



Monday, 18 September 2023

KBC Sunrise Market Commentary

Markets

- The ECB guided markets to a prolonged pause by saying that rates will be kept at the current level *'for a sufficiently long duration, which will make a substantial contribution to a timely return of inflation to target'*. However, with (core) inflation still substantially above target, the ECB thesis has to be validated. In this respect, several ECB members on Friday (and over the weekend) didn't exclude an additional hike, with **the December meeting (new projections) the next important point of evaluation** (ECB's Vasle). **The debate on a faster run-off of the balance sheet also intensifies**. All this on Friday resulted in a 'logical' underperformance at the long end of the EMU/German curve with Bund yields adding 4.9 bps (2-y) to 9.0 bps (30-y). The German 30-y yield even touched a minor cycle top at 2.82%. **US yields gains were more modest (3-4.5 bps across the curve)**. US August industrial production (+0.4%) and a sharp rebound in the NY Fed Empire manufacturing survey (1.9 from -19, including strong orders and shipments and ongoing high price index) confirmed the resilience of the US economy. Michigan consumer confidence was slightly disappointing with an unexpected easing of inflation expectations (1-y from 3.5% to 3.1%). **US equities fell prey to quite aggressive end of week profit taking** (S&P -1.22%; Nasdaq -1.56%), eroding a positive sentiment in Europe (Eurostoxx close +0.36%, after opening 1% higher). **At \$94/b, Brent oil closed at the highest levels since November last year**. The USD showed a mixed picture, but basically kept recent gains (DXY 105.32). USD/JPY continues to attack the recent top just below 148. Higher EMU yields bought the euro some time (EUR/USD close at 1.0657 from 1.0643).
- Asian equities join the WS decline this morning, but losses are more contained. China outperforms. The eco calendar today and tomorrow is thin with **markets counting down to Wednesday's Fed policy decision and multiple other CB decisions on Thursday** (Bank of England, Norges Bank, Riksbank, Swiss National bank) **and on Friday** (Bank of Japan). **US and EMU PMI's on Friday give an update on activity**. For now, markets aren't inclined to fight the higher-for-longer mantra, which also the Fed is expected to maintain despite a widely expected pause. Combined with an ongoing rise in oil prices, this might protect EMU and US yields with the long end of the curve nearing cycle peak levels (10-y US 4.34%/4.36%; 10-y Germany 2.74%/2.77% area). The dollar took a breather on Friday, but remains in pole position. EUR/USD breaking below 1.0633 would further hurt the technical picture.

News & Views

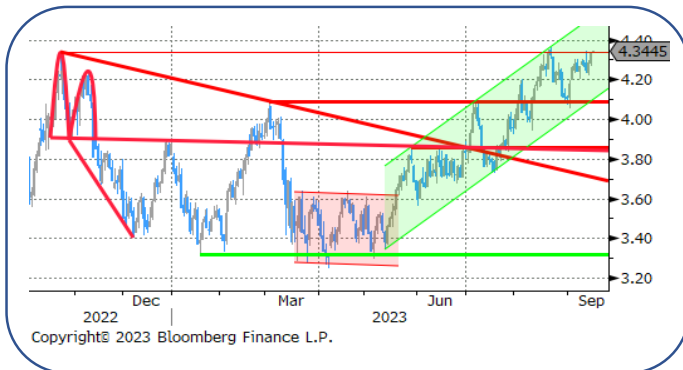
- The **United Auto Workers** on Friday started **a walkout at the US's three biggest, Detroit-based, car manufacturers**, GM, Ford and Stellantis. It's the first such triple action in the UAW's 88-year-old history. They targeted three assembly plants in three different states with UAW's top official Fain indicating that these guerilla tactics will keep the companies guessing. The union triggered the strike after two months of negotiations failed to yield new labour deals. Apart from wage raises, better pensions and rewinning some of the privileges lost after the 2008 financial crisis, **the UAW also wants guarantees that union labour will still have jobs in the electric vehicle (EV) era where the south of the US is becoming center of gravity**. Fain believes that his bottleneck approach can have a similar impact as an all-out strike while putting less members on the picket line. The National Association of Manufacturers already said that small and medium-sized manufacturers across the country will feel the brunt of this work stoppage, whether they are union shop or not.
- UK property broker Hamptons' letting index showed the largest annual rental growth (12%) since the start of the index in 2014**. The average rent in Britain is now £1300/month. Rents are rising fastest in Greater London (17.1% Y/Y), catching up from a slump during the pandemic, followed by Scotland (13.4% Y/Y). In a separate report, property portal **Rightmove** indicated **that selling prices rose by 0.4% in September; the first increase since May**. On an annual basis however, asking prices slid by 0.4%. Price reductions (36.6% of properties for sale) hit a level not seen since January 2011. The shaky UK housing market complicates the picture for the Bank of England who walks an extremely fine line between taming inflation and not letting the economy go bust. The central bank meets on Thursday with money markets discounting a high probability of another 25 bps rate hike (>80%).

Graphs



GE 10y yield

The ECB **raised its policy rate to 4%**. It strongly indicated that **the current level, if maintained for long enough, might bring inflation back to target**. Such scenario might **bring the 10-y Bund yield in a holding pattern**. Potential further steps in QT and rising oil prices protect the downside. Resistance stands at 2.67%/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 November/December hike still a real possibility**. The US 10-y yield, driven by the real yield component (highest since 2009), is testing the cycle high at 4.36%.



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. The expected end of the ECB rate hike cycle additional weighs on the euro. EUR/USD tested 1.0635 support. Next references are 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

Monday, 18 September		Consensus	Previous
US			
14:30	New York Fed Services Business Activity (Sep)	--	0.6
16:00	NAHB Housing Market Index (Sep)	49	50
22:00	Net Long-term TIC Flows (Jul)	--	\$195.9b
UK			
01:01	Rightmove House Prices MoM/YoY (Sep)	--/--	-1.90%/-0.10%
Events			
12:00	Belgium to Sell 3.3% 2054 Bonds, 3% 2033 Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,33	0,05		US	5,03	0,02	DOW	34618,24	-288,87
DE	2,68	0,08		DE	3,22	0,05	NASDAQ	13708,33	-217,72
BE	3,32	0,09		BE	3,41	0,05	NIKKEI	33533,09	0,00
UK	4,36	0,08		UK	5,02	0,07	DAX	15893,53	88,24
JP	0,72	0,00		JP	0,03	0,00	DJ euro-50	4295,05	15,30
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,54	4,58	4,99	Ester	3,6530	0,0000			
5y	3,31	4,24	4,62	Euribor-1	3,7620	0,0370	SOFR-1	5,3231	-0,0029
10y	3,21	4,03	4,27	Euribor-3	3,8780	0,0110	SOFR-3	5,3910	-0,0069
				Euribor-6	4,0550	0,0150	SOFR-6	5,4571	-0,0059
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0657	0,0014		EUR/JPY	157,58	0,61	CRB	289,61	-0,68
USD/JPY	147,85	0,38		EUR/GBP	0,8607	0,0030	Gold	1946,20	13,40
GBP/USD	1,2383	-0,0026		EUR/CHF	0,9569	0,0037	Brent	93,93	0,23
AUD/USD	0,6432	-0,0008		EUR/SEK	11,9224	0,0163			
USD/CAD	1,3525	0,0017		EUR/NOK	11,4976	0,0728			



Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		Prague	
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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