



Monday, 06 November 2023

KBC Sunrise Market Commentary

Markets

- Friday's US payrolls and ISM** missed expectations and reinforced last week's correction. The US economy in October 'only' added 150k jobs vs 180k expected (101k downward revision for August & September). There was some negative impact of the UAW strike. **Wage growth was modest** (0.2% M/M, 4.1% Y/Y rom 4.3%) **and the consumer survey weak** with a higher unemployment rate (3.9% from 3.8%) and a lower participation rate (62.7%). **The services ISM missed the bar**, easing from 53.4 to 51.8 (53 expected), but **details were mixed** (solid orders, soft employment, stubbornly high prices). However, **the market context didn't allow for nuances**. Data indeed give the Fed good reason to feel comfortable with its non-committal 'wait-and-see' approach. **Markets are going a step further, concluding** the Fed is almost certainly done and focusing on the timing of a first rate cut. Contrary to earlier last week, the **short end of the US yield curve outperformed**. The US 2-y yield tumbled 15.1 bps. The 30-y only ceded 3.4 bps. A June rate cut is now fully discounted. Dovish Fed Bostic, in a Bloomberg interview, rubberstamped reigning sentiment as he expects inflation to return to target in the next 8 to 10 months. He didn't want to speak out on any specific timing of rate cuts, but repeated they will take place before hitting the target. **EMU/German yields joined the decline in the US, but with a bull flattening** (2-y -4.8 bps, 30-y -8.5 bps). ECB's Lagarde kept a more balanced approach. She confirmed expectations for inflation to slow and return to 2% in 2025, but indicated that the central bank won't give in to political pressure that higher yields might slow growth too much. **Equity markets clearly saw softer data and potential Fed rate cuts as some kind of goldilocks scenario**. US indices added up to 1.38% (Nasdaq). The dollar was hit by the risk-on. DXY tumbled from the 106 area to close near 105.05. EUR/USD (close 1.073) finished above the 1.0694 end October top, improving the technical picture.
- Asian equities join the risk rally on WS this morning (Nikkei +2.4%). **Later today (and further out this week) the eco calendar is rather thin**. Plenty of ECB and Fed speeches are a wildcard (e.g. Lagarde and Powell on Thursday). After last week's bond/equity rally and USD correction, **markets might look for a new short-term equilibrium**. Several key technical levels are under severe strain. For the US 10-y yield we look out whether the 4.5% area holds. The German 10-y yield dropped below the 2.68% neckline, with the 2.56/60% area a next reference. For EUR/USD, 1.0764 (38% retracement July top/Oct low) is a key resistance. **For bonds as well as for the USD correction, maybe the easy part of the move might be behind us**.

News & Views

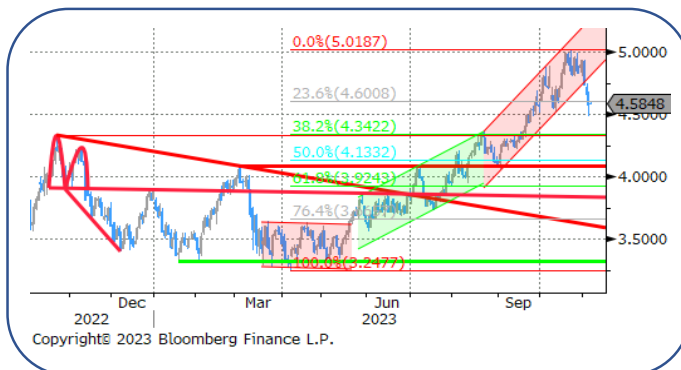
- The South Korean Financial Services Commission announced a ban on short selling until June 2024**. The rule applies to companies' shares trading in the Kospi 200 and Kosdaq 150 indices. The FCS chairman warned that illegal short-selling undermines fair price formation and hurts market confidence. Therefore, the regulator will actively improve rules and systems. Several global banks which account for most of the short-selling activity will also face an inquiry. The investigation comes ahead of general election in April against a background of retail investor protests, but hampers efforts to get an upgrade from emerging to developed market in global stock indices. The Kospi and Kosdaq indices rally by 4.5% and 7.1% respectively this morning. **A stronger Korean won takes over from a weak US dollar in pulling USD/KRW lower this morning**. The pair fell from levels above 1350 at the beginning of last week to below 1300 currently, the strongest KRW-rate since early August.
- Saudi Arabia and Russia announced in separate official statements that they will stick to additional productions cuts by 1mn and 300k barrels a day respectively until the end of the year**. Both will review production volumes next month and consider extending the cut, deepening the cut, or increasing production. The renewed commitment comes amid global growth concerns and as tensions in the Middle-East become more stressful every day. Brent crude prices hold above \$85/b this morning, but are near the October (\$83.5/b) and August (\$82/b) lows which form some kind of neckline of a technical head-and-shoulders formation..

