD/JPY 140 apparently is a first line in the sand for Japanese authorities. EUR/USD briefly dropped below the 1.07 big figure but also rebounded intraday to close at 1.0734. Sterling outperformed even as UK yields intraday joined the setback in the US and Europe. EUR/GBP closed just below the 0.8650 key support.
- Softer than expected Chinese PMI's (cf infra) put markets in risk-off modus this morning** with Japan and China losing about 1-1.5%. Hong Kong even cedes about 2.5%. Korea outperforms. US yields decline modestly even as Fed Mester advocates the case for further rate hikes in an interview with the FT. USD/JPY extends yesterday's setback below 140 (139.55). EUR/USD remains in the defensive (1.069). Later today, the focus turns to **national EMU CPI data** (Germany, France, Italy). **Lower energy prices and favourable base effects suggest a further decline in headline CPI.** This might reinforce the bid for EMU bonds. It probably won't help the euro. In the US, we keep an eye at the JOLTS jobs openings. A lower than expected figure might also confirm the bond-friendly short-term momentum. The 4.25% area for the US 2-y yield is a first high profile support. For the 10-y German yield the 2.2% area remains an important reference. The ECB will publish its financial stability review.

News & Views

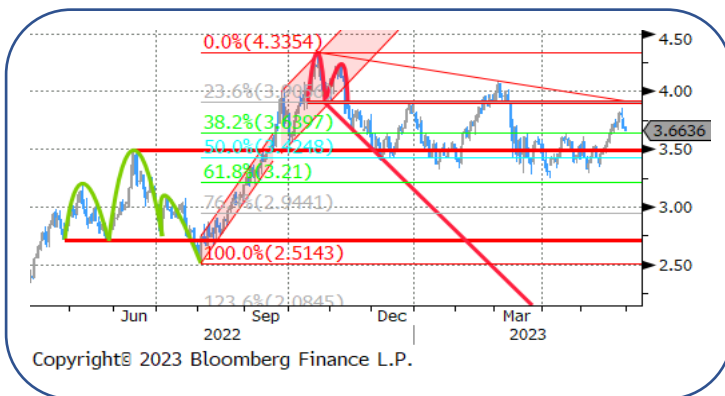
- Official May Chinese PMIs underwhelmed this morning.** The manufacturing PMI unexpectedly ventured deeper in contraction area, from 49.2 to 48.8 (49.5 expected) with every sub indicator but one (delivery time) printing lower compared to April. **Non-manufacturing business confidence eased from 56.4 to 54.5,** still above the neutral 50 but less than the 55.2 consensus estimate. New orders slumped 6.5 points to 49.5 and employment remains stuck <50 (48.4). Business activity expectations remain at a lofty 60.4, although that's down from 62.5 last month. **The data again highlight the difficulties China's economy is experiencing to really gain traction after a burst of consumer activity in Q1.** Calls for economic stimulus measures grow louder. **China's yuan slips this morning with USD/CNY rising to the highest level (7.10) since November 2022.** Chinese and Hong Kong stocks underperform regional peers.
- Australian inflation in April accelerated to a faster-than-expected 6.8%.** That's up from 6.3% in March. The end of a temporary government fuel subsidy boosted last month's inflation. That said, the likes of housing are still contributing strongly (8.9% y/y). Monthly figures are not as comprehensive as the quarterly readings but do give an idea of how prices are evolving. **Shortly before the release, Reserve Bank of Australia governor Lowe reiterated the central bank's data-dependent mode on interest rates.** Australian swap yields rose about 7 bps at the front end before paring gains to 2.9-3.9 bps currently after Chinese PMI data dampened optimism. **Money markets nevertheless almost fully price in one additional hike by August/September.** Longer tenors add less than 1 bp. **The Australian dollar CPI-driven rebound was very short lived.** AUD/USD is testing the YtD lows around 0.6489..

