

Sunrise



Moving forward together.

Wednesday, 17 January 2024

KBC Sunrise Market Commentary

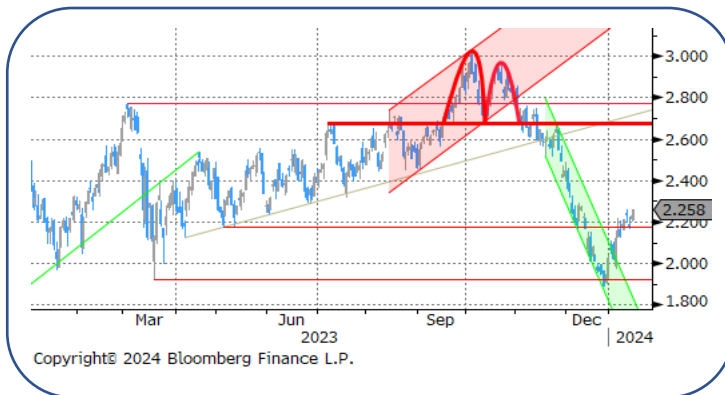
Markets

- US yields yesterday started a catching up move after the rise in Germany on Monday.** Contrary to last week, a poor NY Empire manufacturing survey this time was no pretext to push yields back lower. On the contrary, US yields were propelled higher by **comments of Fed's Waller** as he provided a detailed analysis of the Fed's rate strategy going forward. Waller acknowledged that the pieces are falling in place for the Fed to gradually start cutting rates this year. However, **the process should be deployed 'methodically and carefully'**. In this respect, he tempered markets' aggressive rate cut expectations. **"With economic activity and labor markets in good shape and inflation coming down gradually to 2%, I see no reason to move as quickly or cut as rapidly as in the past"**, he was quoted. He also indicated that it is reasonable to start thinking about slowing the pace of the balance sheet runoff. **US yields extended their intra-day rise post Waller**, closing between 7.5 bps (2-y) and 12 bps (30-y) higher. Spill-overs from the US also help German yields back into positive territory. In a steepening move, the 2-y yield closed little changed, but the 30-y added 3.0 bps. Equities stayed in the defensive (S&P -0.37%). The rise in US real yields also supported the dollar. DXY set a now 2024 top (close 103.35). EUR/USD extensively tested the 1.0877 support (close 1.0875).
- This morning**, the combination of higher US yields and poor Chinese data (cf infra) is causing an outright risk-off positioning on Asian market. The dollar profits. EUR/USD declines further to 1.086. USD/JPY extends its sharp rally (USD/JPY 147.75). US yields maintain yesterday's rise. **Later today**, the **US December retail sales** are taking center stage. Monthly sales growth is expected at 0.4% M/M (0.2% for the control group). We look out whether markets keep Fed's Waller's assessment in mind that there is no reason to rush to aggressive rate cuts as US activity data continue to show resilience. Of course, the risk-off sentiment might hamper a further rise in (US) yields. Even so, the US 10-y yield sustainably returning above 4.10% indicates that the bottoming out process is finding more solid ground. **The USD momentum is also improving further.** EUR/USD 1.0724 (Dec low) is next target on the charts. This morning, the **UK inflation brought a material upward surprise**, suggesting that there is still a lot of work to do for the BoE. Headline inflation rose 0.4% M/M and 4.0% Y/Y (from 3.9%). Core inflation was unchanged at 5.1% (VS 4.9% expected). Services inflation also remains stubbornly high at 6.4% (from 6.3%). The report clearly shows that any speculation on the time of BoE rate cuts is very premature. Sterling rebounds after the data. EUR/GBP drops from 0.8615 back to the 0.86 big figure.

