

## Sunrise



Thursday, 30 November 2023

# KBC Sunrise Market Commentary

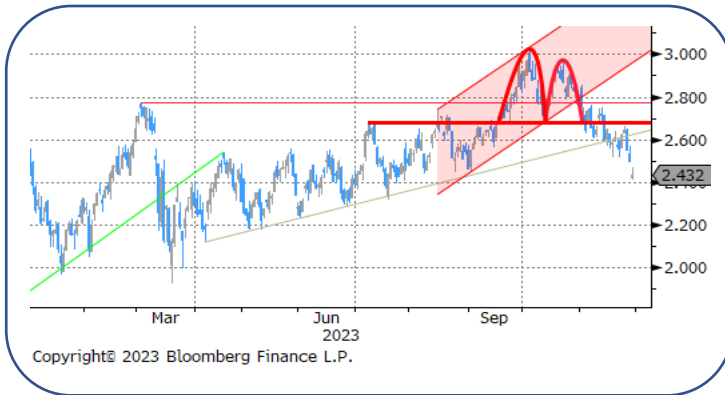
## Markets

- Yesterday, first November **EMU inflation data from Germany and Spain come out in line with market momentum**. Spain HICP inflation declined 0.6% M/M easing the Y/Y measure from 3.5% to 3.2% (3.7% expected). Core inflation also declined substantially (4.5% from 5.2%). Similar story in Germany as HICP inflation printed at -0.7% M/M and 2.3% Y/Y (from 3.0%). Technical factors and 'erratic' base effects due to support measures implemented last year create some noise and might cause countermoves in coming months. Whatever, softer than expected is softer than expected. **German yields** again declined between 8.2 bps (2-y) and 4.6 bps (30-y). Admittedly, major part of the move already occurred before the publication of the data. **US markets** more or less copied the trend in Europe, easing between 8.9 bps (2-y) and 6.5 bps (10-y). **Comments from Fed Waller** on Tuesday that the Fed is well positioned to slow the economy in a way that also might bring inflation back to 2.0% supported the case for bond bulls. Waller's wait-and-see assessment yesterday was **joined by Fed Mester and Barkin** even as they didn't formally rule out a further rate hike. **US equities** tried to extend the interest rate-driven rally, but gains could not be sustained. **US indices closed little changed** (S&P -0.09%). Soft EMU inflation data annex lower EMU yields prevented EUR/USD to hold north of 1.10 (close 1.097). At the same time, **broader USD selling also eased** (DXY close 102.76 from opening levels near 102.58). **Sterling** again outperformed the euro, maybe partially on recent comments from BoE members warning markets on early rate cut bets (EUR/GBP close 0.8640).
- Asian equity markets this morning mostly show modest gains. China November PMI's again disappointed** (composite 50.4 from 50.7) raising market hope for additional policy support. US yields are 'rebounding' 1-2,5 bps across the curve, but **don't help the dollar** (DXY 102.75, EUR/USD 1.0980, USD/JPY 146.95). Later today, the Flash EMU November CPI will be published. After yesterday's releases, the risk obviously is for a below consensus (-0.2% M/M and 3.9% Y/Y headline, 2.7% Y/Y core) outcome. Interesting to see whether there is still additional reaction on interest rate markets or whether some consolidation can start going into the December 14 ECB policy meeting. In the US the October PCE deflators (core expected 0.2% M/M and 3.5%Y/Y), but also jobless claims and Chicago PMI will be released. US markets might still be more sensitive to weaker data. **This especially might be the case for the dollar**. Interesting to see whether EUR/USD can regain the 1.10 barrier. USD/JPY also looks vulnerable sub 147.

