Tuesday, 05 December 2023

KBC Sunrise Market Commentary

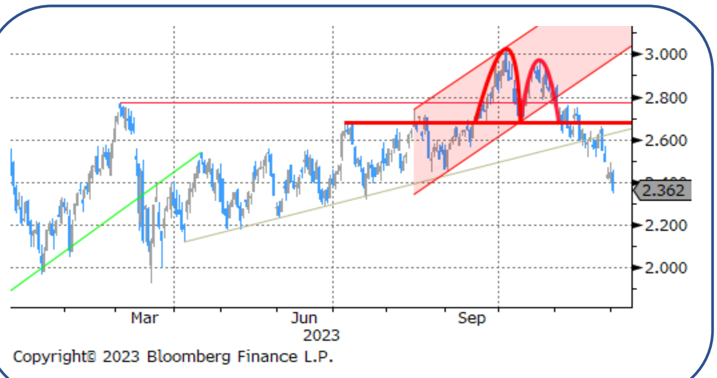
Markets

- Markets started off choppy yesterday, suggesting **the bond-inspired everything-rally is losing steam.** A backloaded eco calendar is keeping investors at bay as well. US yields recouped 2.1-9.6 bps from the huge losses incurred last month. The front end underperformed. German yields lagged behind but finished off intraday lows nevertheless. Changes varied between -0.8 bps (10-y) and +1.3 bps (2-y) with a noticeable outperformance of the very long end (30-y -4.4 bps). Stocks ended virtually flat in Europe while losing some ground in the US (Nasdaq -0.84%). The trade-weighted dollar index extended its recent bottoming out by rising above 103.62 (23.6% recovery on the Oct-Nov decline). EUR/USD lost mirror support at 1.0883. The pair neared the next reference at 1.08 (38.2% retracement) fast but it never came to an actual test. EUR/USD closed at 1.0836. Sterling's stellar run grinded to a halt at the EUR/GBP 0.8558 resistance. Technical trading lifted the pair to 0.8578 at the close. Asian markets copy Wall Street's meagre performance yesterday by losing ground. South Korea underperforms (-1.8%). News flow concentrates around inflation in the country as well as the Tokyo reading in Japan (see below). The Reserve Bank of Australia kept rates steady with further hikes, if any, contingent on the data. The Aussie dollar underperforms global peers this morning. For Europe, we retain ECB's Schnabel interview by Reuters published this morning. **The influential hawk took further rate hikes off the table in a dovish shift compared to just one month ago.** Three unexpectedly benign inflation readings in a row changed Schnabel's mind. She noted last month's "remarkable" drop in the core gauge. Schnabel also warned against guiding markets to far ahead given how inflation is surprising. **Dropping forward guidance was fitting when prices surged well beyond expectations but that works both ways**, she reasons. On finishing PEPP reinvestments earlier than currently communicated (2025), Schnabel called it not a big deal as purchasing volumes are low and markets anticipate it already. The euro erased tiny gains after headlines hit the wires while Bund future price action suggests a lower open for cash yields. Attention later today shifts to the US with the JOLTS report as well as the services ISM for November. Market's mindset suggests there's still a risk for an asymmetric response to a negative surprise. That said, **there's only little room left to add to current market pricing** which already assumes a 66% chance for a March cut. US bond spillovers, if any, to Europe should limite the damage for the dollar against the euro, especially after Schnabel's comments. EUR/USD 1.08 is the first reference, followed by 1.0733/56.

News & Views

- **The Reserve bank of Australia kept its policy rate unchanged at 4.35%.** The RBA raised the policy rate by 25 bps last month after 4 month pause as progress in bringing inflation to target was developing slower than forecast. The RBA now indicated that the new information it received since has been broadly in line with expectations. **Monthly data suggested a further decline in goods inflation. The development of services inflation remains uncertain.** Wage growth picked up in September, but the RBA doesn't expect it to increase much further. **Higher interest rate are working to establish a more sustainable balance between aggregate supply and demand** as previous rate hikes continue to flow through the economy. This gives RBA the time to assess the impact of precious tightening in a data-dependent approach. RBA concludes that **'whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks'.** The tone of the RBA assessment maybe was a bit less hawkish than the market expected. The 2-y yield (4.08%) dropped 5 bps. AUD/USD fell from the 0.6610 area to currently 0.6585.
- **November inflation in South Korea and Japan this morning were softer than expected. CPI in SK declined 0.6% M/M slowing the Y/Y measure from 3.8% to 3.3%** (3.5% was expected). **Core inflation cooled from 3.0%.** The BoK last week raised its inflation forecast for this year (3.6%) and next year (2.6%), but today **indicated that it expects inflation to continue to decelerate at a moderate pace**, assuming oil prices won't significantly rise. November CPI excluding fresh food (monitored by the BoJ) in the Tokyo region dropped from 2.7% to 2.3%. The measure ex. fresh food and energy slowed to 3.6% from 3.8. The Tokyo data are seen as a good pointer for the **national data that will be published on December 22.** The BoJ holds its final meeting of the year on December 19. Softer inflation probably will reinforce the BoJ's assessment that in can proceed very gradually when considering policy normalization.

