

Sunrise



Monday, 02 October 2023

KBC Sunrise Market Commentary

Markets

- Markets entered a consolidation phase last Friday following exhaustion moves earlier in the week. For core bonds it meant an end to a fierce sell-off** with EMU September inflation numbers (0.3% M/M & 4.3% Y/Y for headline; 4.5% Y/Y for core) backing the case for an October skip in the ECB's rate hike cycle and helping to put a floor below EMU core bonds in the short term. Daily changes on the German yield curve ranged between -5.2 bps (30-yr) and -11.3 bps (5-yr). The belly of the curve outperformed the wings. German Bunds did better than US Treasuries but this was partly due to the fact that those US bonds already rallied during Thursday evening's US session. US yields lost a more moderate 0.4 bps (30-yr) to 1.5 bps (3-yr). August US PCE deflators (0.4% M/M & 3.5% Y/Y for headline; 0.1% M/M & 3.9% Y/Y for core) also suggest a pause in the bearish bond trend for now. **With rates correcting, equity markets got some breathing room.** Main European indices ended with gains of around 0.5%, though well off the intraday highs. From **a technical point of view, Friday's action suggests that it will remain a tough climate for riskier assets.** US stock markets started on a positive footing, but lost up to 0.5% (Dow Jones) in the close. **The dollar's uptrend since mid-July remains in place despite the correction at the end of last week.** The trade-weighted greenback registered an intraday low at 105.66 before closing near unchanged at 106.17. EUR/USD reached an intraday top at 1.0617 before closing at 1.0573.
- US Congress avoided a government shutdown**, passing legislation with bipartisan backing to extend funding through mid-November. They help a better start in Asia though China is closed for the week. **US Treasuries gap open lower.** Today's eco calendar centers around the **US manufacturing ISM** which kickstarts a data-heavy week which also sees JOLTS job openings, ADP employment, the services ISM, weekly jobless claims and payrolls. Fed Chair Powell participates in a roundtable discussion but it's unclear whether he'll touch on monetary policy or not. **We start the week with a consolidation view in which core bonds can recover somewhat and in which the dollar's momentum fades.** From a risk point of view, better-than-expected US eco releases can easily reignite the sell-off given that markets aren't aligned with Fed indications on one more rate hike later this year.

News & Views

- Former Prime Minister Fico's Smer Party came out as the biggest at Saturday's Slovak parliamentary elections.** It secured 22.94% of the vote. Fico has a pro-Russian stance and wants to end military aid to Ukraine. He also opposes to some EU policies including on migration and climate. The closest contender of the Smer party, the pro-EMU PS party of European Parliament vice president Michal Simecka, received a below expected 17.96% of the votes. The Social democratic 'Hlas' (Voice) party of former Prime Minister Pellegrini, obtained 14.7% of the votes. At 68.51%, the voter turnout was high compared to previous elections. President Zuzana Caputova today is expected to appoint Fico to form a new government. **Analysts expect Fico to try to form a government with his Smer Party, the Hlas party and the Nationalist SNS party. This coalition would have a majority of 79 seat out of 150 in total in Parliament.**
- The BoJ's quarterly Tankan survey showed that Japanese firms turn more optimistic on activity for the second consecutive quarter.** The headline large manufacturing index improved from 5 to 9. Also the outlook in the sector improved from 9 to 10. The large non-manufacturing measure improved from 23 to 27, a level not seen since the final quarter of 1991, as the sector rebounded after **authorities lifted corona-restrictions.** Especially companies in the accommodation, eating and drinking industry showed high levels of confidence. The outlook for the non-manufacturing sector also improved (21 from 20) but less than expected. Sentiment among smaller companies basically stabilized. According to the Tankan survey, Japanese corporations take into account a level for the yen at USD/JPY 135.75 for this fiscal year. With respect to inflation, Japanese corporates still see consumer price inflation at 2.2% three years ahead. **At USD/JPY 149.75 the yen this morning continues its weakening trend.** The Japanese 10-yr government bond yield touched a new cycle top at 0.78%.

