



Wednesday, 29 November 2023

KBC Sunrise Market Commentary

Markets

- Higher bonds/lower yields was the 'default' trend so far this month and reinforced yesterday by comments from **Fed's Waller**, usually one of the more hawkish members of the Fed MPC. Contrary to what was the case a month ago (strong US Q3 growth), he is becoming increasingly confident **that Fed policy is well positioned to slow the economy in such a way that it can get inflation back to the 2% target**. He of course warned that more evidence is needed that this trend can be sustained, but the conclusion for markets was straightforward. **Fed's Bowman** is still prepared to raise the policy rate if progress on inflation stalls, but the **tone of her comments was also more balanced/conditional**. Especially the Waller interview was a good enough reason for markets to raise bets on an early Fed easing, with a first cut now discounted for the May meeting and a second one fully priced in for July. **The US yield curve impressively bull steepened**. The 2-y yield tumbled 15.4 bps. The 30-y yield eased 3.2 bps. The decline was fully due to a lower real yield (10-y -7.7 bps to 2.10%). The US 10-y yield dropped below 4.34 % support (38% on the April October rise). **The 2-y also gave up several corrective lows in the 4.80/71% area. German yields followed the US at a distance**, easing between 8.1 bps (2-y) and 2.5 bps (30-y). Remarkably, the sharp decline in yields hardly supported equities (S&P +0.1%). **The dollar was hammered**. DXY dropped from the 103.2 area to close near 102.75. EUR/USD pierced 1.0960/65 resistance to test the 1.10 big figure. USD/JPY is extensively testing the 147.15 correction low from earlier this month. **Gold was a major beneficiary** (close \$2041/oz).
- Yesterday's trends firmly continue this morning**. US yields are again ceding up to 6 bps. The dollar remains under pressure (DXY 102.62, EUR/USD 1.1005). Asian equities are trading mixed to modestly lower. Later today, the focus turns **the first November CPI releases from EMU member states** (Belgium, Spain and especially Germany). German HICP inflation is expected to slow to -0.5% M/M and 2.5% Y/Y (from 3.0%). Several technical issues/base effects might complicate the interpretation and might be 'reversed' over the next couple of months. Even so, **soft German inflation data probably will only reinforce the ST downtrend in yields also in EMU**. Such a scenario might bring some more balance between the euro and the dollar. Still after breaking several support levels (including the 1.0965 area), the technical picture (and lower rates globally) suggests ongoing USD weakness.

News & Views

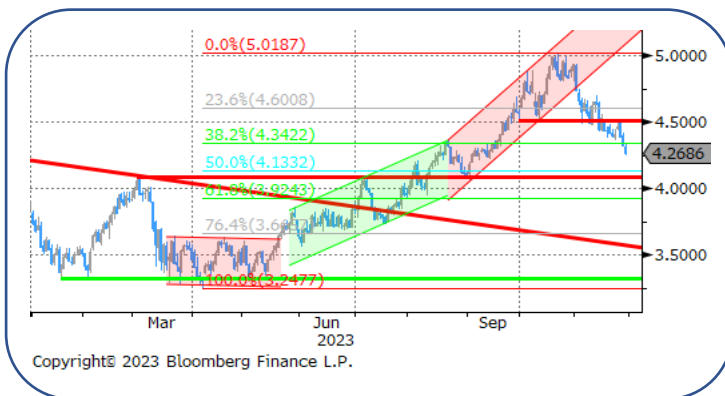
- It's four unchanged policy outcomes and six months on the spin now for the **Reserve Bank of New Zealand** after **keeping the policy rate steady at 5.5% this morning**. A policy **rate hike was discussed**, but in the end the MPC agreed that it was appropriate to wait for further data and information to observe the speed and extent of easing in capacity pressures in the economy with rates currently already restrictive and remaining restrictive for a sustained period of time. **Some members added that there should be a low tolerance for any increase in the time to return inflation to target**. Currently, the RBNZ expects it to fall below the upper bound of the 1-3% tolerance band in H2 2024. The central bank is especially **concerned on the impact of stronger net immigration and future (stimulative) fiscal policy**. Migration effects are already becoming visible on aggregate demand and risk keeping (core) inflation amongst others via housing rents and construction costs. In another hawkish tilt, the Committee noted that the **estimate of the long-run nominal neutral policy rate increased by 25 bps to 2.50%** with new OCR projections showing a higher peak rate next year (just below 5.75%), a slower start to rate cuts (mid-2025) and a higher rate at the end of the policy horizon (end 2026: 3.5%). **NZD strength added to USD weakness, propelling NZD/USD to 0.62 (from 0.6130) for the first time since early August**. NZD swap rates add up to 10 bps at the front end of the curve.
- The **monthly Australian CPI index rose by 4.9% Y/Y in October** (vs 5.2% consensus), down from 5.6% in September and compared to the 8.4% peak in December 2022. The most significant contributors to the October annual increase were Housing (+6.1%), Food and non-alcoholic beverages (+5.3%) and Transport (+5.9%). **Core inflation rose by 5.1% Y/Y (from 5.5% Y/Y in September)**. The Aussie dollar underperforms slightly this morning (AUD/USD 0.6640)..