Graphs



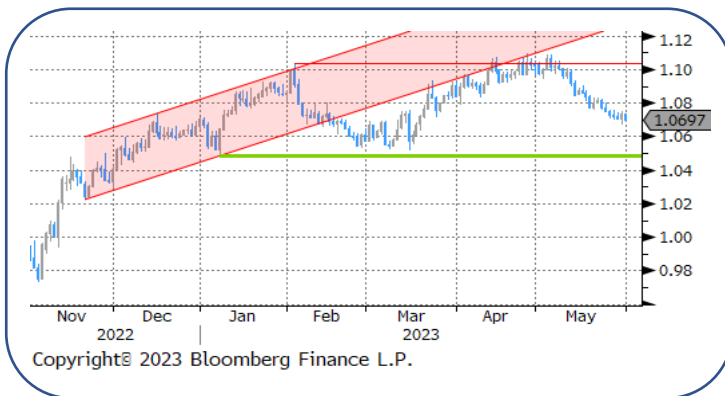
GE 10y yield

The ECB adopted a more gradual approach by slowing its rate hike pace from 50 to 25 bps. It stated that in the base scenario rates will be brought to sufficiently restrictive levels (i.e. more hikes to follow) to 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. 2.50%/2.57% recently proved to be a tough resistance for the German 10-y yield..



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 caused EUR/USD to fall below the 1.0727/1.0735 support zone, paving 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, pushing sterling to a now Ytd high below EUR/GBP 0.865. The short-term momentum in sterling improved, but we stay cautious MLT. Divergency within the BoE about the way forward still might change sentiment on sterling further down the road.

Calendar & Table

Tuesday, 30 May		Consensus	Previous
US			
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%
16:00	Conf. Board Consumer Confidence (May)	99.0	101.3
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
Japan			
01:30	Jobless Rate (Apr)	2.60%A	2.80%
01:30	Job-To-Applicant Ratio (Apr)	1.32A	1.32
EMU			
11:00	Consumer Confidence (May F)	--	-17.4
11:00	Economic Confidence (May)	98.8	99.3
11:00	Industrial Confidence (May)	-4.0	-2.6
11:00	Services Confidence (May)	10.3	10.5
Italy			
10:00	PPI MoM/YoY (Apr)	--/--	-2.00%/3.00%
11:00	Industrial Sales MoM/WDA YoY (Mar)	--/--	1.30%/7.20%
Belgium			
30MAY	CPI MoM/YoY (May)	--/--	-0.67%/5.60%
Spain			
09:00	CPI EU Harmonised MoM/YoY (May P)	0.20%/3.30%	0.50%/3.80%
09:00	CPI Core YoY (May P)	6.40%	6.60%
Sweden			
08:00	GDP QoQ/WDA YoY (1Q)	0.20%/0.10%	-0.50%/-0.20%
Events			
09:00	Riksbank hearing on monetary policy at parliament		
15:00	ECB's Holzmann Speaks		
15:30	ECB's Centeno Speaks in Barcelona		
17:45	ECB's Villeroy speaks in Paris		
19:00	Fed's Barkin Speaks on Monetary Policy, Outlook		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,69	-0,11		US	4,45	-0,11	DOW	33042,78	-50,56
DE	2,34	-0,09		DE	2,78	-0,10	NASDAQ	13017,43	41,74
BE	3,03	-0,10		BE	2,86	-0,10	NIKKEI	30798,32	-529,84
UK	4,25	-0,09		UK	4,44	-0,06	DAX	15908,91	-43,82
JP	0,43	0,00		JP	-0,05	0,01	DJ euro-50	4291,58	-28,43
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,32	4,23	4,94	Ester	3,1480	0,0010	Libor-1	5,1537	0,0000
5y	3,08	3,89	4,58	Euribor-1	3,2140	0,0010	Libor-3	5,4757	0,0000
10y	2,99	3,72	4,19	Euribor-3	3,4740	-0,0090	Libor-6	5,5810	0,0000
				Euribor-6	3,7700	-0,0110			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0735	0,0027		EUR/JPY	150,08	-0,29	CRB	255,50	-5,21
USD/JPY	139,79	-0,66		EUR/GBP	0,8648	-0,0020	Gold	1977,10	14,00
GBP/USD	1,2414	0,0059		EUR/CHF	0,9724	0,0040	Brent	73,54	-3,53
AUD/USD	0,6517	-0,0022		EUR/SEK	11,6696	0,0949			
USD/CAD	1,3602	0,0010		EUR/NOK	12,0018	0,1063			

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