## News & Views

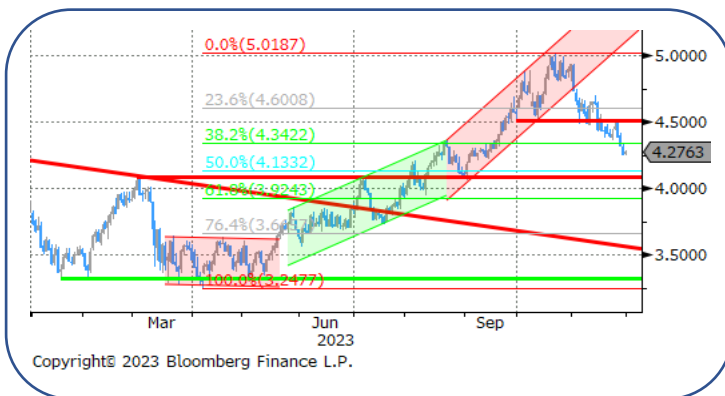
- The Bank of Korea unanimously decided to keep its policy rate unchanged** at the 15-yr high reached in January (3.5%). The number of board member seeing a possible need to lift rates further, dropped from six to four. A slight alteration to the policy statement creates more leeway for the central bank going forward. The commitment to keep policy rates restrictive for "a considerable time" made way for guidance that it would **remain restrictive for a sufficiently long period of time to ensure inflation converged to its goal**. The BoK nevertheless raised this year's inflation forecast slightly to 3.6% and from 2.4% to 2.6% for next year following an unexpected inflation acceleration in October. Governor Rhee still indicated that inflation will converge to the 2% target by end 2024 or early 2025. One board member contemplating last month the possibility of a rate cut if geopolitics affected the economy, no longer holds that view. The Korean central bank kept this year's growth forecast unchanged at 1.4% while slightly downgrading the one for next year to 2.1%. **The Korean won this morning holds near the strongest level against a weak USD since early August (USD/KRW 1291 area)**.
- The **Bank of Mexico released its latest quarterly inflation report**. They expect a return to the 3% midpoint of the inflation target (+1 ppt tolerance band) by early 2025, but inflation can prove slightly more sticky in the short term (core CPI: 5.3% from 5.1% for Q4 2023 and 3.3% from 3.1% for Q4 2024). Banxico also raised GDP forecast from 3% to 3.3% for this year and from 2.1% to 3% in 2024. It sees 2025 growth at 1.5%. Governor Rodriguez Ceja at the press conference afterwards she saw a possibility for the start of discussions on a rate cut at the meetings next year. The central bank still has a 11.25% policy rate in place since May, making real rates very positive. In November, they prepared a pivot by changing forward guidance from stable rates for an extended period to stable rates for some time. MXN loses ground this morning with USD/MXN rising from 17.14 to 17.28...

# Graphs



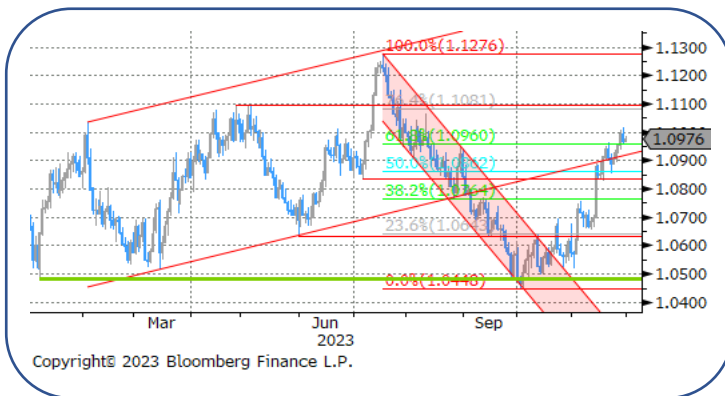
## GE 10y yield

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.



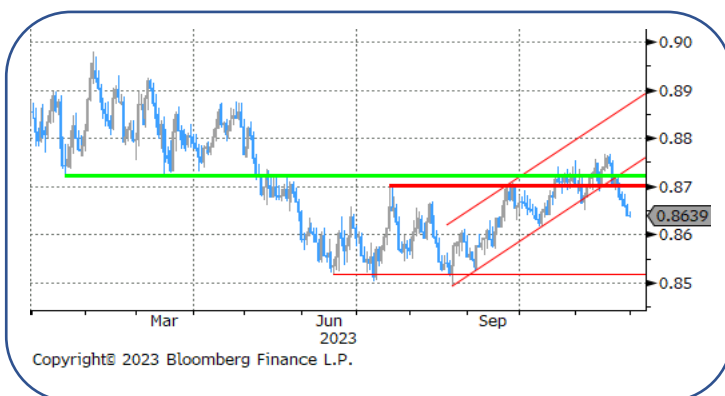
## US 10y yield

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 cleared 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

