

Monday, 20 November 2023

KBC Sunrise Market Commentary

Markets

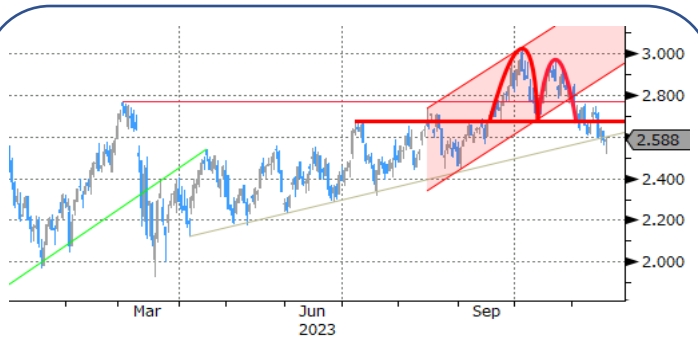
- The Fed's hold at its November policy meeting ignited a corrective rally in US Treasuries (and core bonds in general). A minor positive US CPI print encouraged investors last Tuesday to add to pivot bets, circling the March 2024 policy meeting as earliest starting point of a rate cutting campaign. **Last Friday's intraday action** – failing to close the week above the post-CPI highs with traders throwing the towel on better-than-expected, but second tier housing starts and building permits – **suggests consolidation ahead in this holiday-shortened trading week.** US markets are closed on Thursday for **Thanksgiving** with volumes traditionally low on (black) Friday as well. Daily changes on the US yield curve ranged between +4.8 bps (2-yr) and -2.6 bps (30-yr) with the German curve moving in parallel fashion (+1.4 bps at front end and -2.8 bps at the very long end). **The (trade-weighted) dollar remains in dire straits** even as the core bond rally seems to be losing some steam. DXY extends its drop this morning, falling to 103.70 which represents the lowest level since early September. Key support levels are 103.46 and 102.55 which are respectively 50% and 62% retracement on the greenback's rally from mid-July to early October. EUR/USD is already past the 50% bar (1.0862) with **the 62%-level (1.0960) nearby. Positive EU rating action** (see News & Views), **bullish risk sentiment on stock markets** (China & South Korea doing well this morning) **and still some underlying USD-weakness could force a test later on.** In line with our consolidation view for core bonds, the 1.0960-level could nevertheless become **a tough nut to crack.** Today's eco calendar is extremely thin. We eye tonight's $16bn **20-yr US bond auction.** During this month's mid-month refinancing operation, the 30-yr Bond auction showed signs of weakness and also triggered an (intraday) market move (lower US Treasuries). Speeches by some ECB members and by **BoE governor Bailey** (after European close) are wildcards for trading. Bailey's speech arrives as **sterling is gently drifting lower and about to pop back in the broad EUR/GBP 0.8750-0.90 trading range** after an extensive stay in the 0.85-0.8750 area.

News & Views

- **Rating agency Moody's affirmed Italy's rating at Baa3 and raised the outlook from negative to stable.** The latter reflects **a stabilization of prospects for the country's economic strength,** supported by the implementation of the post-pandemic recovery plan (NRRP), the health of its banking sector and the government's debt dynamics. Growth in the next few years lowers the risk of a material and rapid deterioration in the fiscal situation. That said, fiscal strength remains constrained with **the debt ratio expected at a high level in coming years of 140%.** And this is highly sensitive to assumptions on growth, interest rates and the fiscal balance. Even a small deviation from the baseline could place the debt burden on more pronounced upward trajectory. Debt has an average maturity of around 7 years but because of high annual borrowing needs its **affordability will still weaken relatively quickly.** Moody's does take into account the ECB's TPI, which limits sovereign exposure to liquidity stress. Underpinning the lowest possible investment grade is **the country's large, diversified and competitive manufacturing sector, high household wealth and low private sector indebtedness.** Institutional gaps however will probably prevent the country from fully profiting (through increased potential growth) from the what it calls **a once-in-a-generation NRRP opportunity.**

