
**Friday, 09 June 2023**

# KBC Sunrise Market Commentary

## Markets

- US weekly jobless claims, of all things, was responsible for yesterday's main market move. Applications rose from 233k to 261k, more than the 235k expected. It triggered a **US bond rally which dragged European peers higher** as well. While it doesn't change expectations for a pause at next week's Fed meeting, **it did offer a bit of contrast following the Bank of Canada and the Reserve Bank of Australia earlier this week.** Both were a hawkish reminder that tightening cycles after leaving rates unchanged one or more times indeed can be resumed. US yields dropped between 3.9 and 8.5 bps with the belly of the curve outperforming. German yields fell 4.2-5.4 bps. The US dollar slipped. DXY (trade-weighted) lost territory, from 104.06 at the open to 103.34 in the close. EUR/USD moved beyond intermediate resistance between 1.0735/1.076 to close around 1.078. GBP/USD spillover-effects pushed EUR/GBP lower for the day too. The pair finished at 0.858, near the June lows. Risk appetite was healthy, especially in the US. The tech-heavy Nasdaq rose about 1% and remains close to its year-to-date highs.

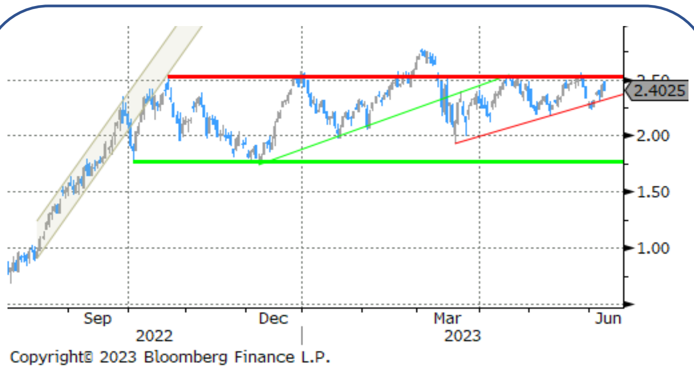
- Asian stocks mostly trade in the green. Japan outperforms after the Nikkei index pulled back from a 30-year high over the past two days. Chinese markets are unmoved by this morning's price data (see below). Stocks trade flat, the Chinese yuan trades a tad weaker as speculation for more monetary policy support builds. South Korea's won outperforms Asian peers (USD/KRW drops to 1292.45, the lowest since April). Currencies in the G10 area trade muted. The Japanese yen is today's laggard. Core bonds hover near yesterday's closing levels and we don't expect clear directional trading to materialize later today. The economic calendar contains no critical US or European releases although the Canadian labour market report sure is worth mentioning after the BoC's unexpected rate increase. The looming weekend and, more importantly, **next week's ECB and Fed meetings** are likely to keep investors in other markets than the Canadian sidelined in the run-up. To that end we have no strong view on the dollar and euro either. After surpassing a first hurdle yesterday, eyes are on the 1.08 big figure from a technical point of view. But the actual topside reference to look at is 1.0942 (50% recovery on the 2021-2022 EUR/USD decline). Sterling has held near the recent highs all week. **Next week though some interesting economic data is scheduled for release**, including the labour market report and the April industrial update.

## News & Views

- **China May price data published this morning suggested little stress on the country's demand/supply balance, evidence of a rather sluggish economic recovery and reviving calls for monetary stimulus. CPI inflation rose marginally to 0.2% Y/Y from 0.1% in May. Prices declined 0.2% M/M from April.** Consumer goods prices were 0.3% lower compared to the same period last year. Services inflation slowed to 0.9% Y/Y from 1.0%. On the producer side of the economy, **outright deflationary trends even deepened with PPI declining 0.9% M/M.** Factory gate prices in May were 4.6% lower than in the previous month last year (was -3.9% Y/Y in April), **the deepest decline since February 2016, with price declines broadly visible across subcategories.** The disinflationary environment and calls for more stimulus for now had only modest impact on the yuan with USD/CNY gaining only slightly to 7.122. Admittedly, the dollar this week also lost some momentum overall.

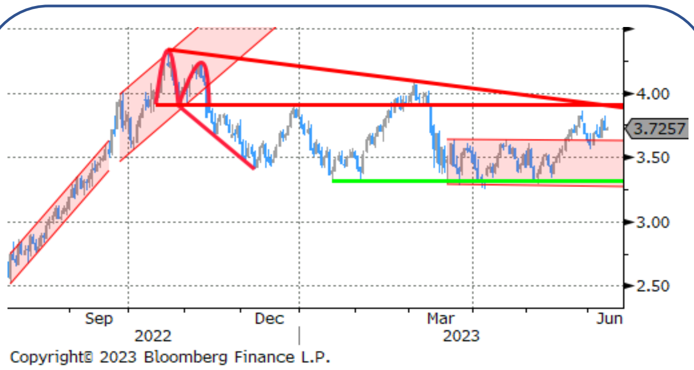
- **Turkish president Erdogan appointed Hafize Gaye Erkan as the new head of the Turkish central bank** to replace Sahap Kavcioglu, who supported Erdogan's view by reducing interest rates even as inflation skyrocketed. The appointment is **seen as a potentially resulting to a more orthodox policy.** The move comes after Erdogan earlier this week named Mehmet Simsek as finance Minister who is also seen as supporting a more market-friendly approach. Markets now look out whether the change in the country's economic management will lead to a more conventional approach, **with the CBRT raising interest rates as an important pointer for such a policy change.** This morning, the lira holds at all-time lows against the dollar USD/TRY 23.465 and the euro (EUR/TRY 25.39).

