



Monday, 25 September 2023

## KBC Sunrise Market Commentary

### Markets

- The **European September PMIs** of last Friday suggest a 0.4% economic contraction in the running quarter but they came with a minor silver lining. The destocking process in manufacturing could bottom in the next couple of months, paving the way for a recovery in the sector. Services is typically lagging behind and showed new orders and business shrinking at a faster pace but at least companies keep hiring for the time being. Especially important for the ECB is that input price pressures intensified again. European yields whipsawed, driven by diverging national readings from France and Germany at first. German yields eventually closed the day marginally higher between +0.1 (2-y) and 2.3 bps (30-y). US Treasuries outperformed. PMIs in the country showed a similar dynamic: slowing services and tentative bottoming out of the manufacturing sector. **After the beating earlier in the week, markets swooped up some Treasuries going into the weekend.** Speeches by Fed's Collins and Bowman capped gains at the shortest end of the curve. The latter revealed her 6-6.25% 2024 rate projection in the dot plot by saying there may be **more rate hikes (plural) needed**. Yield changes varied between -3.4 (2-y) to -6.3 bps (5-y). The 10-y yield eased after hitting 4.5% intraday for the first time since 2007. With stocks under marginal selling pressure, the dollar gained. DXY rose above 105.38 resistance (closed at 105.58). EUR/USD for a second day straight dropped below the May 1.0635 support before paring losses to 1.0653. USD/JPY closed at the highest level since November last year (148.37) with the yen under pressure from the BoJ's status quo. UK retail sales and PMIs missed the bar, hurling EUR/GBP towards the 0.87 big figure. GBP/USD (1.2241) extended losses after losing the May support (1.2308) a day earlier.
- Last week was jam-packed with central bank meetings. Attention this week shifts towards Central-Europe where the **Hungarians (Tuesday) and Czechs (Wednesday) decide over monetary policy**. It's their first meeting since Poland's shocker 75 bps cut. There's a wide array of economic data including the German Ifo, US consumer confidence and durable goods orders. The main dish, however, is reserved for **European CPI numbers on Thursday and Friday**. The PCE deflator is due in the US at the end of the week. Given the backloaded nature of the calendar we expect a slow, technical start of the week that gives the dollar a slight edge over peers on the FX market. Yields could consolidate around current levels. **They already powered through to new cycle highs in the US, both nominal and real. We're keen to see whether September CPI numbers will do the trick for Germany.** The 10-y real yield is nearing the topside of a (yield) bullish triangle.

### News & Views

- Comments from the Hungarian Economic Development Minister, Marton Nagy, on Friday suggest ongoing tensions between the government and the Hungarian National Bank (MNB) on the execution of monetary policy. According to the Minister, the MNB keeping a focus on having a positive real yield to defend the currency might slow growth and consumption. **Boosting domestic demand/consumption via VAT revenues for the government is important to improve the budget balance Nagy indicated.** The comments come as the central bank on Tuesday is expected to reduce the overnight deposit rate from 14% to 13% to bringing it in line with the 13% standing policy rate. However, further rate cuts later this year could be slower as the MNB will look for a sustained further decline in inflation. **Nagy also suggested that the central bank could consider raising its 3.0% inflation target**, allowing it to ease policy further than is the case under current regime.
- The Australian government on Friday reported a budget surplus of AUD 22.1 bln for the previous fiscal year.** The surplus was equal to 0.9% of GDP. The government cited **low unemployment and high commodity prices** as important factors behind the budget surprise. The Australian budget showed deficits in the previous 15 year. However, the **government doesn't expect a new budget surplus this year due to a less positive economic environment in China and higher interest rates** weighing on domestic growth. Today, the government also is expected propose a paper that will set a new objective for full employment. This broader definition is expected to focus more on underutilization in the labour market rather than on unemployment.

## 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. 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

Monday, 25 September		Consensus	Previous
<b>US</b>			
14:30	Chicago Fed Nat Activity Index (Aug)	0.05	0.12
16:30	Dallas Fed Manf. Activity (Sep)	-13.0	-17.2
<b>Japan</b>			
07:30	Nationwide Dept Sales YoY (Aug)	--	8.60%
07:30	Tokyo Dept Store Sales YoY (Aug)	--	12.20%
<b>UK</b>			
12:00	CBI Total Dist. Reported Sales (Sep)	--	-26
12:00	CBI Retailing Reported Sales (Sep)	--	-44
<b>Germany</b>			
10:00	<a href="#">IFO Business Climate (Sep)</a>	85.2	85.7
10:00	IFO Current Assessment (Sep)	88.0	89
10:00	IFO Expectations (Sep)	83.0	82.6
<b>Belgium</b>			
15:00	Business Confidence (Sep)	--	-14.9
<b>Czech Republic</b>			
09:00	Consumer & Business Confidence (Sep)	--	0.8
09:00	Business Confidence (Sep)	--	5.5
09:00	Consumer Confidence Index (Sep)	--	-18
<b>Hungary</b>			
08:30	Average Gross Wages YoY (Jul)	15.80%	16.10%
<b>Events</b>			
09:00	<a href="#">ECB's Villeroy speaks</a>		
11:30	EU to Sell Up to EU1.5 Billion of 3% 2053 Bonds, Up to EU2.5 Billion of 3.25% 2034 Bonds		
15:00	<a href="#">ECB's Lagarde Speaks in EU Parliament</a>		
15:00	<a href="#">ECB's Schnabel Speaks</a>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.43	-0.06		US	5.11	-0.03	DOW	33963.84	-106.58
DE	2.74	0.00		DE	3.26	0.00	NASDAQ	13211.81	-12.18
BE	3.38	0.01		BE	3.47	0.02	NIKKEI	32721.37	318.96
UK	4.25	-0.06		UK	4.80	-0.07	DAX	15557.29	-14.57
JP	0.74	-0.01		JP	0.03	0.00	DJ euro-50	4207.16	-5.43
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.58	4.66	4.78	Ester	3.9050	0.0030			
5y	3.36	4.34	4.45	Euribor-1	3.8720	0.0030	SOFR-1	5.3170	0.0000
10y	3.28	4.14	4.16	Euribor-3	3.9580	0.0030	SOFR-3	5.3845	-0.0110
				Euribor-6	4.0820	0.0100	SOFR-6	5.4620	-0.0108
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0653	-0.0008		EUR/JPY	157.93	0.56	CRB	285.99	0.06
USD/JPY	148.37	0.78		EUR/GBP	0.8696	0.0026	Gold	1945.60	6.00
GBP/USD	1.2241	-0.0057		EUR/CHF	0.9660	0.0017	Brent	93.27	-0.03
AUD/USD	0.6441	0.0025		EUR/SEK	11.8468	-0.0676			
USD/CAD	1.3483	0.0000		EUR/NOK	11.4388	-0.0549			

## 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
		Prague	+420 2 6135 3535
CSOB Economics – Markets 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

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