Thursday, 30 Nov		Consensus	Previous
<b>US</b>			
14:30	<b>Initial Jobless Claims</b>	<b>218K</b>	<b>209k</b>
14:30	Continuing Claims	1865k	1840k
14:30	Personal Income/Spending (Oct)	0.20%/0.20%	0.30%/0.70%
14:30	Real Personal Spending (Oct)	0.10%	0.40%
14:30	<b>PCE Deflator MoM/YoY (Oct)</b>	<b>0.10%/3.00%</b>	<b>0.40%/3.40%</b>
14:30	PCE Core Deflator MoM/YoY (Oct)	0.20%/3.50%	0.30%/3.70%
15:45	MNI Chicago PMI (Nov)	46	44
16:00	Pending Home Sales MoM Total/YoY (Oct)	-0.90%/-8.8%	1.10%/-13.10%
<b>Canada</b>			
14:30	<b>Quarterly GDP Annualized (3Q)</b>	<b>0.1%</b>	<b>-0.20%</b>
<b>Japan</b>			
00:50	Retail Sales MoM/YoY (Oct)	A -1.6%/4.2%	-0.10%/5.80%
00:50	Industrial Production MoM/YoY (Oct P)	A 1.0%/0.9%	0.50%/-4.40%
06:00	Housing Starts YoY (Oct)	A-6.3 %	-6.80%
06:00	Consumer Confidence Index (Nov)	A 36.1	35.7
<b>UK</b>			
01:01	Lloyds Business Barometer (Nov)	A 42-	39
01:01	Lloyds Own Price Expectations (Nov)	A-61	59
<b>EMU</b>			
11:00	<b>CPI MoM/YoY (Nov P)</b>	<b>-0.20%/2.70%</b>	<b>0.10%/2.90%</b>
11:00	CPI Core YoY (Nov P)	3.90%	4.20%
11:00	Unemployment Rate (Oct)	6.50%	6.50%
<b>Germany</b>			
09:55	Unemployment Change (000's) (Nov)	20.0k	30.0k
09:55	Unemployment Claims Rate SA (Nov)	5.80 %	5.80%
<b>France</b>			
08:45	<b>CPI EU Harmonized MoM/YoY (Nov P)</b>	<b>0.00%/4.10%</b>	<b>0.20%/4.50%</b>
08:45	CPI MoM/YoY (Nov P)	0.10%/3.70%	0.10%/4.00%
08:45	Consumer Spending MoM/YoY (Oct)	-0.2%/-0.2%	0.20%/-3.00%
08:45	PPI MoM/YoY (Oct)	--/--	0.70%/-1.70%
<b>Italy</b>			
10:00	Unemployment Rate (Oct)	7.40%	7.40%
11:00	<b>CPI EU Harmonized MoM/YoY (Nov P)</b>	<b>-0.10%/1.10%</b>	<b>0.20%/1.80%</b>
<b>Belgium</b>			
11:00	Unemployment Rate (Oct)	--	5.60%
<b>China</b>			
02:30	<b>Composite PMI (Nov)</b>	<b>A 50.4-</b>	<b>50.7</b>
02:30	Manufacturing PMI (Nov)	A 49.4	49.5
02:30	Non-manufacturing PMI (Nov)	A 50.2	50.6
<b>Events</b>			
30NOV	<b>OPEC+ holds delayed summit</b>		
09:00	<b>Riksbank's Bunge speaks on monetary policy</b>		
10:30	ECB's Panetta speaks in Rome		
17:00	<b>BOE's Megan Greene speaks</b>		

# Contacts

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,26	-0,07		US	4,65	-0,09	DOW	35430,42	13,44
DE	2,43	-0,06		DE	2,84	-0,08	NASDAQ	14258,49	-23,27
BE	3,04	-0,07		BE	2,87	-0,08	NIKKEI	33486,89	165,67
UK	4,10	-0,08		UK	4,57	-0,06	DAX	16166,45	173,78
JP	0,68	0,01		JP	0,03	-0,01	DJ euro-50	4370,53	22,51
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,09	4,17	4,41	Ester	3,9020	-0,0010			
5y	2,92	3,93	4,10	Euribor-1	3,8540	0,0070	SOFR-1	5,3436	0,0046
10y	2,93	3,88	3,91	Euribor-3	3,9750	0,0200	SOFR-3	5,3712	-0,0017
				Euribor-6	4,0500	0,0240	SOFR-6	5,3346	-0,0227
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0969	-0,0024		EUR/JPY	161,52	-0,60	CRB	275,44	1,77
USD/JPY	147,24	-0,24		EUR/GBP	0,8641	-0,0019	Gold	2067,10	6,90
GBP/USD	1,2695	0,0001		EUR/CHF	0,9586	-0,0066	Brent	83,10	1,42
AUD/USD	0,6617	-0,0032		EUR/SEK	11,3676	0,0216			
USD/CAD	1,3589	0,0015		EUR/NOK	11,6943	0,0164			

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