

# Sunrise



Tuesday, 12 September 2023

## KBC Sunrise Market Commentary

### Markets

- The first trading day of the week went by without much ado, apart from a lot of **corporate supply**. In its summer forecast update, **the European Commission as expected downwardly revised its 2023 (0.8% from 1.1%) and 2024 (1.3% from 1.6%) growth forecasts** as consumption is still held back by the ongoing increase in prices for most goods and services even as the labour market stays strong. The EC slightly reduced the EMU 2023 inflation forecast from 6.7% in the spring update to currently 6.5%. However, a sustained return of inflation to the 2% ECB target isn't in the cards yet with the 2024 outlook put slightly higher at 3.2% (from 3.1%). The NY Fed's August **Survey of Consumer Expectations** showed **1-yr and 5-yr ahead inflation expectations both increasing** by 0.1 percentage point to 3.6% and 3% respectively. Conversely, the 3-yr ahead inflation expectations decreased from 2.9% to 2.8%. Median home price growth expectations rose to the highest since July 2022 (3.1% from 2.8%) while US households continue to expect decent income growth in the year-ahead (2.9% from 2.8%). The mean probability of losing one's job in the next 12 months rose from 11.8% to 13.8%. Finally, **households turned less optimistic about their financial situation** (expected income growth, household spending, credit access, outlook). The US Treasury kicked off its mid-month refinancing operation with **an average \$44bn 3-yr Note auction** which was awarded at the highest yield since 2007. The bid cover was average (2.75) with the auction stopping tailing slightly (4.66% vs 4.65% 1 pm bid yield). The Treasury continues today and tomorrow with closely-watched 10-yr Note (\$35bn) and 30-yr Bond (\$20bn) auctions.
- In **subdued trading**, US yield changes ranged between flat (2-yr) and +3.4 bps (30-yr). German yields added 1.9 bps (2-yr) to 3.7 bps (30-yr). Main European and US stock markets gained around 0.5% with Nasdaq outperforming (+1.15%). EUR/USD moved away from the 1.07 big figure to close near 1.0750 with EUR/GBP ending almost unchanged at 0.8590. We retain comments by **hawkish BoE Mann** who said that **holding rates constant at the current level risks enabling further inflation persistence** which will have to be unwound eventually with a worse trade-off (even tighter policy with repercussions for the economy). This morning's UK labour market data (disappointing & decreasing employment, accelerating wage growth, limited GBP-gains) and German ZEW investor confidence are today's sole economic releases. Tomorrow's US CPI and Thursday's ECB meeting are the main events.

### News & Views

- **New Zealand updated its economic and fiscal forecasts** going into the October 14 general election. Treasury expects **a much larger deficit this fiscal year** (ending in June 2024) of NZ\$11.4bn compared to the NZ\$7.6bn gap predicted in May. It also **postponed the return to a surplus by one year, in 2027**. The country's debt ratio is expected to peak at 22.8% in 2025 before falling to 21% two years later. Finance minister Robertson of the ruling Labour Party said the budget worsening still reflects **the costs of the pandemic and cyclone Gabrielle** - New Zealand's costliest non-earthquake natural disaster - earlier this year. A **deterioration in global growth, and China in particular**, meanwhile weighed down on government's tax revenues and will continue to do so for some time. Economic growth has nevertheless been revised upwards to 1.3% by mid-2024. **Unlike the country's central bank, Treasury believes another recession can be avoided** (q/q GDP growth was negative in Q4 2022 and Q1 2023). **Inflation is expected to fall below 3% and thus re-enter the central bank's 1-3% target by the end of next year**. The Labour Party and the main opposition National Party are parting ways in recent polling to the disadvantage of the former.
- **The International Energy Agency for the first time said global demand for oil, natural gas and coal will peak before 2030, dubbing it "the beginning of the end" of the fossil fuel era**. The updated forecast brings the peak date forward because of the **accelerated rollout of renewable technologies and the spread of electric vehicles** in the past year. Increased responsiveness to climate change as well as the energy crisis following the Russian invasion sparked green investments. IEA head Birol said that to limit global warming to 1.5°C, emissions needed to fall rapidly after a peak in the mid-2020s. Birol also noted **structural shifts are going on in China** as its economy is moving from heavy, oil-consuming industry to less energy-intensive sectors and services. According to the IEA chief, China in the last 10 years **accounted for a third of the growth in global natural gas demand and two thirds of the growth in oil**.

