



Friday, 22 September 2023

KBC Sunrise Market Commentary

Markets

- The **Bank of England's 'intrinsically dovish hold'** sharply **contrasted with broader market trends since the Fed's message that interest rates will be 'higher for (very much) longer'**. In the close 5-4 vote, governor Bailey's MPC after kept the policy rate unchanged at 5.25%. Softer than expected August CPI data published on Wednesday (headline 6.7%, core 6.2%) convinced the majority for MPC members that enough policy tightening has been put in place to further facilitate the disinflationary process. Slower than expected growth can amplify early signs of some cooling in the labour market. The BoE maintained **its conditional commitment** that *'further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures'*. However a comment from BoE governor Bailey after the meeting ("cutting interest rates would be very, very premature") was a better implicit pointer of the direction the BoE is contemplating from now. UK yields already made most of the dovish repositioning on Wednesday after the CPI data. After some intraday volatility around the BoE decision, **UK yields mostly followed the broader trends** rising between 2.5 bps (2-y) and 9 bps (10-y). Sterling evidently paid the price. EUR/GBP briefly spiked to just below the 0.87 barrier (close 0.867). **On other markets, the higher for (much) longer repositioning continued**, with especially **the long end of the curve hard hit**. The 2-y US yield eased slightly (3.2 bps) but the 10-y (6.75 bps) surpassed the 4.5% barrier for the first time since 2007, mainly driven by **a further rise in the real yield** (10-y + 6.6 bps at 2,11%). The 30-y even jumped an astonishing 12.8 bps. Yield rises in Europe/Germany remained more modest (10-y + 3.5 bps). **Given the widening interest rate differential and the rise in the US real yield, gains in the dollar could have been bigger**. At 105.39, DXY closed well off the intraday top. EUR/USD temporary dropped below the 1.0635 support area but also closed at 1.066. USD/JPY even closed at 147.6 after touching 148.45 earlier in the session. Some squaring of positions ahead of today's BOJ meeting was in play. Higher (real) yields caused big damage on equity markets (S&P -1.64%, Nasdaq -1.82%, Euro Stoxx 50 -1.48%). At 4330, the S&P is testing key support (4335/4328) as do many other indices.
- The BoJ** left its policy unchanged this morning even as **national inflation data suggested persistent above target inflation** (CPI ex fresh food 3.1%, core 4.3%). The 10-y Japanese government bond yield (0.75%) is holding near its recent top. USD/JPY returns to the 148 area. Regional equities are holding up rather well given the WS sell-off. Later today, **US and EMU PMI's** will give a new update on regional activity. The **EMU composite PMI** is seen bottoming (46.5) after a protracted decline. For the US, markets will look for confirmation on recent eco resilience. **We don't expect the data to provide much of a trigger to reverse the strong uptrend in yields**. Yesterday's USD performance was a bit disappointing, but we still see more upside with a sustained break of EUR/USD below the 1.0635/17 area.

News & Views

- UK-based Growth for Knowledge's (GfK) consumer confidence indicator jumped from -25 to -21**, its **best level since January 2021** whereas consensus expected a slight deterioration to -26 in September. UK consumers turned less pessimistic on both the economic situation (-24 from -30) and their personal finances (-2 from -3) in the next 12 months. They also believe that the climate for major purchases has improved (-20 from -24). Saving intentions were unchanged (27) at the best level since April 2008. GfK added that this month's improved headline score is good news, but it's important to note **many households are still struggling with the cost-of-living crisis and that economic conditions are tough**. The financial mood of the nation is still negative.
- The Turkish central bank raised its policy rate yesterday as expected by 500 bps, from 25% to 30%**. Monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved. Higher-than-expected inflation readings in July and August (59% Y/Y) imply that year-end inflation will be close to the upper bound of the CBRT's forecasts (>60%) with **additional upside inflation risks** coming from strong domestic demand, sticky services inflation, higher oil prices and the ongoing deterioration in inflation expectations. The Turkish lire holds steady just below EUR/TRY 29..

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% 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 kept its policy rate unchanged in September with the bar for an additional hike being high. Sterling tests the upper bound of the **EUR/GBP 0.85/0.87 consolidation pattern. An upside break might be in the cards given the rising real yield trend and risk aversion**.

