



Thursday, 21 September 2023

## KBC Sunrise Market Commentary

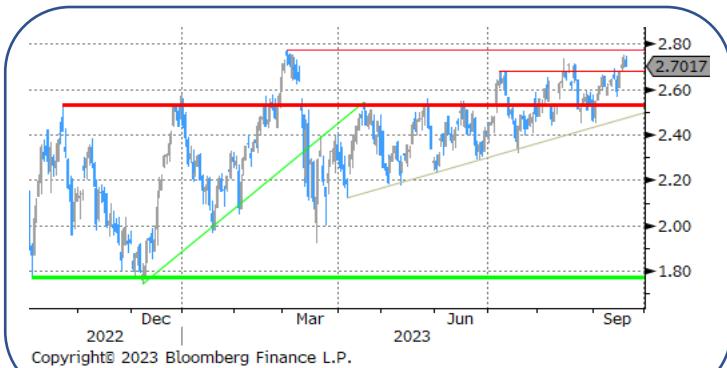
### Markets

- US yields at all tenors had settled near/mostly just below cycle peak levels going into the Fed decision. The Fed as telegraphed kept its **policy rate unchanged at 5.25%/5.50%**. However, for markets, the guidance on what was to come was key. Powell indicated that the Fed had reached a point where **it can proceed carefully in determining what rate will be restrictive enough** to bring inflation back to target as **there is still some work to do**. In the new Summary of Economic Projections (dots) the majority of governors still sees one additional rate hike this year amid higher expected growth (2023 2.1% from 1.0%; 2024 1.5% from 1.1%). The 'peak' in the unemployment rate also has been put substantially lower (4.1% in 2024/25 from 4.5%). Expected headline PCE inflation was seen slightly higher this year (3.3 from 3.2%, unchanged in 2024 at 2.5%). Core inflation was put slightly lower at 3.7% this year (from 3.9%) (unchanged at 2.6 next year) and returning to target in 2026. **The main message however was that for the Fed to engineer the hoped for soft landing, governors see far less room to cut rates next year. Expectations for the end 2024 policy rate were raised from 4.6 to 5.1%! A decisive further upgrade of the higher for longer scenario!** After the price conference, yields forced the break higher (2-y +8.6 bps, 30-y +2 bps) with maturities up to 10-y jumping to new cycle highs. The 10-y real yield surpassed the 2.0% barrier. The dollar reversed a pre-Fed intraday dip (DXY close 105.35). EUR/USD dropped from the 1.073 area to close at 1.066. USD/JPY cleared the 148 big figure (close 148.34). A stronger dollar, a higher real yield and the reinforcement of the higher for longer narrative, **hammered equities** (S&P 500 -0.94%, Nasdaq -1.53%). Earlier, the EuroStoxx50 still closed with a decent gain of 0.78%. Oil corrected further with brent closing near \$93 p/b.
- **This morning**, sentiment in Asian turned further risk off as the trends of higher US yields and a stronger dollar continue. In the wake of yesterday's Fed guidance, US eco data (Philly Fed business outlook and jobless claims) continue to deserve attention. Even so, **the focus today turns to several other central banks deciding on monetary policy**. The prospect of the Fed keeping its policy rate above 5.0% throughout 2024 of course is also important input for all other central bankers. The **Norges Bank**, the **Riksbank** and probably also the **Swiss national bank** will raise rates by 25 bps. The **Turkish central bank** is expected to take a bigger step from 25% to 30%. Yesterday's much softer than expected UK August inflation caused market to see an almost even chance between a pause or a 25 bps hike today. Some even see the end of the hiking cycle. If the BoE today skips a further rate hike in a context where US yields are expected to stay elevated for long, **sterling might become even more vulnerable**. Further global market repositioning post Fed probably will extend the trends of a strong dollar and higher yields, also in the EMU.

### News & Views

- The **Brazilian central bank cut its key benchmark rate as expected by 50 bps yesterday, from 13.25% to 12.75%**. It's the second consecutive cut by this size after holding the policy rate steady for a year at 13.75%. Contrary to last month's split decision (5-4), it was **unanimous** this time. The **MPC (Copom) anticipates further reductions of the same magnitude at the next meetings if the base scenario plays out**, bringing the Selic rate at 11.75% by year-end. Copom's inflation projections in the reference scenario stand at 5% for 2023, 3.5% for 2024, and 3.1% for 2025. That's slightly higher than in June, mainly because of a weaker than expected local currency. In its opening statement, the BCB stressed that the global environment became more uncertain. The Committee noted an increase in long-term interest rates in the US as well as forecasts of lower growth in China, both demanding further attention from emerging market economies. USD/BRL rose from 4.8450 to 4.88, but this was mainly post-Fed USD strength.
- **New Zealand GDP growth significantly beat forecasts**, rising by 0.9% Q/Q in Q2 (vs 0.4% consensus). GDP rose 3.2% over the year ended June 2023 compared with the year ended June 2022. **Business services was the biggest driver of growth**, largely due to computer system design. A minor, but symbolic upward revision to Q1 growth (0% from -0.1%) implies that the country narrowly dodged the technical recession bullet (Q4 2022: -0.5% Q/Q). Looking at GDP from the expenditure side, growth clocked in at 1.3% Q/Q. Private consumption (+0.4%), government expenses (+2%) and net exports (+3% Q/Q) were the main drivers. **The kiwi dollar can't keep up with global USD strength, though money market now almost completely discount another 25 bps rate by the RBNZ by early next year..**

