

Thursday, 23 September 2021

KBC Sunrise Market Commentary

Markets

- Markets went into the Fed policy decision with a **constructive mood** as fears on the fall-out of the Evergrande credit problems eased. Investors showed confidence that the Fed wouldn't spoil the constructive risk sentiment and didn't change their minds even as Powell and Co took an important step toward policy normalization. If economic progress continues as expected, a **moderation in asset purchases might 'soon' be warranted**. Read: to be announced in November. Even as the start and the pace of the reduction hasn't been decided yet, Powell assumes purchases to die out mid next year. Powell repeated that the start of tapering doesn't include any signal on the start of interest rate increases. The projections of the individual governors show that half of the MPC sees a first rate hike (end) 2022, with the median policy rate forecast at 1% in 2023 and 1.75% in 2024. Governors eased growth expectations for this year (5.9% from 7%) but the recovery will stay on track (2022 3.8% from 2.3%). **Inflation was upwardly revised** (4.2% from 3.4% in 2021, 2.2% from 2.1% next year) and is projected to stay above 2% for four consecutive years. Even so, Chair Powell still sees this in line with the 'temporary' narrative. **The market reaction was interesting**. The yield curve showed a 'logical' flattening with the 2-y rising 2.5 bps. Long term yields declined though (-2.2 bps for 10-y, -4.8 bps for 30-y) even as the reduction of asset purchases will go rather fast (+/- 6m). The flattening was driven by lower inflation expectations. Real yields hardly changed. Higher ST yields (temporary?) propelled the dollar. DXY closed at 93.46. EUR/USD dropped below 1.17 (close 1.1687), **but key USD resistance at DXY 93.73 and EUR/USD 1.1664 was left intact**. Equities maintained most of their intraday gains (about 1%).
- Asian risk sentiment this morning remains constructive as fears on Evergrande ease further. The dollar returns part of the post-Fed gain with EUR/USD trying to regain 1.17. Today's calendar is well filled with **preliminary PMI's giving an update on the momentum in global activity**. An, albeit gradual, deceleration in activity might be on the cards. Several central bankers including the Norges bank, the Swiss national Bank, the Bank of England, the Central Bank of Turkey and the South African Reserve bank announce **policy decisions**. The Norges Bank is expected to raise rates by 0.25%. **Most other CB's are expected to keep a wait-and-see stance**. This also applies to the BoE. UK Inflation accelerated in August, but growth is slowing and the BoE probably wants more clarity on the labour market as support programs are phased out. On core interest rate markets, yesterday's reaction to the Fed decision showed that **real rates stay sticky at low levels**. A break of the US 10-y yield north of 1.37% won't be that easy short term. For the German 10-y yield -0.27% remains first upside reference. **The jury is still out for the dollar, but with the Fed's 'new policy path' behind us, the upside drift of USD might ease**. EUR/GBP yesterday tested the 0.8610/15 resistance going into the BOE meeting.

News Headlines

- The **Brazilian central bank raised its policy rate as expected by 100 bps from 5.25% to 6.25%**, the highest level since early 2018 to mid-2019 (6.5%). Since the start of the tightening cycle in March, the BCB added 425 bps. On top, the bank pledged another 100 bps next month in order to bring inflation back to target (3.75% this year & 3.5% in 2022). Inflation currently stands at 9.68% Y/Y (August) with severe drought adding to the global, Covid-generated, price pressure. The BCB's projection point at 8.5% inflation at the end of this year and 3.7% end 2022. The Brazilian real survived the combination Fed/BCB rather well, closing near unchanged at 5.29.
- Polish central banker Kochalski defended the dovish camp inside the MPC**. They put growth above inflation even if the latter will remain above 5% for the remainder of the year. "The decision to tighten monetary policy must not contribute to an excessive risk of disrupting the economic recovery after the pandemic". The **weaker zloty** is often perceived as an argument to flip the balance towards a rate hike as it adds to the sticky inflation, but Kochalski turns the argument around saying it helps the economic recovery which is currently key. EUR/PLN, remains above 4.6 which is the softest zloty level since the end of March.

Graphs



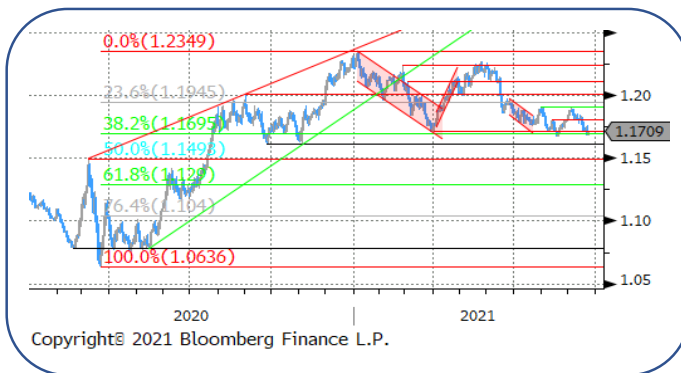
GE 10y yield

German 10-yr yield breaks above -0.35% resistance (38% retracement of May/July decline). ECB slows weekly PEPP purchases in Q4 but delays its post-PEPP strategy to December.



