

Sunrise



Moving forward together.

Tuesday, 07 November 2023

KBC Sunrise Market Commentary

Markets

- The new trading week yesterday started with **a countermove on last week's overall easing in financial conditions**. Maybe the market has been running a bit ahead of itself in declaring an end to the Fed's tightening cycle or at least it was too early to pencil in rate cuts before the summer of next year. Contrary to what was the case last week, there was little economic news to 'explain' the move. Technical levels probably played a role, with US yields end last week testing key support levels (e.g. 4.50% for the 10-y). Upcoming supply maybe also was a good reason for investors to turn more cautious to further rush into bonds (US Treasury refinancing starting today). Whatever the driver, **US yields yesterday rebounded between 9.6 bps (2-y) and 4.2 bps (30-y)**. At 4.635%, the 10-y US yield again created some breathing space compared to the 4.50% reference. Overnight, **Minneapolis Fed governor Kashkari joined yesterday's market mood** as he warned that **it's too soon to declare victory on inflation**. More data are needed to be sure that 'the inflation genie' is back in the bottle, he assessed. EMU/German yields followed the broader rise but as was the case on Friday, the curve move again was a bit different from the US (bear steepening, 2-y +6.2 bps; 10-y +9.4 bps). ECB's Holzmann, admittedly a notable hawk, came with a similar conclusion as did Kashkari (not declaring victory yet). Doubts on the room for early (Fed) easing also blocked that rebound in equities. US indices finished with limited gains (Dow +0.1%, Nasdaq +0.3%). First key resistance levels (Dow 34148, S&P 4394, Nasdaq 13714) are under test or within reach, but not recovered yet. This also applies for the Eurostoxx50 (+0.38%, ST top at 4.234). Oil (\$ 85 p/b) hardly gained even as Russia and Saudi Arabia extended production cuts. The dollar halted Friday's sell-off, but its performance remained unconvincing (DXY 105.21 from 105.02, EUR/USD 1.0718 from 1.073). **Sterling underperformed both the dollar** (cable close 1.2344) **and the euro** (EUR/GBP close 0.8682).
- This morning, **Asian markets return to risk-off mode**. **China October trade data** show a mixed picture exports (USD - 6.4% Y/Y) disappointed. Imports rose more than expected (+6.4%Y/Y). US Treasuries gain marginally as does the dollar (DXY 105.4). Later today, eco data (US trade balance, German production) probably won't have a lasting impact on trading. **Interest rate markets will keep a close eye at the \$ 48 bln sale of 3-y Treasury Notes**. Still, technical trading might again prevail. On interest rate markets, yesterday's price action suggests that a sustained decline below last week's lows won't be that evident. On FX markets we look out whether the dollar will be able to profit more from a global risk-off than was the case of late. Sterling (EUR/GBP 0.868) this morning hardly reacts to mediocre BRC October retail sales (+2.5% Y/Y from 2.8%)

News & Views

- The Reserve Bank of Australia hiked its policy rate by 25 bps to 4.35%, interrupting a four-meeting pause** during which it judged that higher interest rates were balancing the economy and that some tightening impact was yet to be felt. **Today, however, it concluded that the progress in CPI declining towards target is slower than in the August forecasts expected**. The latest reading "indicates that while goods price inflation has eased further, the prices of many services are continuing to rise briskly." **Inflation is seen at around 3.5% by end 2024 and at the top of the 2-3% target by end 2025**. The risk of inflation (expectations) being higher for longer against the background of a stronger than expected economy and still tight labour market thus warranted another rate increase. The RBA said uncertainties around the outlook are significant and often two-sided. **Further tightening in such circumstances will depend upon the data and the evolving assessment of risks**, it said. The Australian dollar's attempt to rise on the not fully discounted rate hike was shortlived. After touching AUD/USD 0.65, the pair turned south to trade around 0.648 currently. Australian government bond yields ease 2.9-3.3 bps.
- The Fed's Q3 Senior Loan Officer Opinion Survey (SLOOS) yesterday showed how lending standards tightening across all kinds of loans. **In the business segment, survey respondents reported tighter standards and weaker demand for commercial and industrial loans to firms of all sizes**. Tighter standards and weaker demand also prevailed for all commercial real estate loan categories. **Consumer lending tightened and demand weakened across all categories of residential real estate. The same applied for credit card, auto and other consumer loans**.

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 following correction brought the 10-yr yield back to an extensive test of the previous resistance/now support at 2.67% (neckline double top formation).



