
**Friday, 17 November 2023**

# KBC Sunrise Market Commentary

## Markets

- **The US yield curve hit a weekly low yesterday** with declines ranging between 7.4 and 10.3 bps. Wednesday's unconvincing rebound was indeed a head fake and got fully erased a day later on a **set of sub-consensus economic data.** These included jobless claims, industrial production and the NAHB housing market index. They pointed at a decelerating economy and, importantly, job market. German yields followed the US trend and slipped 4.4 to 6.6 bps across the curve. Moves on core bond markets this time however didn't trigger a risk-on rally similar to what we've seen earlier this week. Stocks inched lower in Europe and treaded water in the US. Oil prices tanked 4.6% (Brent $77.42/b) amid **demand concerns as well as supply being not as constrained as expected with producers outside OPEC+ swooping in to compensate for the cartel's (voluntary) output curbs.** Gold prices rallied 1%. FX markets favoured the big three: USD, EUR and JPY with the latter outperforming in a daily perspective. USD/JPY eased to 150.73 while EUR/JPY gave back some of the large gains over the past few days. EUR/USD neared 1.09 before settling in the mid 1.08-09 area. EUR/GBP mirrored those moves with an intraday high of 0.87665 only to finish at 0.8742.

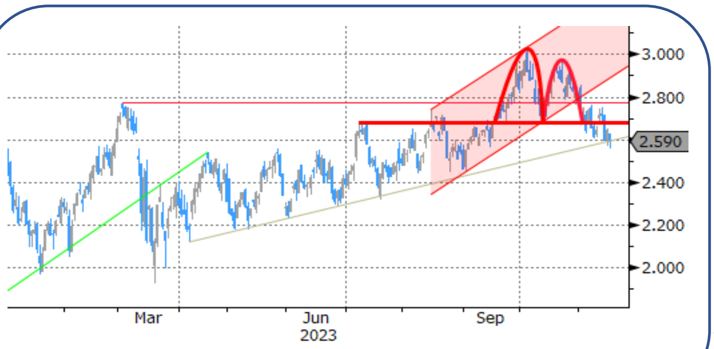
- The yen continues to top the G10 scoreboard in quiet Asian trading this morning, discarding dovish comments for BoJ governor Ueda. He expects inflation to slow in FY2025, adding that there's not enough certainty that the central bank will reach its price goal sustainably. US Treasury yields recover 1-3 bps in technically insignificant trading. Today's economic calendar won't inspire much. **US housing data** is worth following up, given that this market is increasingly suffering from rising unaffordability (high mortgage rates and prices due to low supply/availability). If anything, a miss to the downside is more likely to strengthen current market thinking rather than vice versa. Central bank speeches will flood the terminal screens again. Many, if not most of the ones having talked recently show little willingness to play ball with markets. **But neutral or even hawkish comments can't compete with what the data are telling.** The correction lower in core bond yields may slow but probably won't reverse going into the weekend. Support to look for in the US 10-y yield stands at 4.34%. Germany's 10-y is nearing the upward sloping trendline connecting the 2023 correction lows (but the ones in March). To the extent markets continue to see the Fed as being able to more aggressively cut rates, dollar weakness may prevail. EUR/USD's downside looks solid. **Poor UK retail sales this morning wrapped up this week's eco update.** Sterling slips, pushing EUR/GBP north to 0.8755. A weekly close above 0.871/0.873 (50% recovery on the EUR/GBP 2023 decline) worsens sterling's technical picture.

## News & Views

- **Activity in the US housing market is declining sharply according to the sentiment index of the US National Association of Home Builders.** The NAHB sentiment index tumbled from 40 to 34, the **lowest reading YTD.** Both the indices for current single family sales and future sales dropped substantially as was the case for prospective buyers traffic. Sentiment also dropped in three of the for regions under survey. However, the comments from NABH chief economist Robert Dietz were slightly more comforting that data of the survey as he was quoted that **recent macro-economic data point to improving conditions for home construction in the coming months.** 'Given the lack of existing home inventory, somewhat lower mortgage rates will price-in housing demand and are likely to set the stage for improved further views of market conditions in December' the NAHB was quoted.

- According to comments from the officers of the Budget Committee of the German government, **final deliberations on the German 2024 draft budget have been interrupted early in this morning.** The halt in the deliberations comes after a ruling of the German constitutional court earlier this week. Due to the ruling, **the government is facing a financing hole** as the court judged that the **government isn't allowed to transfer €60 bln of funds that were made available during the pandemic to be redirected for initiatives that support the green transition and other industrial projects.** Still, the government expects that final budget figures and new debt figures will be made public after a meeting next Thursday, instead of this week as planned earlier.

# 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 2.68%/2.60% support. 2.47% marks 50% of the March/October rise.



## 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 in the medium run.** The US 10-yr yield briefly pierced the psychological 5%-mark before short covering/profit taking kicked in. A minor CPI miss extended the move. A break sub 4.52% implies a return to 4.34%.



