

## Sunrise



Friday, 01 December 2023

# KBC Sunrise Market Commentary

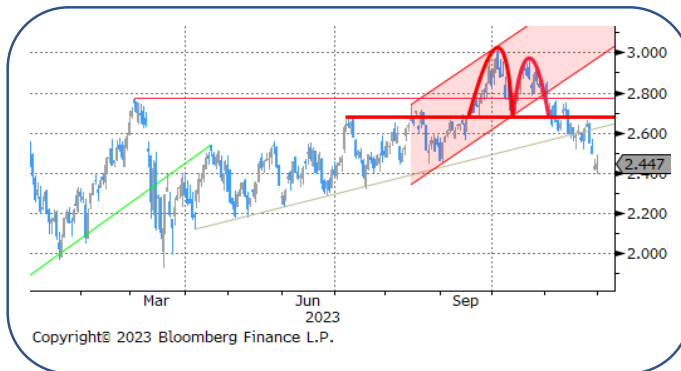
## Markets

- Poor French growth and inflation data published at the start of European dealings caused European interest rate markets to try a new leg on recent bull run. **Yields across the European/German curve touched new cycle correction lows.** The EMU flash CPI estimate at -0.5% M/M and 2.4% Y/Y (headline) and 3.6% Y/Y (core) beat consensus estimates by a big margin. However, this was no real surprise given earlier releases of national data. For sure, the subsequent price action, especially in European interest rate markets, didn't look like a genuine exhaustion move yet. Especially yields at the short-end continue to price an ever growing chance of an early ECB rate cut next year (25 bps in April fully discounted). **Still, yields tentatively started looking for a bottom.** German yields at the end of the day changed between -2 bps (2-y) and +1.5 bps (10-y). In the US, the highly awaited October PCE deflators (headline 0% M/M and 3% Y/Y, core 0.2% M/M and 3.5% Y/Y) and the weekly jobless claims (218k) were too close to expectations to trigger further bond gains. The **MNI Chicago PMI** even delivered a big upside surprise (55.8 from 44.0) with solid details. The market reaction was limited, but it helped US yields to maintain intraday gains. US yields closed between 3.5 bps (2-y) and 7.2 bps (10-y) higher. **Divergence both in data and in interest rates between EMU and the US, triggered hefty profit taking on the recent EUR/USD rally.** The pair closed at 1.0888 (compared to a 1.0967 close on Wednesday). **The move mirrored both euro weakness and USD resilience.** DXY closed at 103.5 (open 102.79). USD/JPY regained the 148 big figure (close 148.2). Sterling showed some erratic swings intraday. The **BoE Chief Financial Officers survey** showed UK business leaders expect inflation to hold above 3% over the next three years. UK gilts underperformed. Sterling continued outperforming the euro with EU/GBP close at 0.8625, nearing the October correction low.
- Asian equities mostly trade slightly in the red this morning. US treasuries are going nowhere. The dollar eases slightly after yesterday's rally. After mostly disappointing data of late, the **China Caixin Manufacturing PMI unexpectedly returned into positive growth** territory (50.7 from 49.5). **Later today**, there are no important data in Europe. **In the US, the Manufacturing ISM is taking center stage.** A slight improvement from 46.7 to 47.8 is expected. Of late, markets were mostly driven by (perceived) soft/negative data release. **After yesterday's surprise jump in the Chicago PMI, maybe we now should look at the market reaction function in case of an unexpected strong figure.** Will better than expected data finally help a bottoming out process in yields? If so, it might also support the downside in the dollar. In this respect, **EUR/USD dropped out of an ST upward trend channel starting begin November.** Next support is coming in at 1.0825/26 (Mid November correction low/38% retracement ST). Comments by **Fed Chair Powell** at Spelman College are a wildcard. It's unclear if he'll touch on monetary policy at the final occasion ahead of the blackout period in the run-up to the December 13 policy meeting.

## News & Views

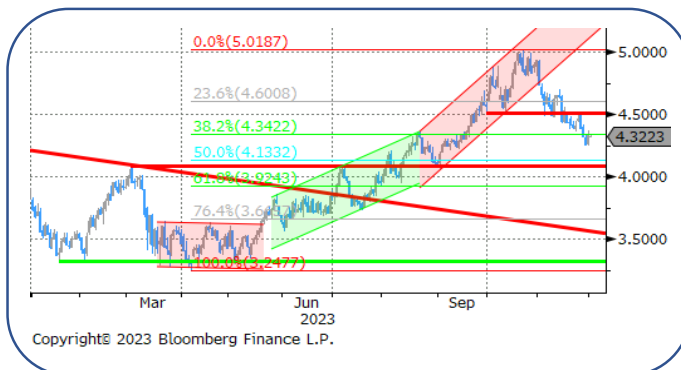
- The **OPEC+ meeting**, originally scheduled for Nov 26 in Vienna but delayed because of diverging views and replaced by online discussions, ended yesterday with **a commitment by Saudi Arabia to extend its voluntary production cuts of 1 mn barrels/day through the first quarter.** Additionally, member states including Russia, the UAE, Kuwait and Iraq pledged voluntary cuts as well in Q1 2024 totaling a combined 1.2 mn barrels/day. **Oil prices rallied in the run-up to the decision and fell back afterwards**, from \$84.5/b to \$80.5/b. Apart from the anticipation effect, the vague wording and non-unanimous commitment in the OPEC statement created doubt and uncertainty on actual output levels in coming months.
- Hungarian Cabinet Minister Gulyas** yesterday announced an **extension of interest rate caps on household mortgages** and on corporate loans for SME's. They were first introduced early October in a reaction to the high MNB policy rate. Gulyas said that MNB rates are coming down but are still very high (11.5%). The interest rate cap on new loans for households at 8.5% will be extended until July 1. The cap on new loans for businesses at 12% will be prolonged until April 1.

