Thursday, 05 October 2023

KBC Sunrise Market Commentary

Markets

- A final push lower (in bonds) in yesterday's Asian session saw **the German 10-yr yield touching 3% and the US 30-yr yield kissing 5%.** From there on, **an oversold market started looking for a floor. A crash in the oil price did the trick** from European noon, triggering investors to square some positions after a breath-taking sell-off which started this summer and accelerated after the September FOMC meeting (5%+ policy rate until end 2024). **Brent crude prices tumbled from a start above $91/b to $86/b,** their lowest level since end August. The move was partly technically related after a drop below the $90.5/b neckline of a double top formation. The Saudi/Russian additional oil production cut confirmation until December, failed to bring counterweight. The oil market is looking for more of an equilibrium as well **with $90+ levels being perhaps too optimistic over future demand despite restricted supply.** At the end of the session, US yields corrected between 6.3 bps (10-yr) and 9.8 bps (2-yr) lower. **The outperformance at the front end of the curve started after the September ADP employment report,** which fell short of expectations (+89k vs 150k). The positive run of job gains, dating back to Feb2021, is prolonged but momentum fades bringing the labour market more in balance. **The September services ISM moderated as expected from 54.5 to 53.6.** Details remained solid, with markets **singling out the only weak point which was a more pronounced setback in new orders (51.8 from 57.5).** The market implied probability of a final Fed rate hike before the end of the year fell back from 50% to 40%. German yields lost 3 bps to 8.4 bps but contrary to the US it was the very long end which outperformed. Yesterday's correction on bond markets impacted equity and FX markets as well. While main European stock indices still faced a mixed to slightly weaker close, **key US gauges rebounded up to 1.35% for Nasdaq.** The dollar correction is modest so far (trade-weighted from 107.06 open to 106.80 close) but continues this morning. EUR/USD follows a similar trajectory from a low near 1.0450 to 1.0520 currently. After yesterday's move, we believe that **bearish bond momentum can be on hold with for some time with consolidation kicking in** (rebound on stock markets and further correcting USD). Especially so, if tomorrow's **US payrolls report** would show signs of a less robust labour market as well. The consensus bar (+170k) seems on the high end.

News & Views

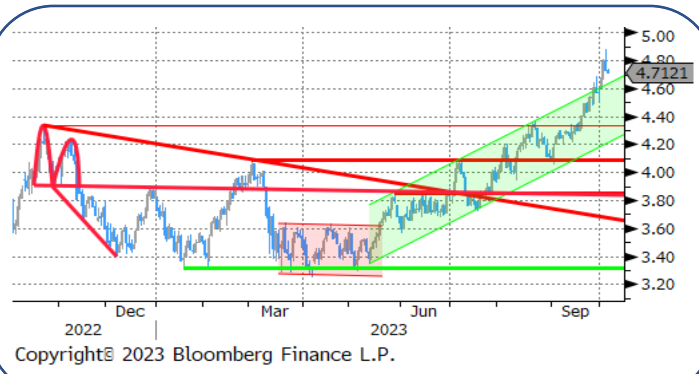
- **The National Bank of Poland reduced is policy rate by 25 bps to 5.75% yesterday** after starting its easing cycle last month with an astonishing 75 bps cut. A further slowdown in **CPI inflation in September 8.2%Y/Y from 10.1% justified the easing.** While the decline is for an important part due to lower energy and food prices, the NBP also sees a further moderation in core inflation. Together with **low economic activity/demand,** the NBP expects this will support a further decline in consumer prices in the coming quarters, adding to the restrictiveness of monetary policy. The NBP reiterated that that **the decrease in inflation would be faster if supported by an appreciation of the zloty,** which it deems consistent with the fundamentals of the Polish economy. It is keeping the option open to intervene in the foreign exchange market. The 2-y zloty swap rate yesterday jumped more than 20 bps (close 4.72%). The zloty after touching an intraday low against the euro just below EUR/PLN 4.65, rebounded to close at EUR/PLN 4.60.