Graphs



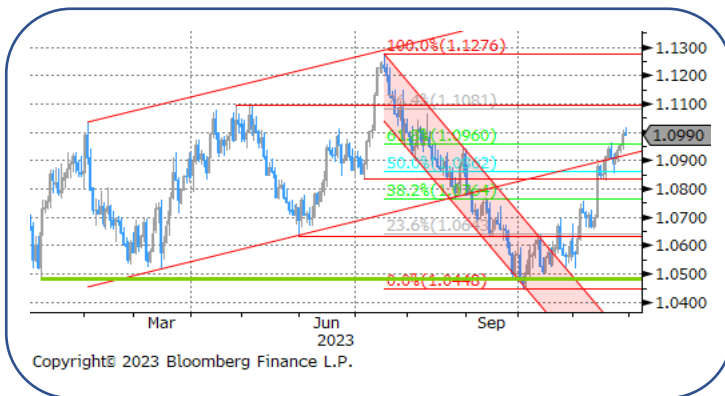
GE 10y yield

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 below the 2.68%/2.60% support. 2.47% (50% of the March/October rise) is now under test.



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 LT bond yields in the medium run**. The US 10-yr yield briefly pierced the 5%-mark before a countermove kicked in, supported by a soft CPI. A sustained break below the 4.34% support (38% retracement) confirms recent strong momentum for bonds.



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 escaped out of the downward trend channel. The **recent USD driven leap higher** on market expectations for a Fed pivot strengthened the technical picture as the pair clear the 1.0960 resistance. 1.1081 marks 76% retracement of the July-October 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 tried to break the upper bound of the **EUR/GBP 0.85/0.87 consolidation pattern**. **An upside is still likely following a set of unconvincing UK eco data (including CPI), cementing the market hypothesis of BoE tightening having ended.**

Calendar & Table

Wednesday, 29 November		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	3.00%
14:30	Advance Goods Trade Balance (Oct)	-\$86.5b	R:-\$86.8b
14:30	Wholesale Inventories MoM (Oct P)	0.2%	0.20%
14:30	Retail Inventories MoM (Oct)	0.6%	0.90%
14:30	GDP Annualized QoQ (3Q S)	5.00%	4.90%
UK			
10:30	Net Consumer Credit (Oct)	1.5b	1.4b
10:30	Consumer Credit YoY (Oct)	--	8.00%
10:30	Mortgage Approvals (Oct)	--	43.3k
10:30	Money Supply M4 MoM (Oct)	--	-1.10%
EMU			
11:00	Consumer Confidence (Nov F)	--	-16.9
11:00	Economic Confidence (Nov)	93.6	93.3
11:00	Industrial Confidence (Nov)	-9.0	-9.3
11:00	Services Confidence (Nov)	4.5	4.5
Germany			
14:00	CPI MoM/YoY (Nov P)	-0.10%/3.50%	0.00%/3.80%
14:00	CPI EU Harmonized MoM/YoY (Nov P)	-0.50%/2.50%	-0.20%/3.00%
Italy			
10:00	Consumer Confidence Index (Nov)	102.0	101.6
10:00	Manufacturing Confidence (Nov)	95.9	96
10:00	Economic Sentiment (Nov)	--	103.9
11:00	PPI MoM/YoY (Oct)	--/--	0.80%/-18.30%
12:00	Industrial Sales MoM/YoY (Sep)	--/--	-0.40%/-5.00%
Belgium			
29NOV	CPI MoM/YoY (Nov)	--/--	0.34%/0.36%
New Zealand			
02:00	RBNZ Official Cash Rate	A: 5.50%	5.50%
Spain			
09:00	Retail Sales SA YoY (Oct)	--	6.50%
09:00	CPI EU Harmonised MoM/YoY (Nov P)	-0.10%/3.70%	0.30%/3.50%
09:00	CPI MoM/YoY (Nov P)	0.1%/3.6%	0.30%/3.50%
09:00	CPI Core YoY (Nov P)	5%	5.20%
Sweden			
08:00	GDP QoQ/WDA YoY (3Q)	--/--	-0.80%/-1.00%
Events			
02:00	RBNZ Monetary Policy Statement		
09:05	Riksbank's Jansson speaks on monetary policy		
11:00	OECD Publishes Economic Outlook		
16:05	BOE's Bailey speaks		
16:15	BOE's Hauser speaks		
19:45	Fed's Mester Speaks on Financial Stability		
20:00	Federal Reserve Releases Beige Book		



10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,32	-0,07		US	4,73	-0,15	DOW	35416,98	83,51
DE	2,50	-0,05		DE	2,92	-0,08	NASDAQ	14281,76	40,74
BE	3,11	-0,04		BE	2,95	-0,05	NIKKEI	33321,22	-87,17
UK	4,17	-0,04		UK	4,63	-0,01	DAX	15992,67	26,30
JP	0,68	-0,08		JP	0,05	-0,01	DJ euro-50	4348,02	-6,39
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	Euribor	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	3,15	4,25	4,49	Ester	3,9030	0,0000			
5y	2,98	4,00	4,18	Euribor-1	3,8470	-0,0010	SOFR-1	5,3390	-0,0022
10y	2,99	3,96	3,99	Euribor-3	3,9550	0,0040	SOFR-3	5,3729	-0,0113
				Euribor-6	4,0260	-0,0240	SOFR-6	5,3573	-0,0337
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0993	0,0039		EUR/JPY	162,12	-0,75	CRB	273,67	3,19
USD/JPY	147,48	-1,21		EUR/GBP	0,8660	-0,0014	Gold	2060,20	27,20
GBP/USD	1,2694	0,0067		EUR/CHF	0,9653	0,0009	Brent	81,68	1,70
AUD/USD	0,6649	0,0042		EUR/SEK	11,346	-0,0697			
USD/CAD	1,3574	-0,0042		EUR/NOK	11,6779	0,0238			

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