Wednesday, 09 November 2022

KBC Sunrise Market Commentary

Markets

- Markets had to **rely on their own internal dynamics/technical considerations yesterday given the empty eco calendar.** Both US and EMU yields initially hovered close to post-Fed peak levels, but forces of gravity came into play during the US trading and finally inspired some global dovish repositioning. **Markets are still in doubt whether the Fed will be able to continue exclusively prioritizing inflation while plenty of other central bank colleagues already shifted to a more balanced approach** between taming inflation and preserving economic growth. An at that point potential Republican victory in the US mid-term elections maybe also supported the dovish intraday twist as it reduces the probability of more fiscal stimulus. US yields declined between 9.4 bps (5-y) and 4.4 bps (30-y). The $40bn US 3-y Note action attracted solid demand. The German yield curve bull flattened with yields dropping between 3.7 bps (5-y) and 8.2 bps (30-y). EMU swaps slightly outperformed Bunds. After the European close, **ECB Wunsch** said that 'if the economic slowdown is shallow and accompanied by a further rise in inflation & inflation expectations, real rates will have to move above the market consensus. Markets currently see a policy rate peak near 3%. **As was the case over the previous days, the mildly dovish post-Fed/post-Payrolls market tenure provided more relief for equites** with US indices gaining between 1.02% (Dow) and 0.49% (Nasdaq). Admittedly, the end-of-session gain occurred amid **sharp intraday swings.** The 'risk-on' kept **the dollar in the defensive.** DXY closed almost at the 110.59 support (end October low). A break would take some further shine off the US currency. After a hesitant start, EUR/USD fiercely recaptured parity to close at 1.0074. Sterling gained modestly against the dollar (cable close 1.1544), but lost marginally against the euro (close EUR/GBP 0.8726).

- Asian equities show a mixed picture this morning with China and Japan trading in red. Markets don't draw firm conclusions from the outcome of the US mid-term election. **The Democrats have a good chance of maintaining the Senate.** US yields are rising 1-2 bps. The dollar gains marginally (DXY 109.76; EUR/USD 1.0062). The eco calendar is almost empty. Markets will have to continue their **countdown the tomorrow's US CPI release.** After the recent solid performance of CE currencies, we keep an eye at the Hungarian CPI (21% Y/Y) and at the interest rate decision of the **Polish central bank.** Economists are divided between a 25 bps rate hike (to 7%) or an unchanged decision. Core yields probably are capped by recent highs going into the US CPI. EUR/USD 1.0094 resistance is within reach.

News Headlines

- **Chinese consumer inflation** dropped from 2.8% to 2.1% y/y in October, driven amongst others by decelerating food prices from 8.8% to 7%. Core inflation steadied at 0.6% and service prices edged down to 0.4% from 0.5% the month before in a **sign of zero-Covid driven demand pressure.** Highlighting the disinflationary trend in China, producer prices turned negative (-1.3% y/y) for the first time since late 2020. Mining was the biggest drag on the PPI number, faltering 6.7% y/y. It follows declines in global commodity prices including an 18% drop in iron ore. The Chinese yuan eases a tad against the dollar this morning. USD/CNY trades at 7.248, up from 7.23. The intraday cycle/15 year high stands at 7.32.

- The **European Commission will propose changes to the debt rules later today.** The current rules stipulate that euro zone countries must cut debt every year by 1/20th of the excess above 60% of GDP. This has become unrealistic for countries including Italy and Greece which saw debt soaring to 148% and 186% following the pandemic and energy crisis. Instead of a one-size-fits all rule, **each country would agree on its own four-year debt reduction plans** (which may be extended to seven years) with the EC, to be signed of later by other EU finance ministers, officials said. There would be **limits on primary expenditures** though and keeping budget deficits below 3% would still be required. Fines for breaches would be lowered but more easily applied, they added.

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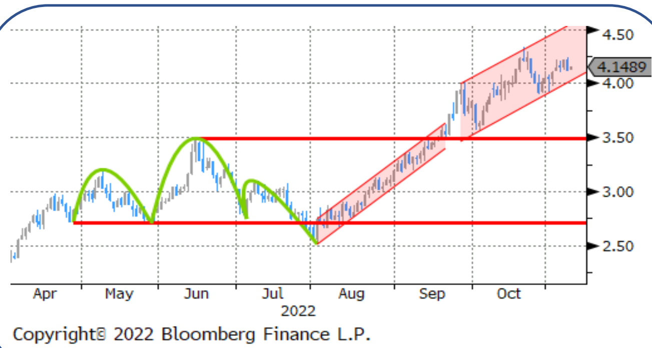
Graphs