# Graphs



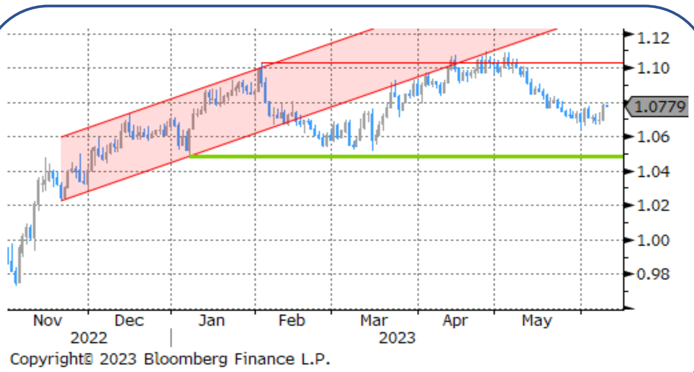

## GE 10y yield

**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.**



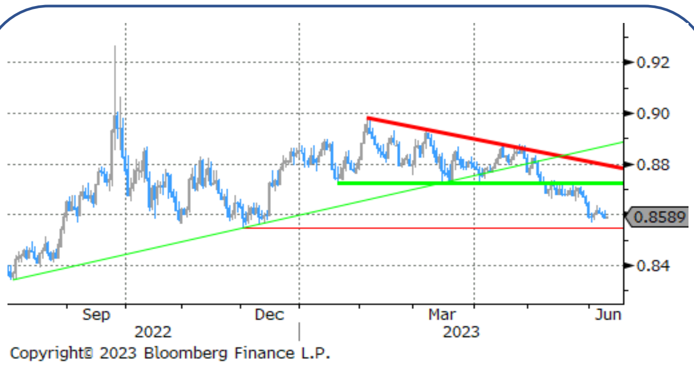

## US 10y yield

The Fed hinted at a pause after delivering a 25 bps hike in May. They want more evidence on the pass-through of the previous 500 bps of tightening. **The regional bank implosion is expected to additionally weigh on activity going forward.** But elevated inflation and a strong labour market mean that the Fed will likely have to hike its policy rate again by July. It triggered underperformance of US Treasuries during the month of May.




## 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

| Friday, 9 June | | Consensus | Previous |
|---|---|---|---|
| **Canada** | | | |
| 14:30 | Part Time Employment Change (May) | -- | 47.6k |
| 14:30 | Net Change in Employment (May) | 21.3k | 41.4k |
| **14:30** | **Full Time Employment Change (May)** | **--** | **-6.2k** |
| 14:30 | Unemployment Rate (May) | 5.10% | 5.00% |
| 14:30 | Hourly Wage Rate Permanent Employees YoY (May) | 5.10% | 5.20% |
| 14:30 | Participation Rate (May) | 65.60% | 65.60% |
| **China** | | | |
| **03:30** | **CPI YoY (May)** | **0.20%A** | **0.10%** |
| 03:30 | PPI YoY (May) | -4.60%A | -3.60% |
| **Norway** | | | |
| **08:00** | **CPI MoM/YoY (May)** | **0.30%/6.30%** | **1.10%/6.40%** |
| 08:00 | CPI Underlying MoM/YoY (May) | 0.40%/6.30% | 1.00%/6.30% |
| 08:00 | PPI including Oil MoM/YoY (May) | --/-- | 0.80%/-15.30% |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|---|---|---|---|---|---|---|---|---|---|
| US | 3.72 | -0.08 | | US | 4.51 | -0.04 | DOW | 33833.61 | 168.59 |
| DE | 2.40 | -0.05 | | DE | 2.89 | -0.04 | NASDAQ | 13238.52 | 133.63 |
| BE | 3.08 | -0.06 | | BE | 2.96 | -0.05 | NIKKEI | 32261.32 | 620.05 |
| UK | 4.23 | -0.02 | | UK | 4.50 | -0.07 | DAX | 15989.96 | 29.40 |
| JP | 0.44 | 0.00 | | JP | -0.06 | -0.01 | DJ euro-50 | 4297.68 | 5.77 |
| | | | | | | | | | |
| **IRS** | **EUR** | **USD** | **GBP** | **EUR** | **-1d** | **-2d** | **USD** | **-1d** | **-2d** |
| 3y | 3.35 | 4.30 | 4.94 | Ester | 3.1460 | 0.0020 | | | |
| 5y | 3.10 | 3.93 | 4.58 | Euribor-1 | 3.2580 | -0.0130 | Libor-1 | 5.1817 | 0.0000 |
| 10y | 3.02 | 3.74 | 4.17 | Euribor-3 | 3.4860 | 0.0270 | Libor-3 | 5.5099 | 0.0000 |
| | | | | Euribor-6 | 3.7570 | 0.0240 | Libor-6 | 5.6436 | 0.0000 |
| | | | | | | | | | |
| **Currencies** | **Close** | **-1d** | | **Currencies** | **Close** | **-1d** | **Commodities** | **Close** | **-1d** |
| EUR/USD | 1.0782 | 0.0083 | | EUR/JPY | 149.8 | -0.12 | CRB | 262.32 | 0.88 |
| USD/JPY | 138.92 | -1.21 | | EUR/GBP | 0.8585 | -0.0017 | Gold | 1978.60 | 20.20 |
| GBP/USD | 1.256 | 0.0122 | | EUR/CHF | 0.9694 | -0.0044 | Brent | 75.96 | -0.99 |
| AUD/USD | 0.6716 | 0.0064 | | EUR/SEK | 11.6452 | -0.0094 | | | |
| USD/CAD | 1.3357 | -0.0013 | | EUR/NOK | 11.7507 | -0.0694 | | | |

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