

Sunrise



Moving forward together.

Friday, 03 November 2023

KBC Sunrise Market Commentary

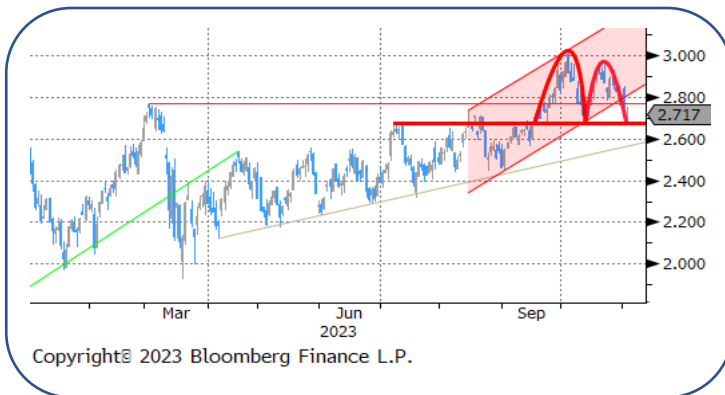
Markets

- The November rally in core bonds continued yesterday**, but unlike Wednesday they closed off the intraday highs. **A dovish hold by the Bank of England and disappointing US Q3 unit labour costs** (-0.8% Q/Q with upward revision to Q2 figure: 3.2% from 2.2%) **called the shots**. Equity markets rallied in lockstep with key European indices ending 1.5% to 2% higher and main US benchmarks recording equal gains. EUR/USD went from an open at 1.0570 to a close of 1.0622. Daily changes on the US yield curve ranged between +4.6 bps (2-yr) and -12.7 bps (30-yr). The US 2-yr yield tested the October low (4.92%), which is the neckline of a double top formation, but bounced off this mark. Similar support in the US 10-yr yield stands at 4.58% (vs 4.66% close yesterday). German yield differences varied between +2 bps (2-yr) and -6.9 bps (30-yr). The German 10-yr yield tested a same double top formation (with October low of 2.68% as neckline), but a break lower didn't happen. UK Gilts outperformed with yields ending 6.2 bps (2-yr) to 11.6 bps (7-yr) lower as the belly outperformed the wings. **The Bank of England's split decision to hold rates instead of hiking was less tight than in September (5-4 vs 6-3) with the updated Monetary Policy Report barely showing growth across the policy horizon**. Sterling initially weakened from EUR/GBP 0.8690 towards 0.8735, but closed near unchanged around 0.87. From a technical point of view, the pair fails to really make headway beyond 0.87-0.8750.
- Today's calendar centers around **US payrolls and services ISM**. Consensus expects 180k net job growth, a stable unemployment rate (3.8%), wage growth of 0.3% M/M & 4% Y/Y and the ISM ticking back from 53.6 to 53. In light of the recent bond correction, **we see asymmetric risks with markets rallying (& dollar softening) on weaker or in-line data. A huge upward surprise for both is likely needed to send bonds and stocks lower again**. First Fed governors are scheduled to speak after this week's FOMC meeting (Barkin, Kashkari, Bostic) and serve as a wildcard. **ECB Schnabel** already said that the central bank can't close the door for further rate hikes. *"After a long period of high inflation, inflation expectations are fragile and renewed supply-side shocks can destabilize them, threatening medium-term price stability."* She added that it took a year to get inflation from 10.6% to 2.9% currently, but that **the ECB expects it to take about twice as long to get back to 2% from here**.