# Graphs



## GE 10y yield

The ECB repeated that inflation stays too high for too long. However, it moved **to a data-dependent approach** to decide on the amount and the pace of further tightening. Rate cuts are not on the horizon anytime soon. Persistently high core inflation keeps the debate on further rate hikes (and even increased QT) open. Bund yields remain close to their cycle highs. 2.67% is the final hurdle before returning to the cycle high at 2.77%.



## US 10y yield

After a pause in June the Fed again raised its policy rate in July. Further tightening is dependent on eco data. But (core) inflation above target, economic resilience and a tight labour market **makes a September or November hike a real possibility**. The US 10-y yield (and other long tenors) in August surged, driven by the real yield component (highest since 2009). 4.09% resistance broke, paving the way for a return to the cycle high at 4.34%.



## EUR/USD

A test of EUR/USD 1.1274 (76% retracement since early 2021 top to 0.9536 cycle low) was rejected, triggering return action lower. Two poor EMU PMI's and **UST underperformance allowed a strong dollar to take over** again. A protracted decline brought EUR/USD below 1.0834 support. Next support kicks in at 1.0635/1.0516/1.0484.



## EUR/GBP

The BoE was unable to break the EUR/GBP stalemate. It downscaled the tightening pace to 25 bps in August and made additional tightening conditional on further evidence of persistent inflationary pressures. **ST consolidation between EUR/GBP 0.85/0.87 is at hand**.

## Calendar & Table

Tuesday, 12 September		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Aug)	91.5	91.9
<b>UK</b>			
08:00	Payrolled Employees Monthly Change (Aug)	30k	97k
08:00	Claimant Count Rate (Aug)	--	4.00%
08:00	Jobless Claims Change (Aug)	--	29.0k
08:00	Average Weekly Earnings 3M/YoY (Jul)	8.20%	8.20%
08:00	<b>Weekly Earnings <u>ex Bonus</u> 3M/YoY (Jul)</b>	<b>7.80%</b>	<b>7.80%</b>
08:00	<b>ILO Unemployment Rate 3Mths (Jul)</b>	<b>4.30%</b>	<b>4.20%</b>
08:00	Employment Change 3M/3M (Jul)	-195k	-66k
<b>EMU</b>			
11:00	ZEW Survey Expectations (Sep)	--	-5.5
<b>Germany</b>			
11:00	ZEW Survey Expectations (Sep)	-15.0	-12.3
11:00	ZEW Survey Current Situation (Sep)	-75	-71.3
<b>Events</b>			
19:00	U.S. To Sell USD35 Bln 10-Year Notes		
23:05	RBNZ Assistant Governor Silk Speaks on Liquidity		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.29	0.02	US	4.99	0.00	DOW	34663.72	87.13	
DE	2.64	0.03	DE	3.10	0.02	NASDAQ	13917.89	156.36	
BE	3.28	0.03	BE	3.29	0.02	NIKKEI	32727.83	260.07	
UK	4.47	0.05	UK	5.09	0.02	DAX	15800.99	56.24	
JP	0.71	0.00	JP	0.04	0.01	DJ euro-50	4254.33	17.14	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.48	4.52	5.12	Ester	3.6520	-0.0010			
5y	3.26	4.20	4.76	Euribor-1	3.6620	-0.0200	SOFR-1	5.3322	0.0019
10y	3.19	4.00	4.37	Euribor-3	3.8220	0.0220	SOFR-3	5.4086	0.0018
				Euribor-6	3.9700	0.0180	SOFR-6	5.4701	0.0047
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0750	0.0050	EUR/JPY	157.58	-0.62	CRB	286.34	1.86	
USD/JPY	146.59	-1.24	EUR/GBP	0.8594	0.0012	Gold	1947.20	4.50	
GBP/USD	1.2509	0.0041	EUR/CHF	0.9577	0.0020	Brent	90.64	-0.01	
AUD/USD	0.6431	0.0055	EUR/SEK	11.9086	0.0068				
USD/CAD	1.3573	-0.0067	EUR/NOK	11.4364	0.0063				

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