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.** After a test of the psychological 3% mark, a US-backed technical correction kicked in. Weaker than expected CPI later forced a break below support at 2.47% (50% of the March/October rise). The next reference at 2.34% is ready to be tested as well.

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. Support at 4.34% broke on dovish talk from leading Fed hawks.

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 brought the pair to 1.10. With Fed thinking having spilled over to the ECB, the euro is now facing similar loss of rate support. EUR/USD became more balanced.

EUR/GBP

Even as the bar for an additional hike by the BoE is high, its officials are the **most vocal in pushing back against premature rate cuts.** Sterling is enjoying a strong rally against both the dollar and the euro, despite the grim UK eco outlook. EUR/GBP is moving towards the lower bound of the 0.85/0.87 consolidation pattern.

Calendar & Table

Tuesday, 5 December		Consensus	Previous
US			
15:45	S&P Global US Services PMI (Nov F)	50.8	50.8
15:45	S&P Global US Composite PMI (Nov F)	50.7	50.7
16:00	**JOLTS Job Openings (Oct)**	**9300k**	**9553k**
16:00	**ISM Services Index (Nov)**	**52.3**	**51.8**
16:00	ISM Services Prices Paid (Nov)	58.0	58.6
16:00	ISM Services Employment (Nov)	51.4	50.2
16:00	ISM Services New Orders (Nov)	54.9	55.5
Canada			
15:30	S&P Global Canada Services PMI (Nov)	--	46.6
15:30	S&P Global Canada Composite PMI (Nov)	--	46.7
Japan			
00:30	Tokyo CPI YoY (Nov)	2.60%A	3.20%R
00:30	**Tokyo CPI Ex-Fresh Food YoY (Nov)**	**2.30%A**	**2.70%**
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Nov)	3.60%A	3.80%
UK			
01:01	BRC Sales Like-For-Like YoY (Nov)	2.60%A	2.60%
10:00	New Car Registrations YoY (Nov)	--	14.30%
10:30	Official Reserves Changes (Nov)	--	$600m
10:30	S&P Global/CIPS UK Services PMI (Nov F)	--	50.5
10:30	S&P Global/CIPS UK Composite PMI (Nov F)	--	50.1
EMU			
10:00	**ECB 1 Year CPI Expectations (Oct)**	**3.80%**	**4.00%**
10:00	**ECB 3 Year CPI Expectations (Oct)**	**2.50%**	**2.50%**
10:00	HCOB Eurozone Services PMI (Nov F)	48.2	48.2
10:00	HCOB Eurozone Composite PMI (Nov F)	47.1	47.1
11:00	PPI MoM / YoY (Oct)	0.20%/-9.50%	0.50%/-12.40%
France			
08:45	Manufacturing Production MoM / YoY (Oct)	0.20%/--	-0.40%/-0.90%
08:45	Industrial Production MoM / YoY (Oct)	0.20%/2.80%	-0.50%/-0.10%
Australia			
04:30	**RBA Cash Rate Target**	**4.35%A**	**4.35%**
China			
02:45	Caixin China PMI Composite (Nov)	51.6A	50
02:45	**Caixin China PMI Services (Nov)**	**51.5A**	**50.4**
Spain			
09:00	INE House Price Index QoQ / YoY (3Q)	--/--	2.10%/3.60%
09:00	Industrial Production MoM (Oct)	-0.50%	1.10%
Sweden			
08:30	Swedbank/Silf PMI Services (Nov)	--	48.5
08:30	Swedbank/Silf PMI Composite (Nov)	--	47.7
Events			
11:30	Germany to Sell €4.5bn of 3.1% 2025 Bonds		
11:30	Belgium to Sell Bills		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.25	0.06		US	4.64	0.10	DOW	36204.44	-41.06
DE	2.35	-0.01		DE	2.70	0.01	NASDAQ	14185.49	-119.54
BE	2.97	0.00		BE	2.76	0.00	NIKKEI	32775.82	-455.45
UK	4.19	0.05		UK	4.62	0.08	DAX	16404.76	7.24
JP	0.67	-0.02		JP	0.04	0.01	DJ euro-50	4414.95	-3.56
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.93	4.13	4.46	Ester	3.9040	0.0000			
5y	2.80	3.91	4.17	Euribor-1	3.8550	-0.0140	SOFR-1	5.3610	0.0172
10y	2.83	3.88	4.01	Euribor-3	3.9620	0.0020	SOFR-3	5.3768	0.0188
				Euribor-6	3.9450	-0.0590	SOFR-6	5.3169	0.0279
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0836	-0.0048		EUR/JPY	159.52	-0.23	CRB	267.61	-3.16
USD/JPY	147.21	0.39		EUR/GBP	0.8578	0.0014	Gold	2042.20	-47.50
GBP/USD	1.2633	-0.0077		EUR/CHF	0.9457	0.0000	Brent	78.03	-0.85
AUD/USD	0.662	-0.0055		EUR/SEK	11.3088	0.0185			
USD/CAD	1.3537	0.0040		EUR/NOK	11.7537	0.1388			

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