

Sunrise

Friday, 30 September 2022

KBC Sunrise Market Commentary

Markets

- **Higher-than-expected German inflation hit double digits (10.9%) and UK PM Truss defended the lavish fiscal stimulus plan** despite huge market turmoil. Those two themes defined European trading in the way that feels very familiar by now, i.e. a stronger dollar, surging core bond yields and tumbling equities. The latter held for the rest of the day with the EuroStoxx50 closing at a new YtD low (-1.7%). Wall Street finished between 1.5 and 2.8% lower as Fed members including Daly, Mester and Bullard once again made clear that **tightening continues, period**. The USD strengthening however faded during US dealings. Trade-weighted (DXY), the greenback eased from intraday highs of 113.79 to 112.25. EUR/USD and GBP/USD swapped losses for gains to close at 0.981 and 1.11 respectively in what was at least as much (if not more) a **euro and pound rebound** as the dollar dwindling. EUR/GBP tumbled to 0.883. Core bond yields closed below their intraday highs. The European short-end outperformed. The 2y German yield shot up 9 bps after the inflation release but finished 5 bps lower. The 10y only retained 6 bps at a 18 bps intraday rise. The US yield curve flattened with changes between 5.9 bps (2y) and 2.6 bps (30y). UK yields halved gains to a still-sizeable 10.3-14.2 bps in the 2y-10y segment. The 30y rose 3.3 bps. The BoE bought £1.4bn in its emergency Gilt operation.
- The grim US stock session ripples through Asian markets with the biggest losses for Japan (-2.15%). The US dollar appreciates marginally on FX markets. Sterling outperforms after **UK PM Truss and Chancellor Kwarteng will hold emergency talks with the OBR today** before the latter publishes a first draft of fiscal forecasts next week. Markets hope it opens the administration's eyes. Coincidence or not but the idea came after a YouGov poll gave the Labour Party a 33-point lead over the Tories. It's the biggest gap since the nineties. Core bonds in any case cautiously inch higher. Economic data is mixed and limited to unconvincing Chinese official PMIs.
- We keep a close eye at the **European September inflation** figure today. Expectations are for a rise to 9.7%. National readings from Germany and Spain (slowed to 9.3%) yesterday provided contradicting clues. Judging yesterday's market reaction though, we stick to the idea of **short-term consolidation**. Big short positions in core bonds as well as the euro and sterling may also be partially unwound amid quarter-end reshuffling. We still fear for equities though, especially with **Russian president Putin's annexation speech** that is due later today. The EuroStoxx50 risks breaking through support from the downward sloping trendline connecting the January, March and April highs. The S&P500 yesterday re-tested the June lows.

News Headlines

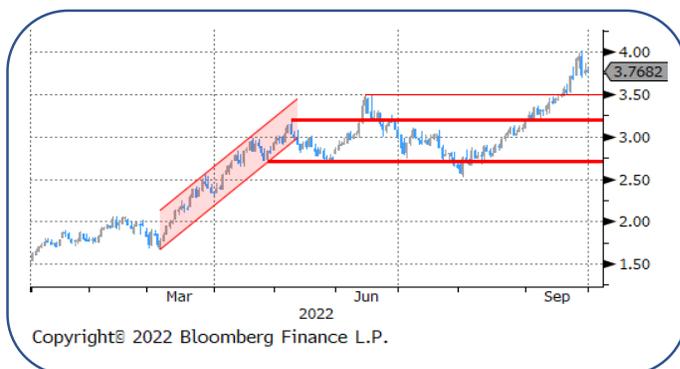
- **The Czech National Bank yesterday as expected left its two week repo rate unchanged at 7.0% in a 5-2 (+75 bps) vote.** The CNB indicates that interest rates are currently at a level that is **dampening domestic demand pressures**. As the CNB stays committed to bring inflation back to the 2.0% target, interest rate are **expected to remain relatively high for some time**. The CNB still expects inflation to potentially reach 20% in the autumn, but forecasts it decline to 2.0% in a year and a half. Long-term price stability is also **contingent on moderate wage bargaining demands and responsible fiscal policy**. In this respect, the CNB Board will further assess data. It will decide at the next meeting **whether rates will remain unchanged or increase**. The Czech National Bank will continue to prevent excessive fluctuations of the koruna (via FX interventions). After testing the EUR/CZK 24.70 barrier earlier in the session, the koruna rebound substantially post-CNB to close at EUR/CZK 24.53.
- **The London Metal Exchange (LME)**, after speculation in the media, in a statement indicated that **is considering a consultation on the ongoing acceptability of Russian metal in the broader physical market**. However, the LME clearly indicated that no decision has yet been taken whether to launch the discussion paper. The statement came after Reuters reported that three sources indicated that the LME was planning to discuss banning new deliveries of Russian metal so its warehouses cannot be used to offload hard-to-sell stock. The debate yesterday triggered some additional volatility in the prices of the likes of aluminium and nickel.

Graphs



GE 10y yield

The ECB ended net asset purchases and lifted rates with a **50 bps inaugural hike and a 75 bps follow-up move**. A similar-sized move in October is in the cards. **Germany's 10-yr yield broke out of the corrective downward trend channel since mid-June and took out the YTD high at 1.93%**. In case of a sustained break, 2.56% serves as the next reference. Short-term though we expect some sideways consolidation.



