

# Sunrise



Monday, 28 November 2022

## KBC Sunrise Market Commentary

### Markets

- On Friday, **US and European bond markets showed a divergent picture as US markets reopened after the Thanksgiving Holiday.** US Treasuries continued to outperform. A disappointing US PMI released earlier last week only reinforced the view that there is a strong enough case for the Fed to slow the pace interest rate hikes to a 50 bps step at the December meeting. US yields in the 2-10-y sector eased 1-2 bps with the 30-y gaining marginally. The US 10-y closed the week at the 3.67% support (recent low). The picture in Europe was different. German yields jumped 8.3 bp (2-y) to 12.4 bps (10-y). **There was not one unequivocal driver. ECB comments (Schnabel, Muller) suggested that the debate on a 50 bps or 75 bps next step isn't really decided yet.** Recent EMU eco data also were slightly better/less worse than expected (including an upward revision to German Q3 GDP to 0.4% Q/Q on Friday). The German 10-y yield closed exactly at 1.97%, returning the neckline that was broken earlier last week. Equities in the US and Europe both closed exactly little changed. The dollar also showed no clear trend. EUR/USD finished the week at 1.0395 with recent peaks at 1.0448 & 1.0479. DXY closed the week at DXY 105.96, with recent correction lows still nearby. Similar story for the EUR/GBP cross rate (close at 0.8599; with key support at 0.8560 still looming).
- This morning, **the growing unrest related the new covid restrictions in China is setting the stage for a risk-off start to the new trading week** as investors ponder the impact on (global) demand. Early indications on Back Friday spending in the US also show a mixed picture. Asian equities mostly trade in negative territory (Nikkei -0.4%) with Chinese indices underperforming (CSI 300 -1.15%; Hang Seng currently -1,7%). US Treasuries remain well bid with yields declining 3/5 bps currently. Despite the risk-off, USD gains remain modest. (DXY 106.25; EUR/USD 1.0365). The yen even outperforms, with USD/JPY (currently 138.3 near the 137.68 support). **China/commodity related currencies underperform (AUD/USD 0.6685, USD/CAD 1.3445) as does the yuan (USD/CNY 7.20, breaking above the 7.17 ST resistance).** Uncertainty on global/Chinese demand is **pushing Bent oil (\$ 81.5 p/b) to the lowest level since January.**
- Later today,** the eco calendar in the US and Europe is thin. We keep an eye at speeches of ECB' Lagarde, Fed Williams and Fed's Bullard as the countdown the December ECB & Fed meetings has started. Core bond yields this morning feel some downward pressure due to the China related risk-off. However, **the upcoming data** (German CPI tomorrow, EMU CPI Wednesday, US consumer confidence (Tuesday), US manf. ISM and PCE deflator (Thursday) and the US payrolls on Friday **probably are more important to shape markets view on the pace of Fed and ECB rate hikes.** Breaking below 3.67%, the US 10-y yield finds next support at 3.55%. The 10-y Bund stays below the 2.0% barrier. The USD performance this morning is far from impressive. Even so, it's probably too early for EUR/USD to return to recent peak levels.

### News Headlines

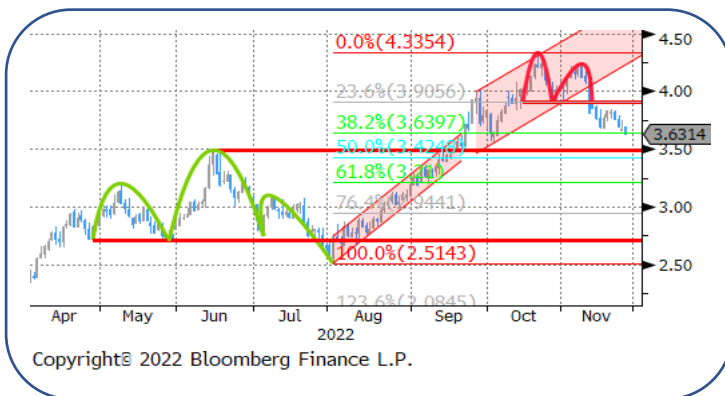
- CNB governor Michl** in his weekly column for Mlada Fronta Dnes **reiterated that stable policy rates are appropriate because growth in the quantity of money is significantly slowing and household consumption declining.** His column referred to several points raised in a speech last week where he focused on long term views one of which is that a strong koruna should become a priority for both the government and the CNB. **Policy rate will stay high during his term** at the helm of the CNB to encourage consumers, businesses and the state to borrow less and save money. He also called on the government to slash the budget deficit, and said **wages could only grow hand in hand with productivity to help bring inflation down to the 2% target.**
- Australian retail sales disappointed in October,** dropping 0.2% M/M vs a 0.5% monthly gain expected. Weakness was broad-based across industries with food retailing being the positive outlier. Higher interest rates and faster inflation are effecting Australian households. Part of tourism spending is also back done offshore as borders reopened..