- **South Korean inflation accelerated substantially more than expected for a second month in a row** (0.6% M/M and 3.7% Y/Y). Prices already rose 1.0% M/M and 3.4% Y/Y in August after touching a cycle low of 2.3%Y/Y in July. In a monthly perspective, price gains were mainly driven by higher transport costs (+1.3% M/M), food prices (1.6% M/M) and housing/utility costs (1.3%). **Core inflation (excluding volatile food and energy prices) remained unchanged at 3.3%.** Both the Korean finance minister and the Bank of Korea indicated that they expect inflation to return to the 3% area at the end of this year. The Bank of Korea after a January rate hike to 3.5%, kept its policy rate unchanged this year. The next meeting is scheduled for Oct 19. Today's inflation data will force the BOK to maintain a hawkish stance to keep rates at a high level for longer. Yesterday, South Korea August production data also showed a surprisingly strong rebound of 5.5% M/M. The Korean won yesterday touched the weakest level of this year at USD/KRW 1363 on broad-based USD strength. This morning the won 'rebounds' modestly to trade in the USD/KRW 1350 area.

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 high profile 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

Thursday, 5 October		Consensus	Previous
US			
14:30	Trade Balance (Aug)	-$59.8b	-$65.0b
14:30	**Initial Jobless Claims**	**210k**	**204k**
14:30	Continuing Claims	1671k	1670k
UK			
10:00	New Car Registrations YoY (Sep)	--	24.40%
10:30	S&P Global/CIPS UK Construction PMI (Sep)	50.0	50.8
10:30	DMP 3M Output Price Expectations (Sep)	--	4.90%
10:30	DMP 1 Year CPI Expectations (Sep)	--	4.80%
Germany			
08:00	Trade Balance SA (Aug)	15.0b	15.9b
08:00	Exports SA MoM (Aug)	-0.60%	-0.90%
08:00	Imports SA MoM (Aug)	0.50%	1.40%
09:30	HCOB Germany Construction PMI (Sep)	--	41.5
France			
08:45	Industrial Production MoM / YoY (Aug)	-0.40%/-0.50%	0.80%/2.70%
08:45	Manufacturing Production MoM / YoY (Aug)	--/--	0.70%/2.70%
Spain			
09:00	Industrial Production MoM / SA YoY (Aug)	-0.30%	0.20%
Events			
10:30	BOE releases decision maker panel survey		
11:45	BOE's Broadbent, Riksbanks Breman, ECB's Lane on Panel		
15:00	Fed's Mester Speaks at Chicago Payments Symposium		
15:00	ECB's Nagel Speaks		
15:45	ECB's Guindos Chairs Conference Session		
16:30	ECB's Villeroy speaks in Paris		
17:00	ECB's Nagel Speaks		
18:00	Fed's Daly Speaks at Economic Club of New York		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.73	-0.06		US	5.05	-0.10	DOW	33129.55	127.17
DE	2.92	-0.05		DE	3.18	-0.03	NASDAQ	13236.01	176.54
BE	3.59	-0.05		BE	3.38	-0.04	NIKKEI	30995.4	468.52
UK	4.58	-0.02		UK	4.93	-0.06	DAX	15099.92	14.71
JP	0.81	0.00		JP	0.06	0.00	DJ euro-50	4099.85	4.26

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.60	4.69	4.96	Ester	3.9010	0.0010			
5y	3.46	4.49	4.69	Euribor-1	3.8340	-0.0380	SOFR-1	5.3286	-0.0024
10y	3.48	4.43	4.47	Euribor-3	3.9620	-0.0020	SOFR-3	5.4059	-0.0089
				Euribor-6	4.1300	0.0020	SOFR-6	5.4570	-0.0290

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0504	0.0037	EUR/JPY	156.65	0.68	CRB	275.43	-6.05
USD/JPY	149.12	0.10	EUR/GBP	0.8656	-0.0011	Gold	1834.80	-6.70
GBP/USD	1.2135	0.0058	EUR/CHF	0.9635	-0.0005	Brent	85.81	-5.11
AUD/USD	0.6325	0.0023	EUR/SEK	11.6266	0.0257			
USD/CAD	1.3745	0.0037	EUR/NOK	11.5646	0.0862			

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