Graphs



GE 10y yield

The ECB **raised its policy rate to 4%**. It indicated that **the current level, if maintained long enough, might bring inflation to target**. But prospects of further **non-interest rate tightening**, a higher **oil price** and **higher US yields** triggered a yield break above the previous cycle high of **2.67%/2.77% resistance**. **Real yields pushed through the topside of an ascending triangle** to the highest since 2011. The psychological 3% serves as the next 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**. The 4.36% previous cycle top broke. Real yields take the lead as the higher-for-longer narrative settles in.



EUR/USD

Diverging economies and strong UST underperformance triggered a **protracted dollar rally**, bringing EUR/USD all the way back from 1.1276 to the 1.05 support. The critical area between 1.0484/1.0516 survived so far. But the picture looks dire, especially if a weak euro, driven by the **(Italian) fiscal narrative**, starts adding to the strong dollar.



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, 2 October		Consensus	Previous
US			
15:45	S&P Global US Manufacturing PMI (Sep F)	48.9	48.9
16:00	Construction Spending MoM (Aug)	0.60%	0.70%
16:00	ISM Manufacturing (Sep)	47.9	47.6
16:00	ISM Prices Paid (Sep)	49.0	48.4
16:00	ISM Employment (Sep)	--	48.5
16:00	ISM New Orders (Sep)	--	46.8
Japan			
01:50	Tankan Large Mfg Index / Outlook (3Q)	A: 9/10	5/9
01:50	Tankan Large Non-Mfg Index / Outlook (3Q)	A: 27/21	23/20
01:50	Tankan Large All Industry Capex (3Q)	13.50%	13.40%
01:50	Tankan Small Mfg Index / Outlook (3Q)	A: -5/-2	-5/-1
01:50	Tankan Small Non-Mfg Index / Outlook (3Q)	A: 12/8	11/7
UK			
08:00	Nationwide House PX MoM / NSA YoY (Sep)	-0.40%/-5.60%	-0.80%/-5.30%
EMU			
11:00	Unemployment Rate (Aug)	6.40%	6.40%
Italy			
10:00	Unemployment Rate (Aug)	--	7.60%
Spain			
09:00	Unemployment Change (Sep)	--	24.8k
Norway			
10:00	DNB/NIMA PMI Manufacturing (Sep)	--	51.4
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Sep)	--	45.8
Events			
09:30	Riksbank Minutes From September Monetary Policy Meeting		
10:00	ECB's Centeno, de Cos Speak at Conference in Lisbon		
17:00	BOE's Catherine Mann speaks		
17:00	Fed's Powell and Harker Participate in Roundtable Discussion		
19:30	Fed's Williams Moderates Discussion on Climate Risk		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.57	0.00	US	5.04	-0.01	DOW	33507.5	-158.84	
DE	2.84	-0.09	DE	3.20	-0.08	NASDAQ	13219.32	18.04	
BE	3.50	-0.09	BE	3.42	-0.07	NIKKEI	31832.32	-25.30	
UK	4.44	-0.05	UK	4.90	-0.04	DAX	15386.58	63.08	
JP	0.78	0.01	JP	0.05	0.00	DJ euro-50	4174.66	13.10	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.58	4.64	4.92	Ester	3.8800	-0.0260			
5y	3.41	4.38	4.60	Euribor-1	3.8470	0.0020	SOFR-1	5.3205	0.0005
10y	3.39	4.27	4.35	Euribor-3	3.9520	-0.0030	SOFR-3	5.3883	-0.0036
				Euribor-6	4.1250	0.0000	SOFR-6	5.4535	-0.0049
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0573	0.0007	EUR/JPY	157.95	0.19	CRB	284.53	-2.52	
USD/JPY	149.37	0.06	EUR/GBP	0.8666	0.0008	Gold	1866.10	-12.50	
GBP/USD	1.2199	-0.0004	EUR/CHF	0.9676	0.0009	Brent	92.20	-0.90	
AUD/USD	0.6435	0.0008	EUR/SEK	11.5529	0.0144				
USD/CAD	1.3577	0.0090	EUR/NOK	11.3168	-0.0190				

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

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 data of the report and are subject to change without notice.