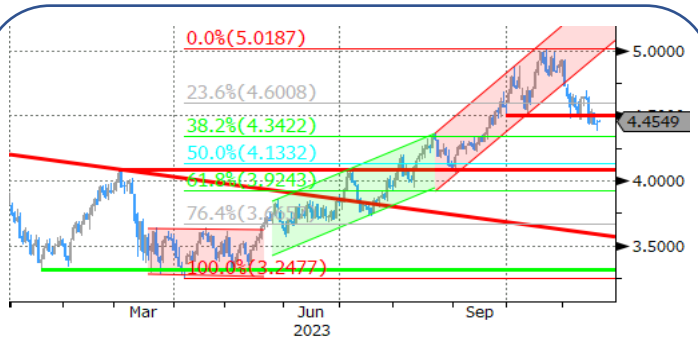
- **Portugal's rating was bumped higher two notches by Moody's from Baa2 to A3 with a stable outlook.** The decision *"reflects **the sustained positive credit effects over the medium term of a series of economic and fiscal reforms, private sector deleveraging and ongoing strengthening of the banking sector."*** Over the next few years and unlike in other ageing countries, Moody's expects the negative impact of demographic trends on potential growth to be mitigated **by sustained net migration,** higher participation rates and an increase in labor productivity growth. **Solid growth and broadly balanced budgets** mean that the - although elevated - debt burden will continue to fall (to +/- 100% in 2024, lowest since 2010) at one of the fastest paces among advanced economies. More positive trends in economic and fiscal strength than currently expected are balanced against recent evidence of political risks. With the latter, the agency refers to the recent resignation of PM over corruption investigations.

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

Monday, 20 November		Consensus	Previous
Japan			
06:00	Tokyo Condominiums for Sale YoY (Oct)	-46.3%A	4.10%
EMU			
11:00	Construction Output MoM/YoY (Sep)	--/--	-1.10%/-0.10%
Germany			
08:00	PPI MoM/YoY (Oct)	0.00%/-11.00%	-0.20%/-14.70%
China			
02:15	5-Year Loan Prime Rate	4.20%A	4.20%
02:15	1-Year Loan Prime Rate	3.45%A	3.45%
Events			
10:10	ECB's Vujcic Speaks		
14:00	ECB's Hernandez de Cos in Madrid		
15:00	BOE releases article on financial stability		
19:00	U.S. To Sell USD16 Bln 20-Year Bonds		
19:45	**BOE's Bailey speaks**		
20:00	**ECB's Villeroy speaks**		

10-year	Close	-1d
US	4.44	0.00
DE	2.59	0.00
BE	3.19	0.00
UK	4.10	-0.05
JP	0.75	-0.01

2-year	Close	-1d
US	4.89	0.05
DE	2.96	0.01
BE	3.19	-0.03
UK	4.55	0.00
JP	0.05	0.00

Stocks	Close	-1d
DOW	34947.28	1.81
NASDAQ	14125.48	11.81
NIKKEI	33388.03	-197.17
DAX	15919.16	132.55
DJ euro-50	4340.77	38.32

IRS	EUR	USD	GBP
3y	3.24	4.40	4.43
5y	3.07	4.16	4.13
10y	3.08	4.09	3.93

EUR	-1d	-2d
Ester	3.9020	-0.0040
Euribor-1	3.8190	-0.0200
Euribor-3	3.9840	-0.0180
Euribor-6	4.0640	-0.0070

USD	-1d	-2d
SOFR-1	5.3303	0.0012
SOFR-3	5.3700	0.0042
SOFR-6	5.3725	0.0070

Currencies	Close	-1d
EUR/USD	1.0915	0.0063
USD/JPY	149.63	-1.10
GBP/USD	1.2462	0.0048
AUD/USD	0.6515	0.0045
USD/CAD	1.3723	-0.0032

Currencies	Close	-1d
EUR/JPY	163.27	-0.30
EUR/GBP	0.8758	0.0017
EUR/CHF	0.9663	0.0019
EUR/SEK	11.4805	-0.0118
EUR/NOK	11.7952	-0.0769

Commodities	Close	-1d
CRB	273.63	2.32
Gold	1984.70	-2.60
Brent	80.61	3.19

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