



Wednesday, 06 December 2023

KBC Sunrise Market Commentary

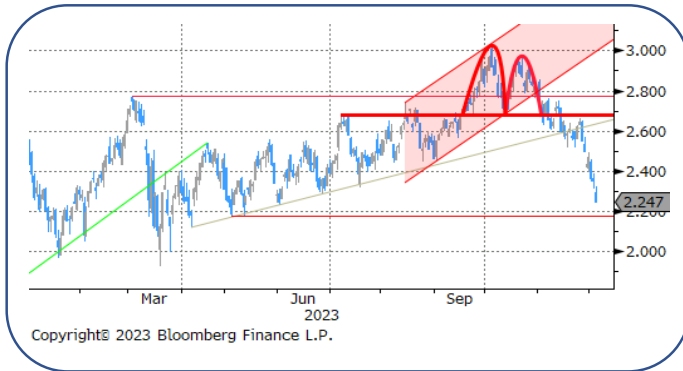
Markets

- Monday's uptick in yields already got wiped out yesterday. **Culprit this time: US JOLTS.** October job openings fell from a downwardly revised 9350k to 8733k vs the 9300k expected. It's still a historically high number but it suggests the labour market is further normalizing. **In current circumstances this is all the evidence (for a quick Fed pivot) markets are looking for.** The US services ISM rose to a higher than expected 52.7 on a combination of rising business activity (55.1) and a solid flow of new orders (55.5). Employment, however, undershot expectations by growing only marginally, strengthening the message coming from the JOLTS. Prices paid barely eased from 58.6 to 58.3. US yields shed between 5.9 (2-y) and 11.3 bps (30-y). ECB's Schnabel Reuters interview triggered Bund outperformance for most of the day before UST's caught up later. German yields dropped 8.5-14.2 bps with the long end outperforming. Stocks in Europe eked out a nice gain, allowing the EuroStoxx50 to surpass important resistance in the 4400 area. In the US however, the yield drop offered much less equity support. The jury's out on whether the soft landing scenario is all but priced in now. EUR/USD dropped towards next support at 1.08. DXY escaped the downward November trend channel by closing above 104. Currencies Down Under underperformed. Moody's cut the rating outlook of a key trading partner, China, to negative. It highlighted the economic and financial uncertainty surrounding the country. While the CNY held its nerves yesterday, it is facing stronger selling pressures this morning. USD/CNY gaps higher to 7.158. With news flow thin otherwise, we move on to today's eco calendar. **On the agenda are meetings by the Canadian and Polish central bank and US ADP employment growth.** The latter is expected at 130k. **Risks for an asymmetric market reaction remain live.** The US 10-y is nearing the 50% retracement on the 2023 rise fast (4.13%). In the corrections of the past several years, this often served as an important support. However, we don't want to call the end until we actually see yields stop moving south on disappointing (activity) data. Since US yield moves lately easily spilled over to Europe, we hold on to a stronger dollar, more so given the **recessionary vibe** that's looming over the continent. EUR/USD is currently losing the 1.08 with next support kicking in at 1.0756 and 1.0733. Sterling continues to be in a sweet spot. EUR/GBP is stabilizing near the recent lows just north of support at 0.8557.

News & Views

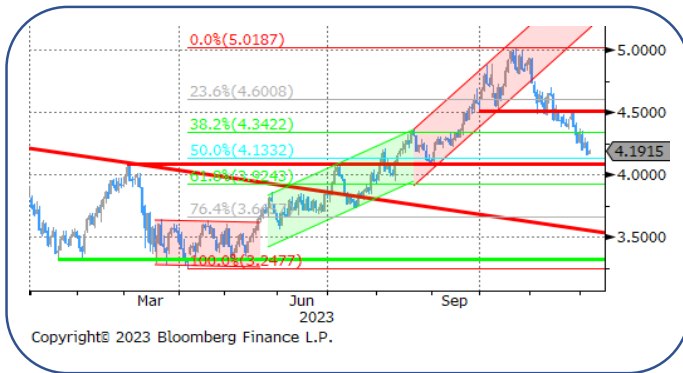
- Australian GDP growth unexpectedly slowed to 0.2% in Q3 from 0.4% in Q2**, the country's bureau of statistics released this morning. Activity was 2.1% higher compared to the same month last year. **It was the eighth straight rise in quarterly GDP, but consensus expected a faster 0.5% Q3 growth.** Government spending and capital investment were the main drivers of Q3 GDP growth. Government final consumption expenditure rose 1.1%, driven by social benefits to households. Defense also contributed to growth. A 1.1% increase in gross capital formation was also supported by public corporation activity. Change in inventories contributed 0.4% to GDP growth but this mainly reflected falling exports. Net trade contributed a net -0.6% to growth. Household consumption in Q3 was flat, even as the **household saving to income ratio dropped for the eight straight quarter to 1.1%, the lowest since Q4 2007.** The Q3 GDP release **allows the RBA to keep a guarded wait-and-see approach.** The 2-y government bond yield dropped 10 bps this morning (3.98%). The Aussie dollar initially rose in a positive risk sentiment, but the rebound slowed after the release of the GDP data. AUD/USD currently trades slightly below 0.66.
- Spain, which currently holds the EU presidency, proposed a new framework** aimed at reducing government deficits while at the same time leaving room for green and defense investments, Bloomberg reported citing people familiar with the matter. The proposal would oblige countries to **cut debt as a percentage of GDP by an average 1 ppt over an adjusted period when it exceeds 90% of GDP.** Countries with debt to GDP levels **between 60% and 90% would have to reduce their debt by half that pace.** According the report, countries would also need to build a **fiscal buffer of 1.5% of GDP**, below the ECB's 3.0% target, but it would give governments leeway to finance the green transition and support the block's military capacity. In the proposal, a **government expenditure cap** might also be an important mechanism to reduce the deficits.