News & Views

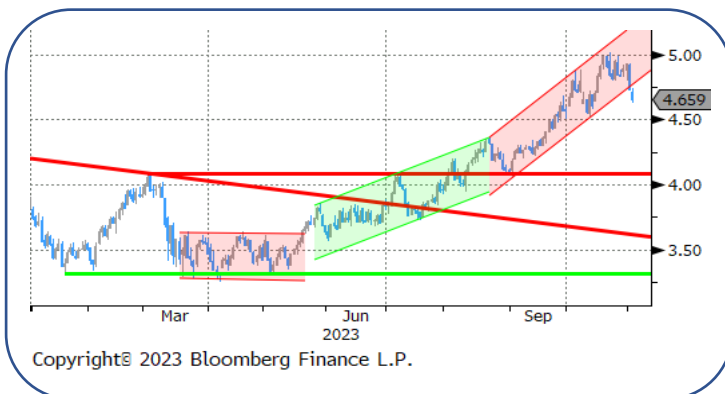
- The Czech National Bank kept the policy rate unchanged at 7% yesterday in a 5 (hold) – 2 (cut) vote**. Markets and analysts believed the central bank would have started the cutting cycle with a 25 bps move. **The risk of unanchored inflation expectations persists**, the CNB explained. *"This risk could manifest itself in the results of the ongoing wage bargaining process and in stronger-than-expected repricing of goods and services at the start of next year."* Price pressures indeed eased dramatically but remain too high. **Especially core inflation is cause for concern, with the outlook for 2024 at an average of 3%**. The decision was made even as economic growth was cut. It's overshadowing a weakening economy, which unexpectedly contracted in Q3. **The CNB expects -0.4% this year before returning to growth of around 1.2% next year**. The central bank added that **the depreciation of the koruna delivered a slight easing of overall monetary conditions**. It added to the case of keeping rates as they are. The Bank Board did discuss a strategy for a future reduction in rates and assumes that **any decrease will initially be moderate and gradual**. Since its internal models project a 50 bps cut by end this year, *"the interest rate path will therefore most probably be higher than in the baseline scenario of the forecast in the coming quarters."* **KBC Economics expects a 25 bps rate cut (to 6.75%) in December, though risks are tilted towards an even later easing start**. The Czech crown rallied after the hawkish policy outcome. EUR/CZK dropped from 24.66 to 25.45. Czech swap yields disconnected from the global and local trend yesterday by adding 10 bps at the short end of the curve.

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**. Prospects of further **non-interest rate tightening**, a higher **oil price** and **higher US yields** triggered a test of the psychological 3% mark. The current correction brings the 10-yr yield back to previous resistance and now support at 2.67% (neckline double top formation).



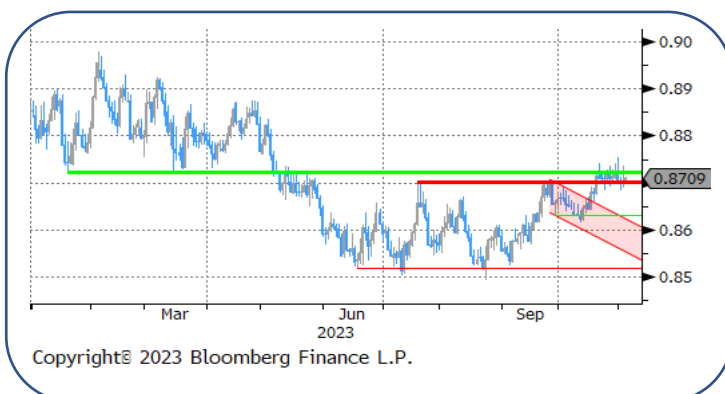
US 10y yield

Further tightening is dependent on eco data, but the Fed pivot seems to be happening, releasing pressure at the front end of the curve. **Supply, return of risk premia and a higher neutral policy rate underpin long term bond yields**. The US 10-yr yield briefly pierced the psychological 5%-mark before some short covering/profit taking kicked in. Important support is situated at 4.52% (October low).



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 near 1.0484 didn't crack despite the USD-favorable market climate. EUR/USD escaped out of the narrow downward trend channel, turning the technical picture more neutral again in the short term. EUR/USD 1.0766 is 38% retracement on the July-Oct decline.