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 an extensive test of the previous resistance/now support at 2.67% (neckline double top formation).



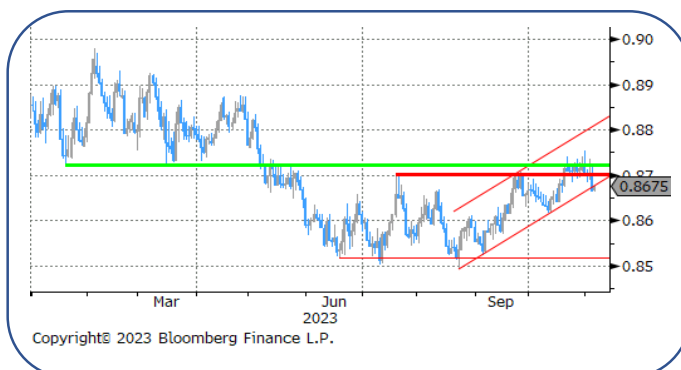
US 10y yield

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 at 4.52% (October low) is under test.



EUR/USD

Diverging economies and strong UST underperformance triggered a protracted dollar rally. EUR/USD corrected all the way from 1.1276 to the 1.05 area, but the critical area near 1.0484 didn't crack. EUR/USD escaped out of the narrow downward trend channel, turning the technical picture more neutral again in the short term. EUR/USD 1.0764 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

Monday, 6 November		Consensus	Previous
Japan			
01:30	Jibun Bank Japan PMI Composite (Oct F)	50.5A	49.9
UK			
10:00	New Car Registrations YoY (Oct)	--	21.00%
10:30	S&P Global/CIPS UK Construction PMI (Oct)	46	45
EMU			
10:00	HCOB Eurozone Composite PMI (Oct F)	46.5	46.5
Germany			
08:00	Factory Orders MoM / WDA YoY (Sep)	-1.50%/-3.00%	3.90%/-4.20%
Italy			
09:45	HCOB Italy Composite PMI (Oct)	47.7	49.2
09:45	HCOB Italy Services PMI (Oct)	48.5	49.9
Spain			
09:15	HCOB Spain Composite PMI (Oct)	48.	50.1
09:15	HCOB Spain Services PMI (Oct)	49.3	50.5
Events			
09:35	ECB's Guindos Speaks		
13:45	ECB's Holzmann, CBTR's Karahan, NBH's Kandrac		
17:00	Fed's Cook Speaks on Financial Stability		
18:00	BOE's Huw Pill speaks		
19:00	ECB's Nagel Speaks		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4,57	-0,09		US	4,84	-0,15		DOW	34061,32	222,24
DE	2,65	-0,07		DE	2,96	-0,05		NASDAQ	13478,28	184,09
BE	3,27	-0,08		BE	3,21	-0,03		NIKKEI	32708,48	758,59
UK	4,29	-0,09		UK	4,68	-0,06		DAX	15189,25	45,65
JP	0,88	-0,05		JP	0,14	-0,01		DJ euro-50	4174,67	5,05
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	3,25	4,42	4,55	Ester	3,9030	0,0000				
5y	3,10	4,24	4,29	Euribor-1	3,8770	-0,0060		SOFR-1	5,3200	-0,0004
10y	3,15	4,22	4,15	Euribor-3	3,9560	-0,0180		SOFR-3	5,3622	-0,0198
				Euribor-6	4,0620	-0,0100		SOFR-6	5,3852	-0,0446
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,0731	0,0109		EUR/JPY	160,24	0,43		CRB	281,77	-0,48
USD/JPY	149,39	-1,06		EUR/GBP	0,8666	-0,0038		Gold	1999,20	5,70
GBP/USD	1,238	0,0177		EUR/CHF	0,9645	0,0022		Brent	84,89	-1,96
AUD/USD	0,6513	0,0079		EUR/SEK	11,6855	-0,1175				
USD/CAD	1,3658	-0,0081		EUR/NOK	11,8495	-0,0003				

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