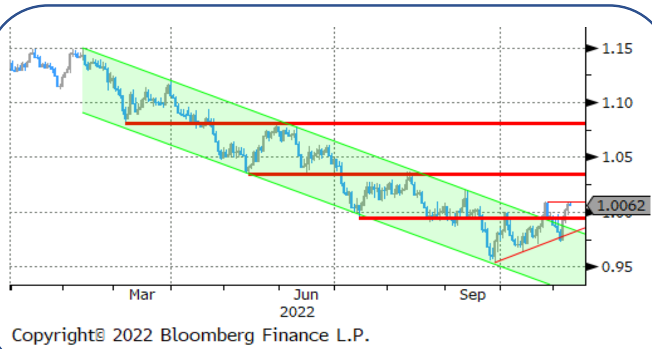
GE 10y yield

The ECB ended net asset purchases and lifted rates by a combined 200 bps since the July meeting. More tightening is underway but the ECB refrained from guiding markets on the size of future hikes. **Germany's 10-yr yield rose to its highest level since 2011 (2.5%) before a correction kicked in. The neckline of the double top formation at 2.14% was tested but survived with ease.**



US 10y yield

The Fed policy rate was lifted by 75 bps to 3.75-4% in November and the central bank's job isn't done yet. But future hikes could be smaller from December or February on, depending on the data. Either way, **the terminal rate is seen higher than projected back in September** (4.5-4.75% early next year). Hikes are complemented by QT ($95bn/month). Market repositioning could allow for some further inversion of the curve.



EUR/USD

USD for the largest part of this year profited from rising US (real) yields in a persistent risk-off context. Geopolitical and European recessionary risks kept EUR in the defensive even as the ECB finally embraced on a tightening cycle. **EUR/USD for a second time this month tries to leave the strong downward trend channel since February. EUR/USD 1.0094 is first intermediate resistance ahead of the key 1.0350.**

EUR/GBP

The UK government had to backtrack on its lavish fiscal spending plans which sent sterling initially tumbling towards the EUR/GBP 0.90+ area. **Yawning twin deficits and rising risk premia will continue to weigh on the UK currency longer term.** In addition, the BoE signaled less rate support than markets currently assume. First resistance is located around 0.89.

Calendar & Table

Wednesday, 9 November		Consensus	Previous
Japan			
00:50	BoP Current Account Adjusted (Sep)	¥670.7bA	-¥530.5b
00:50	Bank Lending Ex-Trusts YoY (Oct)	3.0%A	2.60%
06:00	Eco Watchers Survey Current SA (Oct)	49.9A	48.4
06:00	Eco Watchers Survey Outlook SA (Oct)	46.4A	49.2
China			
02:30	PPI YoY (Oct)	-1.30%A	0.90%
02:30	**CPI YoY (Oct)**	**2.10%A**	**2.80%**
09NOV-15NOV	Money Supply M2 YoY (Oct)	12.00%	12.10%
Hungary			
09:00	**CPI MoM/YoY (Oct)**	**1.60%/21.00%**	**4.10%/20.10%**
Events			
09NOV-10NOV	RBNZ Review of Monetary Policy Implementation		
09:00	Fed's Williams Discuss Risk and Uncertainty		
11:00	ECB's Elderson Speaks		
14:00	BOE's Haskel speaks		
17:00	Fed's Barkin Discusses the Economic Outlook		
19:00	U.S. To Sell USD35 Bln 10-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,12	-0,09		US	4,65	-0,07	DOW	33160,83	333,83
DE	2,28	-0,06		DE	2,32	0,12	NASDAQ	10616,2	51,68
BE	2,86	-0,05		BE	2,21	-0,01	NIKKEI	27716,43	-155,68
UK	3,55	-0,09		UK	3,25	0,02	DAX	13688,75	155,23
JP	0,25	0,00		JP	-0,04	0,01	DJ euro-50	3739,28	30,48
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,03	4,71	4,33	Ester	1,4000	0,0000			
5y	3,01	4,36	4,12	Euribor-1	1,4150	0,0100	Libor-1	3,8551	0,0000
10y	3,06	4,14	3,77	Euribor-3	1,7910	0,0490	Libor-3	4,5573	0,0000
				Euribor-6	2,3160	0,0200	Libor-6	5,0229	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0074	0,0054		EUR/JPY	146,77	-0,11	CRB	284,05	-2,87
USD/JPY	145,68	-0,95		EUR/GBP	0,8726	0,0024	Gold	1716,00	35,50
GBP/USD	1,1544	0,0030		EUR/CHF	0,9929	0,0025	Brent	95,36	-2,56
AUD/USD	0,6507	0,0028		EUR/SEK	10,8288	-0,0317			
USD/CAD	1,3427	-0,0067		EUR/NOK	10,3195	0,0834			

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