Calendar & Table

Friday, 22 September		Consensus	Previous
US			
15:45	S&P Global US Manufacturing PMI (Sep P)	48.2	47.9
15:45	S&P Global US Services PMI (Sep P)	50.7	50.5
15:45	S&P Global US Composite PMI (Sep P)	50.4	50.2
Canada			
14:30	Retail Sales MoM (Jul)	0.40%	0.10%
14:30	Retail Sales Ex Auto MoM (Jul)	0.50%	-0.80%
Japan			
22SEP	BOJ Policy Balance Rate	-0.10%	-0.10%
22SEP	BOJ 10-Yr Yield Target	0.00%	0.00%
01:30	Natl CPI YoY (Aug)	3.20%	3.30%
01:30	Natl CPI Ex Fresh Food YoY (Aug)	3.10%	3.10%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Aug)	4.30%	4.30%
02:30	Jibun Bank Japan PMI Composite (Sep P)	51.8	52.6
02:30	Jibun Bank Japan PMI Mfg (Sep P)	48.6	49.6
02:30	Jibun Bank Japan PMI Services (Sep P)	53.3	54.3
UK			
01:01	GfK Consumer Confidence (Sep)	-21A	-25
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Aug)	0.50%/-1.20%	-1.20%/-3.20%
08:00	Retail Sales Ex Auto Fuel MoM/YoY (Aug)	0.70%/-1.30%	-1.40%/-3.40%
10:30	S&P Global/CIPS UK Manufacturing PMI (Sep P)	43.2	43
10:30	S&P Global/CIPS UK Services PMI (Sep P)	49.4	49.5
10:30	S&P Global/CIPS UK Composite PMI (Sep P)	48.7	48.6
12:00	CBI Trends Total Orders (Sep)	-17	-15
12:00	CBI Trends Selling Prices (Sep)	—	8
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Sep P)	44.0	43.5
10:00	HCOB Eurozone Services PMI (Sep P)	47.6	47.9
10:00	HCOB Eurozone Composite PMI (Sep P)	46.5	46.7
Germany			
09:30	HCOB Germany Manufacturing PMI (Sep P)	39.5	39.1
09:30	HCOB Germany Services PMI (Sep P)	47.1	47.3
09:30	HCOB Germany Composite PMI (Sep P)	44.7	44.6
France			
09:15	HCOB France Manufacturing PMI (Sep P)	46.1	46
09:15	HCOB France Services PMI (Sep P)	46.0	46
09:15	HCOB France Composite PMI (Sep P)	46.0	46
Events			
00:45	ECB's Lane Speaks		
08:00	Riksbank's Thedeen speaks on the Swedish krona's weakness		
11:30	Riksbank's Thedeen speaks on the economic situation		
13:00	ECB's Guindos Speaks		
14:50	Fed's Cook Speaks at NBER AI Conference		
19:00	Fed's Daly to Discuss Monetary Policy, Economy		
19:00	Fed's Kashkari Speaks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,49	0,09		US	5,14	-0,03	DOW	34070,42	-370,46
DE	2,74	0,04		DE	3,26	0,00	NASDAQ	13223,99	-245,14
BE	3,37	0,04		BE	3,45	0,00	NIKKEI	32495,05	-75,98
UK	4,31	0,09		UK	4,87	0,03	DAX	15571,86	-209,73
JP	0,75	0,01		JP	0,04	0,01	DJ euro-50	4212,59	-63,39
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	3,59	4,71	4,85	Ester	3,9020	0,0010			
5y	3,37	4,40	4,50	Euribor-1	3,8690	0,0350	SOFR-1	5,3170	-0,0021
10y	3,28	4,21	4,20	Euribor-3	3,9550	0,0210	SOFR-3	5,3955	0,0027
				Euribor-6	4,0720	0,0020	SOFR-6	5,4728	-0,0036
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0661	0,0000		EUR/JPY	157,37	-0,78	CRB	285,93	-2,55
USD/JPY	147,59	-0,75		EUR/GBP	0,8671	0,0034	Gold	1939,60	-27,50
GBP/USD	1,2298	-0,0046		EUR/CHF	0,9643	0,0063	Brent	93,30	-0,23
AUD/USD	0,6416	-0,0032		EUR/SEK	11,9144	0,0351			
USD/CAD	1,3483	0,0021		EUR/NOK	11,4937	-0,0063			

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