US 10y yield

After three 75 bps rate hikes, **the Fed moves into (modestly) restrictive territory**, but more rate hikes are needed to slow aggregate demand. After a sharp correction this summer, **the 10y breaks beyond the 3.50% barrier**. With the Fed signalling a prolonged period of restrictive policy, next target at 3.76% was hit quickly thereafter. 4.0% was tested but survives for the time being.



EUR/USD

EUR/USD is in a strong downward trend channel since February. A hawkish ECB did no more than buying the euro some time. The dollar remains the main beneficiary of rising US (real) yields combined with a persistent risk-off context. Geopolitical tensions and the risk of a recession don't help the euro either. The break below 0.9864 opened the way to the psychological 0.95 mark.



EUR/GBP

The Bank of England hiked by 50 bps in September but risks falling behind the curve with **lavish fiscal support**. Markets aggressively repositioned in response. The pound is unable to profit from this increased rate support though with **attention going to yawning deficits and rising risk premia**. EUR/GBP skyrocketed above 0.90. Sterling's faith is sealed if the Truss administration does not pivot on the overambitious fiscal plans.

Calendar & Table

Friday, 30 September		Consensus	Previous
US			
14:30	Personal Income/Spending (Aug)	0.30%/0.20%	0.20%/0.10%
14:30	PCE Deflator MoM/YoY (Aug)	0.10%/6.00%	-0.10%/6.30%
14:30	PCE Core Deflator MoM/YoY (Aug)	0.50%/4.70%	0.10%/4.60%
15:45	MNI Chicago PMI (Sep)	51.8	52.2
16:00	U. of Mich. Sentiment (Sep F)	59.5	59.5
Japan			
01:30	Jobless Rate (Aug)	2.50%A	2.60%
01:30	Job-To-Applicant Ratio (Aug)	1.32A	1.29
01:50	Retail Sales MoM (Aug)	1.40%A/4.10%A	0.80%
01:50	Industrial Production MoM/YoY (Aug P)	2.70%A/5.10%A	0.80%/-2.00%
07:00	Consumer Confidence Index (Sep)	33.3	32.5
07:00	Housing Starts YoY (Aug)	-4.00%	-5.40%
UK			
01:01	Lloyds Business Barometer (Sep)	16A	16
EMU			
11:00	Unemployment Rate (Aug)	6.60%	6.60%
11:00	CPI MoM/YoY (Sep P)	0.90%/9.70%	0.60%/9.10%
11:00	CPI Core YoY (Sep P)	4.70%	4.30%
Germany			
09:55	Unemployment Change (000's) (Sep)	20.0k	28.0k
09:55	Unemployment Claims Rate SA (Sep)	5.50%	5.50%
France			
08:45	CPI EU Harmonized MoM/YoY (Sep P)	-0.10%/6.60%	0.50%/6.60%
Italy			
10:00	Unemployment Rate (Aug)	7.90%	7.90%
11:00	CPI EU Harmonized MoM/YoY (Sep P)	1.70%/9.50%	0.80%/9.10%
Belgium			
11:00	Unemployment Rate (Aug)	--	5.90%
China			
03:30	Composite PMI (Sep)	50.9A	51.7
03:30	Manufacturing PMI (Sep)	50.1A	49.4
03:30	Non-manufacturing PMI (Sep)	50.6A	52.6
03:45	Caixin China PMI Mfg (Sep)	48.1A	49.5
Events			
08:00	Riksbank's Ingves Speech; The Future of Money		
12:00	Riksbank's Jansson Speech; Inflation and Wage Formation		
15:00	Fed's Brainard Speaks at Fed Conference on Financial Stability		
17:00	Fed's Bowman Discusses Large Bank Supervision		
17:30	ECB's Schnabel Speaks		
18:30	Fed's Barkin Discusses the Drivers of Inflation		
22:15	Williams Speaks at Fed Conference on Financial Stability		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.79	0.05		US	4.19	0.06	DOW	29225.61	-458.13
DE	2.18	0.06		DE	1.80	-0.05	NASDAQ	10737.51	-314.13
BE	2.85	0.09		BE	1.88	-0.03	NIKKEI	25891.15	-530.90
UK	4.14	0.13		UK	4.40	0.10	DAX	11975.55	-207.73
JP	0.25	0.00		JP	-0.05	-0.01	DJ euro-50	3279.04	-56.26
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.94	4.29	5.36	Ester	0.6610	-0.0010			
5y	3.03	4.07	5.02	Euribor-1	0.6660	-0.0190	Libor-1	3.1153	0.0000
10y	3.14	3.84	4.48	Euribor-3	1.1600	-0.0330	Libor-3	3.6741	0.0000
				Euribor-6	1.8000	-0.0580	Libor-6	4.1699	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	0.9815	0.0080		EUR/JPY	141.81	1.46	CRB	271.16	-0.66
USD/JPY	144.46	0.30		EUR/GBP	0.8828	-0.0111	Gold	1668.60	-1.40
GBP/USD	1.1117	0.0228		EUR/CHF	0.9573	0.0071	Brent	88.49	-0.83
AUD/USD	0.65	-0.0022		EUR/SEK	10.9496	0.0125			
USD/CAD	1.368	0.0072		EUR/NOK	10.502	0.1179			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

Discover more insights at www.kbceconomics.be

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