# 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.



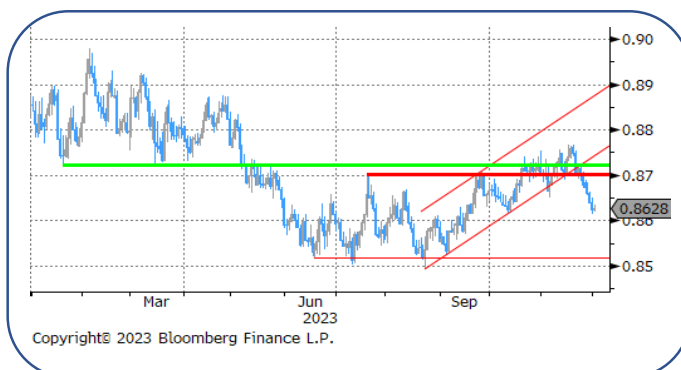
## US 10y yield

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) would confirm 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. However a sustained break beyond 1.10 doesn't look that easy.



## 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

Friday, 1 December		Consensus	Previous
<b>US</b>			
	Wards Total Vehicle Sales (Nov)	15.50m	15.50m
16:00	Construction Spending MoM (Oct)	0.30%	0.40%
16:00	ISM Manufacturing (Nov)	47.8	46.7
16:00	ISM Prices Paid (Nov)	45.9	45.1
16:00	ISM Employment (Nov)	47.2	46.8
16:00	ISM New Orders (Nov)	46.7	45.5
<b>Canada</b>			
14:30	Part Time Employment Change (Nov)	--	20.8k
14:30	Net Change in Employment (Nov)	14k	17.5k
14:30	Full Time Employment Change (Nov)	--	-3.3k
14:30	Unemployment Rate (Nov)	5.8%	5.70%
14:30	Hourly Wage Rate Permanent Employees YoY (Nov)	4.9%	5.00%
14:30	Participation Rate (Nov)	65.6%	65.60%
<b>Japan</b>			
00:30	Jobless Rate (Oct)	A 2.50%	2.60%
00:30	Job-To-Applclicant Ratio (Oct)	A 1.30	1.29
00:50	Capital Spending YoY (3Q)	A 3.40%	4.50%
00:50	Capital Spending Ex Software YoY (3Q)	A 1.70%	4.40%
00:50	Company Profits/Sales YoY (3Q)	A 20.1%/5.00%	11.60%/5.80%
<b>UK</b>			
10:30	S&P Global/CIPS UK Manufacturing PMI (Nov F)	46.7	46.7
<b>EMU</b>			
10:00	HCOB Eurozone Manufacturing PMI (Nov F)	43.8	43.8
<b>China</b>			
02:45	Caixin China PMI Mfg (Nov)	A 50.7	49.5
<b>Events</b>			
10:00	Riksbank's Thedeen speaks on CRE at Moody's conference		
16:00	Fed's Goolsbee Participates in Moderated Discussion		
17:00	Fed's Powell Speaks in Fireside Chat		
20:00	Fed's Powell, Cook Take Part in Discussion on Tech Innovation,		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,33	0,07		US	4,68	0,03	DOW	35950,89	520,47
DE	2,45	0,02		DE	2,82	-0,02	NASDAQ	14226,22	-32,27
BE	3,06	0,02		BE	2,88	0,01	NIKKEI	33431,51	-55,38
UK	4,18	0,08		UK	4,61	0,04	DAX	16215,43	48,98
JP	0,71	0,04		JP	0,17	0,14	DJ euro-50	4382,47	11,94
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	3,07	4,20	4,48	Ester	3,8910	-0,0110			
5y	2,92	3,99	4,18	Euribor-1	3,8680	0,0140	SOFR-1	5,3461	0,0025
10y	2,94	3,96	4,01	Euribor-3	3,9640	-0,0110	SOFR-3	5,3700	-0,0012
				Euribor-6	4,0290	-0,0210	SOFR-6	5,3315	-0,0031
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0888	-0,0081		EUR/JPY	161,37	-0,15	CRB	273,64	-1,80
USD/JPY	148,2	0,96		EUR/GBP	0,8625	-0,0016	Gold	2057,20	-9,90
GBP/USD	1,2624	-0,0071		EUR/CHF	0,9529	-0,0057	Brent	80,86	-2,02
AUD/USD	0,6605	-0,0012		EUR/SEK	11,4297	0,0621			
USD/CAD	1,3561	-0,0028		EUR/NOK	11,7722	0,0779			

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