## EUR/USD

EUR/USD corrected all the way from 1.1276 to the 1.05 area on USD strength, but the critical area near 1.0484 didn't crack. EUR/USD in the meantime escaped out of the narrow downward trend channel. The **recent USD driven leap higher** on market expectations for a Fed pivot strengthened the technical picture. Next resistance is located at 1.0960.



## 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 is in the making following a set of unconvincing UK eco data (including CPI), cementing the market hypothesis of BoE tightening having ended.**

# Calendar & Table

| Friday, 17 November | | Consensus | Previous |
|---|---|---|---|
| **US** | | | |
| 14:30 | Building Permits Total/MoM (Oct) | 1450k/-1.40% | 1471kR/-4.50%R |
| 14:30 | Housing Starts Total/MoM (Oct) | 1350k/-0.60% | 1358k/7.00% |
| 17:00 | Kansas City Fed Services Activity (Nov) | -- | -1 |
| **UK** | | | |
| **08:00** | **Retail Sales Inc Auto Fuel MoM/YoY (Oct)** | **0.40%/-1.60%** | **-0.90%/-1.00%** |
| 08:00 | Retail Sales Ex Auto Fuel MoM/YoY (Oct) | 0.50%/-1.50% | -1.00%/-1.20% |
| **EMU** | | | |
| 11:00 | CPI MoM/YoY (Oct F) | 0.10%/2.90% | 0.10%/4.30% |
| 11:00 | CPI Core YoY (Oct F) | 4.20% | 4.20% |
| **Events** | | | |
| **09:00** | **ECB's Lagarde Speaks in Frankfurt** | | |
| **09:00** | **ECB's Villeroy speaks in Paris** | | |
| **10:00** | **ECB's Holzmann Speaks** | | |
| 10:15 | ECB's Vujcic Speaks | | |
| **14:00** | **ECB's Nagel Speaks in Frankfurt** | | |
| 14:10 | BOE's Dave Ramsden speaks | | |
| **14:15** | **ECB's Wunsch, BOE's Greene Speak in Frankfurt** | | |
| 14:45 | Fed's Collins Delivers Welcoming Remarks | | |
| **15:30** | **Fed's Daly Speaks in Frankfurt** | | |
| **15:45** | **Fed's Goolsbee Speaks on Economy** | | |
| **16:00** | **Fed's Daly Speaks in Frankfurt** | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|---|---|---|---|---|---|---|---|---|---|
| US | 4.44 | -0.10 | | US | 4.84 | -0.07 | DOW | 34945.47 | -45.74 |
| DE | 2.59 | -0.05 | | DE | 2.95 | -0.06 | NASDAQ | 14113.67 | 9.83 |
| BE | 3.20 | -0.05 | | BE | 3.22 | -0.04 | NIKKEI | 33585.2 | 160.79 |
| UK | 4.15 | -0.08 | | UK | 4.54 | -0.08 | DAX | 15786.61 | 38.44 |
| JP | 0.76 | -0.03 | | JP | 0.05 | -0.01 | DJ euro-50 | 4302.45 | -13.08 |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | 3.22 | 4.36 | 4.44 | Ester | 3.9060 | 0.0070 | | | |
| 5y | 3.05 | 4.14 | 4.16 | Euribor-1 | 3.8390 | 0.0480 | SOFR-1 | 5.3291 | 0.0011 |
| 10y | 3.08 | 4.09 | 3.98 | Euribor-3 | 4.0020 | 0.0080 | SOFR-3 | 5.3658 | -0.0024 |
| | | | | Euribor-6 | 4.0710 | -0.0050 | SOFR-6 | 5.3655 | -0.0152 |
| Currencies | Close | -1d | | Currencies | Close | -1d | Commodities | Close | -1d |
| EUR/USD | 1.0852 | 0.0004 | | EUR/JPY | 163.57 | -0.63 | CRB | 271.31 | -5.50 |
| USD/JPY | 150.73 | -0.63 | | EUR/GBP | 0.8742 | 0.0006 | Gold | 1987.30 | 23.00 |
| GBP/USD | 1.2414 | -0.0002 | | EUR/CHF | 0.9644 | 0.0012 | Brent | 77.42 | -3.76 |
| AUD/USD | 0.647 | -0.0039 | | EUR/SEK | 11.4923 | 0.0438 | | | |
| USD/CAD | 1.3755 | 0.0072 | | EUR/NOK | 11.8721 | 0.1356 | | | |

# 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** | +420 2 6135 3535 |
| Jan Cermak | +420 2 6135 3578 | | |
| Jan Bures | +420 2 6135 3574 | | |
| Petr Baca | +420 2 6135 3570 | | |
| **CSOB Economics – Markets Bratislava** | | **Bratislava** | +421 2 5966 8820 |
| Marek Gabris | +421 2 5966 8809 | | |
| **K&H Economics – Markets Budapest** | | **Budapest** | +36 1 328 99 85 |
| David Nemeth | +36 1 328 9989 | | |

**Discover more insights at www.kbceconomics.be**