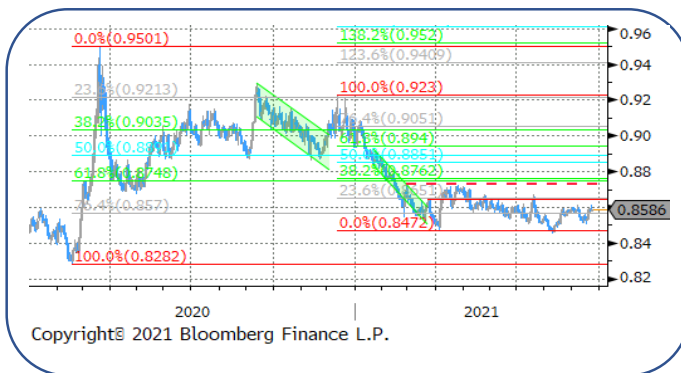
US 10y yield

US 10-yr yield bumps into resistance (1.37%). The Fed pre-announcing the start of tapering even caused a further curve flattening. Persistent low real yields are an obstacle for a sustained further rise in yields at this stage.



EUR/USD

Fortunes for the euro changed after a failed test of EUR/USD 1.17 support. EUR/USD 1.1909 didn't crack going into or after the ECB. The 1.1664 support so far survives the FOMC meeting. Sufficient good news discounted for the USD?



EUR/GBP

EUR/GBP remains stuck within the narrow sideways trading range in place since March.

Calendar & Table

Thursday, 23 September		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Aug)	0.50	0.53
14:30	Initial Jobless Claims	320k	332k
14:30	Continuing Claims	2600k	2665k
15:45	Markit US Manufacturing PMI (Sep P)	61.0	61.1
15:45	Markit US Services PMI (Sep P)	54.9	55.1
15:45	Markit US Composite PMI (Sep P)	--	55.4
17:00	Kansas City Fed Manf. Activity (Sep)	25	29
UK			
10:30	Markit UK PMI Manufacturing SA (Sep P)	59.0	60.3
10:30	Markit/CIPS UK Services PMI (Sep P)	55.0	55
10:30	Markit/CIPS UK Composite PMI (Sep P)	54.6	54.8
13:00	Bank of England Bank Rate	0.10%	0.10%
13:00	BOE Corporate Bond Target (Sep)	20b	20b
13:00	BOE Gilt Purchase Target (Sep)	875b	875b
EMU			
10:00	Markit Eurozone Manufacturing PMI (Sep P)	60.3	61.4
10:00	Markit Eurozone Services PMI (Sep P)	58.5	59
10:00	Markit Eurozone Composite PMI (Sep P)	58.5	59
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Sep P)	61.4	62.6
09:30	Markit Germany Services PMI (Sep P)	60.3	60.8
09:30	Markit/BME Germany Composite PMI (Sep P)	59.2	60
France			
09:15	Markit France Manufacturing PMI (Sep P)	57.0	57.5
09:15	Markit France Services PMI (Sep P)	56.1	56.3
09:15	Markit France Composite PMI (Sep P)	55.7	55.9
Norway			
10:00	Deposit Rates	0.25%	0.00%
Switzerland			
09:30	SNB Policy Rate	-0.75%	-0.75%
09:30	SNB Sight Deposit Interest Rate	-0.75%	-0.75%
Events			
23SEP	Six German Chancellor candidates debate last time ahead of Sept. 26 elections		
10:00	ECB Publishes Economic Bulletin		
10:00	Orban, Pence Headline CEE Demography Forum in Budapest		
19:00	U.S. To Sell USD14 Bln 10-Year TIPS		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1,30	-0,02		US	0,24	0,02	DOW	34258,32	338,48
DE	-0,32	-0,01		DE	-0,71	0,00	NASDAQ	14896,85	150,45
BE	-0,01	-0,01		BE	-0,70	0,00	NIKKEI	29639,4	0,00
UK	0,80	-0,01		UK	0,28	0,00	DAX	15506,74	158,21
JP	0,04	0,00		JP	-0,12	0,00	DJ euro-50	4150,19	52,68
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,38	0,61	0,70	Eonia	-0,4860	0,0000			
5y	-0,26	0,96	0,84	Euribor-1	-0,5610	0,0020	Libor-1	0,0818	0,0000
10y	0,05	1,33	0,99	Euribor-3	-0,5440	0,0020	Libor-3	0,1284	0,0000
				Euribor-6	-0,5230	0,0070	Libor-6	0,1534	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1687	-0,0039		EUR/JPY	128,32	0,24	CRB	221,79	3,47
USD/JPY	109,78	0,55		EUR/GBP	0,8582	-0,0003	Gold	1778,80	0,60
GBP/USD	1,3622	-0,0037		EUR/CHF	1,0826	-0,0004	Brent	76,19	1,83
AUD/USD	0,7247	0,0016		EUR/SEK	10,1681	-0,0245			
USD/CAD	1,2772	-0,0048		EUR/NOK	10,1215	-0,0631			

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