EUR/GBP

The BoE kept its policy rate unchanged in September and November with the bar for an additional hike being high. The eco outlook paints a grim picture. Sterling tests the upper bound of the **EUR/GBP 0.85/0.87 consolidation pattern. An upside break might be in the cards given a set of unconvincing UK eco data which will sideline the BoE.**

Calendar & Table

Friday, 3 November		Consensus	Previous
US			
13:30	Change in Nonfarm Payrolls (Oct)	180k	336k
13:30	Change in Private Payrolls (Oct)	145k	263k
13:30	Change in Manufact. Payrolls (Oct)	-10k	17k
13:30	Unemployment Rate (Oct)	3.80%	3.80%
13:30	Average Hourly Earnings MoM/YoY (Oct)	0.30%/4.00%	0.20%/4.20%
13:30	Average Weekly Hours All Employees (Oct)	34.4	34.4
13:30	Labor Force Participation Rate (Oct)	62.80%	62.80%
13:30	Underemployment Rate (Oct)	--	7.00%
15:00	ISM Services Index (Oct)	53.0	53.6
15:00	ISM Services Prices Paid (Oct)	56.6	58.9
15:00	ISM Services Employment (Oct)	53.5	53.4
15:00	ISM Services New Orders (Oct)	51.5	51.8
Canada			
13:30	Part Time Employment Change (Oct)	--	47.9k
13:30	Net Change in Employment (Oct)	25.0k	63.8k
13:30	Full Time Employment Change (Oct)	--	15.8k
13:30	Unemployment Rate (Oct)	5.60%	5.50%
13:30	Hourly Wage Rate Permanent Employees YoY (Oct)	5.20%	5.30%
13:30	Participation Rate (Oct)	65.60%	65.60%
UK			
10:30	S&P Global/CIPS UK Services PMI (Oct F)	49.2	49.2
10:30	S&P Global/CIPS UK Composite PMI (Oct F)	48.6	48.6
EMU			
11:00	Unemployment Rate (Sep)	6.40%	6.40%
Germany			
08:00	Trade Balance SA (Sep)	16.3b	16.5bR
France			
08:45	Private Sector Payrolls QoQ (3Q P)	--	0.10%
08:45	Industrial Production MoM/YoY (Sep)	0.00%/0.00%	-0.30%/-0.50%
Italy			
10:00	Unemployment Rate (Sep)	7.40%	7.30%
Belgium			
11:00	Unemployment Rate (Sep)	--	5.50%
China			
02:45	Caixin China PMI Composite (Oct)	50.0	50.9
02:45	Caixin China PMI Services (Oct)	54.4	50.2
Events			
03NOV	Japanese markets closed for Culture Day		
01:30	RBA's Jones-Panel		
10:00	BOE's Hauser speaks		
12:00	Belgium to Sell 1.9% 2038 Bonds, 0.65% 2071 Bonds for a maximum amount of EUR 500 million		
13:00	Fed's Barr Speaks at Housing Conference		
13:15	BOE's Huw Pill speaks		
15:00	Fed's Barkin Speaks on CNBC		
17:00	BOE's Haskel speaks		
17:45	Fed's Kashkari Speaks at Economic Club of Minnesota		
20:30	Fed's Bostic Speaks on BTV		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.66	-0.08		US	4.99	0.05	DOW	33839.08	564.50
DE	2.72	-0.05		DE	3.01	0.02	NASDAQ	13294.19	232.72
BE	3.36	-0.06		BE	3.24	0.00	NIKKEI	31949.89	0.00
UK	4.38	-0.12		UK	4.74	-0.06	DAX	15143.6	220.33
JP	0.93	0.00		JP	0.15	0.00	DJ euro-50	4169.62	77.91
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.30	4.58	4.65	Ester	3.9030	0.0030			
5y	3.16	4.37	4.38	Euribor-1	3.8830	-0.0100	SOFR-1	5.3204	-0.0015
10y	3.23	4.31	4.24	Euribor-3	3.9740	0.0210	SOFR-3	5.3820	0.0025
				Euribor-6	4.0720	-0.0090	SOFR-6	5.4298	0.0044
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0622	0.0052		EUR/JPY	159.81	0.23	CRB	282.25	3.16
USD/JPY	150.45	-0.50		EUR/GBP	0.8705	0.0006	Gold	1993.50	6.00
GBP/USD	1.2203	0.0051		EUR/CHF	0.9623	0.0028	Brent	86.85	2.22
AUD/USD	0.6434	0.0041		EUR/SEK	11.803	-0.0171			
USD/CAD	1.3739	-0.0117		EUR/NOK	11.8498	0.0270			

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
CSOB Economics – Markets Prague		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
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.