# 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. Losing the neckline of the double top formation at 1.95% calls for a return towards the 1.82%/1.77% support zone**



## US 10y yield

The Fed policy rate entered restrictive territory, but the central bank's job isn't done yet. The policy rate is expected to peak above 5% early next year and remain above a neutral 2.5% over the policy horizon. **A below-consensus CPI print strengthened some Fed members call to slow down the tightening pace, triggering a strong correction. The move below the neckline of the double top formation at 3.91% suggests a return to 3.64%/3.55% in first instance.**



## 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. **But as dollar fatigue kicked in, EUR/USD finally left the strong downward trend channel since February.** After a first failed attempt, the pair is again forcing a break through resistance around **1.0341/50/68.**



## EUR/GBP

The new UK government's fiscally conservative approach brought calm to the market, sterling included. **But still-yawning twin deficits and rising risk premia will continue to weigh on the UK currency longer term.** The Bank of England stepped up its tightening with a 75 bps rate hike, **but warned simultaneously that UK money market expectations about peak cycle are way too aggressive.** EUR/GBP 0.856 serves as important support.

# Calendar & Table

Monday, 28 November		Consensus	Previous
<b>US</b>			
16:30	Dallas Fed <u>Manf. Activity</u> (Nov)	-22.0	-19.4
<b>UK</b>			
12:00	CBI Total Dist. Reported Sales (Nov)	--	0
12:00	CBI Retailing Reported Sales (Nov)	2	18
<b>EMU</b>			
10:00	M3 Money Supply YoY (Oct)	6.1%	6.30%
<b>Events</b>			
00:00	RBA's Lowe Senate Testimony		
09:00	ECB's Knot Speaks		
15:00	<a href="#">ECB's Lagarde Speaks</a>		
18:00	<a href="#">Fed's Williams Speaks to The Economic Club of New York</a>		
18:00	Fed's Bullard Takes Part in MarketWatch Live Event		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3,68	-0,02	US	4,45	-0,02	DOW	34347,03	152,97	
DE	1,97	0,12	DE	2,20	0,08	NASDAQ	11226,36	-58,96	
BE	2,55	0,14	BE	2,20	0,11	NIKKEI	28162,83	-120,20	
UK	3,12	0,08	UK	3,29	0,08	DAX	14541,38	1,82	
JP	0,26	0,00	JP	-0,02	0,00	DJ euro-50	3962,41	0,42	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,81	4,36	4,19	Ester	1,4030	-0,0020	Libor-1	4,0547	0,0256
5y	2,70	3,94	3,86	Euribor-1	1,4760	0,0140	Libor-3	4,7339	-0,0024
10y	2,67	3,66	3,35	Euribor-3	1,9220	0,0140	Libor-6	5,2187	0,0361
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0395	-0,0015	EUR/JPY	144,58	0,27	CRB	273,25	-3,62	
USD/JPY	139,19	0,65	EUR/GBP	0,8599	0,0006	Gold	1768,80	8,40	
GBP/USD	1,2092	-0,0021	EUR/CHF	0,9832	0,0010	Brent	83,63	-1,71	
AUD/USD	0,6751	-0,0013	EUR/SEK	10,849	0,0172				
USD/CAD	1,338	0,0043	EUR/NOK	10,2681	-0,0473				

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