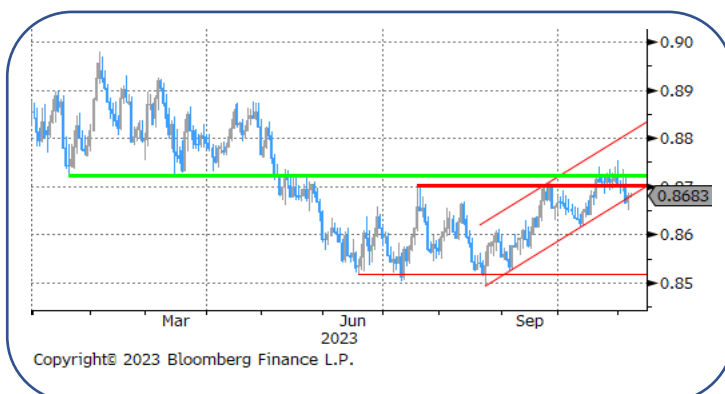
US 10y yield

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

Tuesday, 7 November		Consensus	Previous
US			
14:30	Trade Balance (Sep)	-\$59.8b	-\$58.3b
Japan			
00:30	Real / Labour Cash Earnings YoY (Sep)	-2.40%A/1.20%A	-2.80%R/0.80%R
00:30	Household Spending YoY (Sep)	-2.80%A	-2.50%
UK			
01:01	BRC Sales Like-For-Like YoY (Oct)	2.60%A	2.80%
EMU			
11:00	PPI MoM / YoY (Sep)	0.50%/-12.50%	0.60%/-11.5%
Germany			
08:00	Industrial Production SA MoM / WDA YoY (Sep)	-0.10%/-2.70%	-0.20%/-2.00%
09:30	HCOB Germany Construction PMI (Oct)	--	39.3
Australia			
04:30	RBA Cash Rate Target	4.35%A	4.10%
China			
07NOV	Imports / Exports YoY (Oct)	6.40%A/-6.40%A	-6.30%R/-6.20%
07NOV	Trade Balance (Oct)	\$56.53bA	\$77.83bR
Norway			
08:00	Industrial Production MoM / WDA YoY (Sep)	--/--	0.50%/-8.70%
Spain			
09:00	Industrial Output MoM / SA YoY (Sep)	0.40%/-2.40%	-0.80%/-3.40%
Events			
11:00	Austria to Sell 0% 2028 & 2.9% 2033 Bonds		
13:30	Fed's Kashkari Speaks on Bloomberg Television		
14:00	Fed's Goolsbee Speaks on CNBC		
15:50	Fed's Schmid Speaks at Dallas/Kansas City Energy Conference		
16:00	Fed's Waller Speaks at St. Louis Fed Conference		
18:00	Fed's Williams Moderates Discussion in New York		
19:00	US to Sell \$48bn 3-yr Notes		
19:25	Fed's Logan Participates in Moderated Discussion		
19:30	Fed's Logan Speaks at Dallas/Kansas City Fed Energy Conference		
20:30	ECB's Nagel Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.64	0.07		US	4.93	0.10	DOW	34095.86	34.54
DE	2.74	0.09		DE	3.02	0.06	NASDAQ	13518.78	40.50
BE	3.38	0.11		BE	3.25	0.04	NIKKEI	32271.82	-436.66
UK	4.38	0.09		UK	4.72	0.04	DAX	15135.97	-53.28
JP	0.88	0.00		JP	0.13	-0.01	DJ euro-50	4158.64	-16.03
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.30	4.51	4.60	Ester	3.9000	-0.0020			
5y	3.17	4.31	4.35	Euribor-1	3.8600	-0.0170	SOFR-1	5.3186	-0.0014
10y	3.23	4.28	4.22	Euribor-3	3.9630	0.0070	SOFR-3	5.3645	0.0023
				Euribor-6	4.0660	0.0040	SOFR-6	5.3959	0.0107
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0718	-0.0013		EUR/JPY	160.84	0.60	CRB	281.89	0.12
USD/JPY	150.07	0.68		EUR/GBP	0.8682	0.0016	Gold	1988.60	-10.60
GBP/USD	1.2344	-0.0036		EUR/CHF	0.9639	-0.0006	Brent	85.18	0.29
AUD/USD	0.6489	-0.0024		EUR/SEK	11.6996	0.0141			
USD/CAD	1.37	0.0042		EUR/NOK	11.8549	0.0054			

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