## 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. Still, the prospect of further non-interest rate tightening, a higher oil price and higher US yields currently cause an in extenso test of the 2.67%/2.77% resistance.



### US 10y yield

The Fed in September kept its policy rate unchanged as it wants to assess impact of previous tightening. However, with inflation still above target, economic resilience and a tight labour market, the dots suggest another rate hike later this year, while the policy rate is expected to stay above 5.0% next year. More signs of US economic resilience might confirm the post-Fed break above the 4.36% previous cycle top.



### 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 is testing 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. For now settled in a EUR/GBP 0.85/0.87 consolidation pattern. A BoE 'skip' might trigger an upside break.

# Calendar & Table

Thursday, 21 September		Consensus	Previous
<b>US</b>			
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>225k</b>	<b>220k</b>
14:30	Continuing Claims	1692k	1688k
14:30	Philadelphia Fed Business Outlook (Sep)	-1.0	12
16:00	Existing Home Sales Total/MoM (Aug)	4.10m/0.70%	4.07m/-2.20%
<b>UK</b>			
08:00	Public Finances (PSNCR) (Aug)	--	-7.5b
08:00	PSNB ex Banking Groups (Aug)	11.1b	4.3b
<b>13:00</b>	<b>Bank of England Bank Rate</b>	<b>5.50%</b>	<b>5.25%</b>
<b>EMU</b>			
<b>16:00</b>	<b>Consumer Confidence (Sep P)</b>	<b>-16.5</b>	<b>-16</b>
<b>France</b>			
21SEP	Retail Sales SA YoY (Aug)	--	-2.10%
08:45	Business Confidence (Sep)	98	99
08:45	Manufacturing Confidence (Sep)	95	96
08:45	Production Outlook Indicator (Sep)	-9	-9
08:45	Own-Company Production Outlook (Sep)	--	1
<b>Belgium</b>			
11:00	Consumer Confidence Index (Sep)	--	-7
<b>Norway</b>			
<b>10:00</b>	<b>Deposit Rates</b>	<b>4.25%</b>	<b>4.00%</b>
<b>Sweden</b>			
<b>09:30</b>	<b>Riksbank Policy Rate</b>	<b>4.00%</b>	<b>3.75%</b>
<b>Switzerland</b>			
<b>09:30</b>	<b>SNB Policy Rate</b>	<b>2.00%</b>	<b>1.75%</b>
<b>Events</b>			
<b>21SEP</b>	<b>ECB chief economist Philip Lane speaks</b>		
<b>10:00</b>	<b>SNB Press Conference Following Rate Decision</b>		
<b>10:00</b>	<b>ECB's Nagel Speaks</b>		
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
<b>16:40</b>	<b>ECB's Schnabel Speaks</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,41	0,05	US	5,18	0,09	DOW	34440,88	-76,85	
DE	2,70	-0,04	DE	3,26	-0,03	NASDAQ	13469,13	-209,06	
BE	3,33	-0,05	BE	3,45	-0,03	NIKKEI	32620,18	-403,60	
UK	4,22	-0,13	UK	4,85	-0,15	DAX	15781,59	117,11	
JP	0,74	0,01	JP	0,03	0,01	DJ euro-50	4275,98	33,28	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,57	4,72	4,83	Ester	3,9010	0,2500			
5y	3,34	4,36	4,46	Euribor-1	3,8340	-0,0570	SOFR-1	5,3191	-0,0054
10y	3,23	4,12	4,13	Euribor-3	3,9340	0,0000	SOFR-3	5,3928	-0,0002
				Euribor-6	4,0700	-0,0010	SOFR-6	5,4764	0,0100
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0661	-0,0018	EUR/JPY	158,15	0,25	CRB	288,48	-1,52	
USD/JPY	148,34	0,48	EUR/GBP	0,8636	0,0019	Gold	1967,10	13,40	
GBP/USD	1,2344	-0,0048	EUR/CHF	0,9580	-0,0008	Brent	93,53	-0,81	
AUD/USD	0,6448	-0,0006	EUR/SEK	11,8793	-0,0441				
USD/CAD	1,3462	0,0014	EUR/NOK	11,5	-0,0118				

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