

Sunrise



Moving forward together.

Tuesday, 03 October 2023

KBC Sunrise Market Commentary

Markets

- US Treasuries gapped open lower at the start of the trading week as US Congress narrowly avoided a government shutdown.** From there on, **Treasuries and other core bonds just resumed the sell-off** which characterized most of the months of August and September with real yields still in the driver's seat. The move **accelerated after an upward surprise from the September manufacturing ISM** (49 from 47.6 vs 47.9 consensus) which was the third consecutive increase with the headline number matching the highest level since November 2022 and the graph showing a tentative bottoming out pattern. Details showed improvements in new orders (49.2 from 46.8; 12-month high), new export orders (47.4 from 46.5), production (52.5 from 50), employment (51.2 from 48.5) with the drawdown in inventories slowing (45.8 from 44) but customer inventories still accelerating (47.1 from 48.7). **Together with a less dire activity picture, prices paid fell for a fifth month running with the pace fastening (43.8 from 48.4).** The ISM release brought same soft landing vibes which is the Fed's preferred scenario. **November rate hike bets increased from 18% at last week's close to 30% currently.** Fed Chair Powell and Philly Fed Harker joined a roundtable during US dealings, but neither of them commented on the near term outlook for rates or the economy. Overnight, **Cleveland Fed Mester** said that she suspected the Fed may well need to raise the fed funds rate once more this year and then hold it there for some time as it accumulates more information on economic developments and assesses the effects of the tightening in financial conditions that has already occurred. US yields closed 5.9 bps to 10.7 bps (10-yr) higher yesterday, **registering new cycle closing highs at the longer (5+) tenors.** German yields increased by 2.5 bps (2-yr) to 9.8 bps (30-yr) with a new cycle closing high for the 30-yr yield. **The dollar got a new push in the back with the trade-weighted greenback above 107 for the first time since November of last year this morning.** EUR/USD got hammered from an intraday top around 1.0580 to 1.0460 currently. **Next support levels stand at 1.0406 and 1.0201** which respectively are 50% and 62% retracement on the EUR/USD uplegs between September 2022 and July 2023. **The Japanese yen tries to withstand the laws of gravity, but we're likely only minutes/hours away from a push beyond USD/JPY 150** which could trigger interventions by the MoF/BoJ. Unless the BoJ profoundly changes its monetary policy stance, we believe that any interventions will eventually be in vain. Strong underlying trade dynamics are likely to remain at play today (higher real rates, stronger dollar and equity weakness).

News & Views

- The British Retail Consortium indicated that **price rises in British chain stores slowed further in September.** Overall prices were unchanged compared to the previous month. **Y/Y price growth slowed for 6.9% to 6.2%. Food prices for the first time in more than 2 years declined on a monthly basis (-0.1%),** easing the Y/Y food price measure from 11.5% to 9.9%. Non-food prices rose 0.1% M/M and 4.4% Y/Y (from 4.7%). BRC chief economist Hellen Dickinson said BRC **expects shop price to continue to fall further this year,** but there are still mainly risks including *"high interest rates, climbing oil prices, global shortages of sugar, as well as the supply chain disruption from the war in Ukraine."*
- At the first meeting presided by Michele Bullock as governor of the Reserve Bank of Australia, **the RBA kept its policy rate unchanged at 4.10% for the fourth consecutive month.** The RBA assesses that higher interest rates are working to establish a more sustainable balance between supply and demand in the economy and will continue to do so. Given a higher degree of uncertainty on future developments the RBA **maintains a wait-and-see attitude** for now. The RBA sees goods price inflation has eased further, but **prices of many services are continuing to rise briskly** and **fuel prices have risen noticeably** of late. **Rent inflation also remains elevated.** The RBA holds its assessment for CPI inflation to fall back within the 2–3% target range in late 2025. The Australian economy is still operating at a high level of capacity utilization, but this is expected to ease. RBA concludes that *"some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will continue to depend upon the data and the evolving assessment of risks"*. The Australian 2-y yield this morning started about 7 bps higher due to the sharp rise in the US, but gradually eased back to the 4.10% area (+1.5bp). The Aussie dollar suffers from broad-based USD strength. AUD/USD at 0.6315 trades at the lowest level since early November 2022.

Graphs

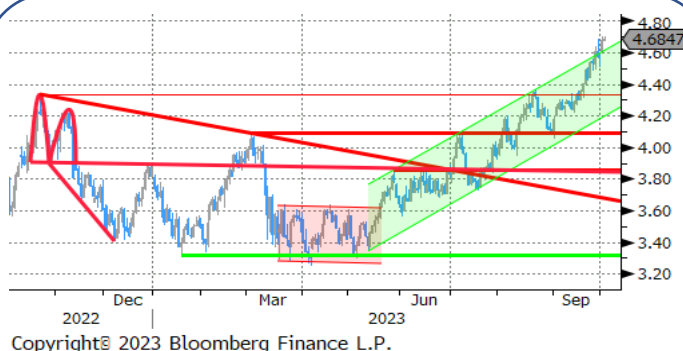
GE 10y yield

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

Further tightening is dependent on eco data. But (core) inflation above target, economic resilience and a tight labour market **makes a November or December hike a real possibility**. The US 10-y yield (and other long tenors) surged, driven by the real yield component (highest since 2009). There's currently no stopping the underlying trend.



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 near 1.0484 is at risk of giving away. 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

Tuesday, 3 October		Consensus	Previous
US			
16:00	JOLTS Job Openings (Aug)	8815k	8827k
UK			
01:01	BRC Shop Price Index YoY (Sep)	A: 6.2%	6.90%
Australia			
05:30	RBA Cash Rate Target	A: 4.10%	4.10%
Events			
01:30	Fed's Mester Speaks on Economic Outlook		
08:00	ECB's Simkus Speaks		
08:10	ECB's Lane Speaks		
10:35	ECB's Lane, Riksbank's Bunge Participate in Panel Discussion		
14:00	Fed's Bostic Speaks on Economic Outlook, Inflation		
14:45	ECB's Villeroy speaks in Paris		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.68	0.11		US	5.10	0.06	DOW	33433.35	-74.15
DE	2.92	0.08		DE	3.23	0.03	NASDAQ	13307.77	88.45
BE	3.57	0.08		BE	3.44	0.03	NIKKEI	31161.99	-597.89
UK	4.56	0.13		UK	4.98	0.08	DAX	15247.21	-139.37
JP	0.77	-0.01		JP	0.06	0.00	DJ euro-50	4137.63	-37.03
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.62	4.72	4.96	Ester	3.8990	0.0190			
5y	3.46	4.48	4.68	Euribor-1	3.8580	0.0110	SOFR-1	5.3285	0.0080
10y	3.47	4.37	4.44	Euribor-3	3.9510	-0.0010	SOFR-3	5.4091	0.0208
				Euribor-6	4.1380	0.0130	SOFR-6	5.4805	0.0270
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0477	-0.0096		EUR/JPY	157.02	-0.93	CRB	282.48	-2.05
USD/JPY	149.86	0.49		EUR/GBP	0.8668	0.0002	Gold	1847.20	-18.90
GBP/USD	1.2087	-0.0112		EUR/CHF	0.9622	-0.0055	Brent	90.71	-1.49
AUD/USD	0.6363	-0.0072		EUR/SEK	11.5872	0.0343			
USD/CAD	1.3676	0.0099		EUR/NOK	11.3779	0.0611			

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