Graphs



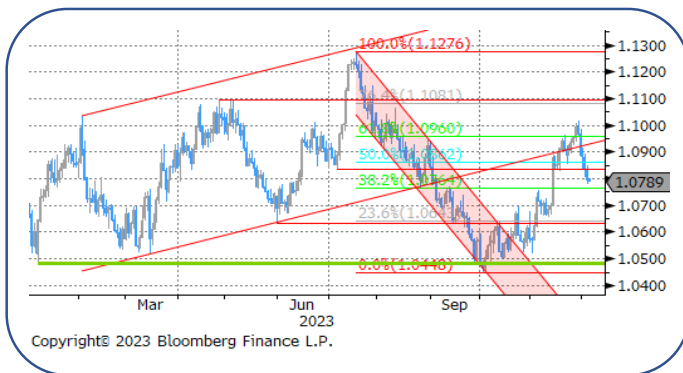
GE 10y yield

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% succumbed shortly after.



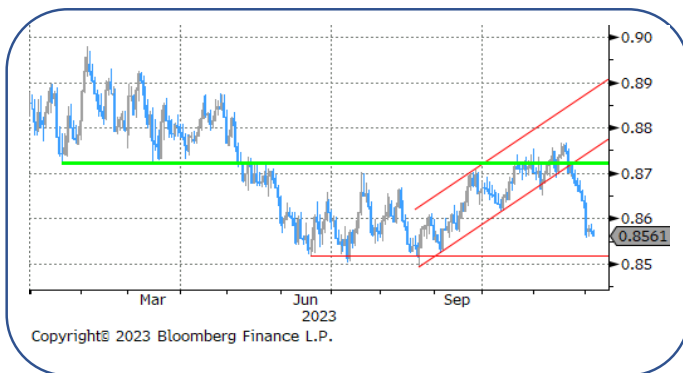
US 10y yield

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, bringing 4.08/4.13% support in focus.



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

Wednesday, 6 December		Consensus	Previous
US			
14:15	ADP Employment Change (Nov)	130k	113k
14:30	Trade Balance (Oct)	-\$64.2b	-\$61.5b
Canada			
16:00	Bank of Canada Rate Decision	5.00%	5.00%
16:00	Ivey Purchasing Managers Index SA (Nov)	--	53.4
UK			
10:30	S&P Global/CIPS UK Construction PMI (Nov)	46.7	45.6
EMU			
11:00	Retail Sales MoM / YoY (Oct)	0.20%/-1.10%	-0.30%/-2.90%
Germany			
08:00	Factory Orders MoM / WDA YoY (Oct)	0.20%/-3.90%	0.20%/-4.30%
09:30	HCOB Germany Construction PMI (Nov)	--	38.3
Australia			
01:30	GDP SA QoQ / YoY	0.2%A/2.1%A	0.4%/2.0%R
Poland			
06DEC	Poland Base Rate Announcement	5.75%	5.75%
Events			
11:30	Bank of England financial stability report		
12:00	BOE press conference on financial stability		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.16	-0.09	US	4.58	-0.06	DOW	36124.56	-79.88	
DE	2.25	-0.11	DE	2.61	-0.09	NASDAQ	14229.91	44.42	
BE	2.84	-0.13	BE	2.69	-0.07	NIKKEI	33445.9	670.08	
UK	4.03	-0.17	UK	4.51	-0.10	DAX	16533.11	128.35	
JP	0.65	-0.02	JP	0.04	0.00	DJ euro-50	4452.77	37.82	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.84	4.07	4.34	Ester	3.9050	0.0010			
5y	2.70	3.84	4.03	Euribor-1	3.8650	0.0100	SOFR-1	5.3640	0.0030
10y	2.73	3.79	3.85	Euribor-3	3.9580	-0.0040	SOFR-3	5.3766	-0.0002
				Euribor-6	3.9530	0.0080	SOFR-6	5.3054	-0.0115
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0797	-0.0039	EUR/JPY	158.87	-0.65	CRB	266.32	-1.30	
USD/JPY	147.15	-0.06	EUR/GBP	0.8572	-0.0005	Gold	2036.30	-5.90	
GBP/USD	1.2595	-0.0038	EUR/CHF	0.9447	-0.0010	Brent	77.20	-0.83	
AUD/USD	0.6552	-0.0068	EUR/SEK	11.3247	0.0159				
USD/CAD	1.3592	0.0055	EUR/NOK	11.7965	0.0428				



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