News & Views

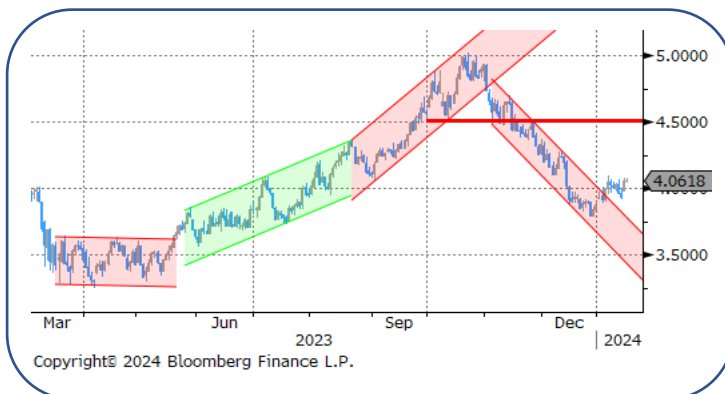
- China's economic growth hit the 5% target in 2023.** Official numbers released this morning showed the economic number two in the world expanding 5.2% y/y while ending the year with 1% quarterly growth. Hitting the government target was made easier by 2022's low comparison base. Separate December data indeed show the **Chinese economy is still struggling to recover** from a housing and consumer confidence slump. Residential property sales fell 6% for the whole year compared to 2022 and home prices declined at the fastest monthly rate (-0.45%) since 2015. **Retail sales came in at a disappointing 7.2%.** In addition, the jobless rate for the first time in five months picked up in December, from 5% to 5.1%. Industrial production extended a recovery that began early last year (4.6% YtD y/y) while fixed investments showed tentative signs of bottoming out after a year's long decline. They are only **faint spots that won't ease calls for additional fiscal stimulus**, especially as the government is rumoured to set a growth target between 4.5-5% for this year at the March National People convention. Monetary support is also seen as upcoming, even as the PBOC earlier this week defied expectations for a 10 bps cut to its one-year lending facility rate. China's yuan is holding steady after the publication of the figures. USD/CNY is testing resistance at 7.20.
- Early indicators from a **Swedish** private data company showed that **housing construction started weakening again towards the end of 2023.** Coming ahead of official data, the series showed new home construction fell by 4.7% m/m in December while readings of the previous months were revised lower. That brings the total decline from the peak in August 2021 to 68%. The numbers followed a couple of months which suggested the market was more or less stabilizing. Swedish housing faced a deep rout after the central bank sharply raised interest rates to fight inflation. Some 75% of homeowners have mortgages with variable rates, leading to a fast pass-through of monetary policy.

Graphs



GE 10y yield

Huge December bond rally on goldilocks scenario: avoiding a recession while the disinflationary process allows central bankers to pivot away from rate hikes to rate cuts. The **German 10-yr yield tested 2023 low at 1.92%**. ECB members push back against aggressive market pricing (150 bps cumulative rate cuts over 2024 and first 25 bps as early as April. Markets reluctantly pick up the message. **Structurally, we think the bond rally went too far.**



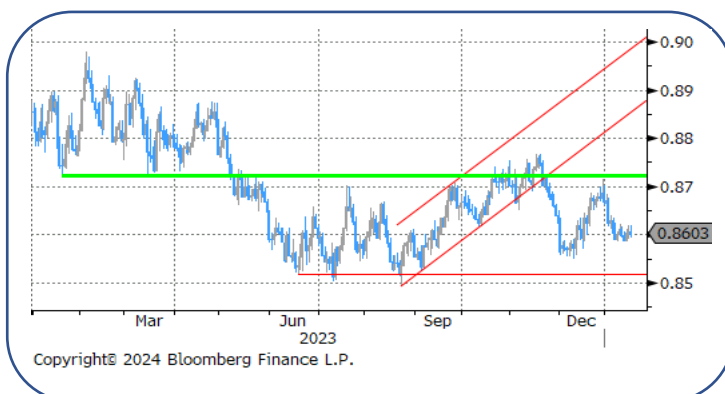
US 10y yield

The Fed's December gathering was a U-turn. Powell didn't fight market positioning with the updated FOMC dots pencilling in 75 bps of rate cuts this year. Market currently discount double that amount, starting the cutting the cycle in March. Market focus might switch from inflation to activity data. The December low at 3.78% is first (weak) support. **A sustained return above 4% is needed to change the technical picture.**



EUR/USD

The dollar lost out during the core bond rally as the Fed is more likely to start with policy rate cuts than the ECB, taking away interest rate support. Last year's high at 1.1276 is next important resistance for EUR/USD. A change of dynamics on bond markets is needed to improve the dollar's prospects.



EUR/GBP

Going nowhere. Extremely narrow trading range defined by 0.8493 and 0.8768 in place since May. Bank of England faces the most daunting challenge given more subdued eco outlook and higher inflation compared with the EU and the US. **Erring on the dovish (monetary policy) side could translate in a weaker UK currency,** bringing EUR/GBP back in the early 2023 range, roughly between 0.8750 and 0.90.

Calendar & Table

Wednesday, 17 January		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	9.90%
14:30	New York Fed Services Business Activity (Jan)	--	-14.6
14:30	Retail Sales Advance MoM (Dec)	0.40%	0.30%
14:30	Retail Sales Ex Auto MoM (Dec)	0.20%	0.20%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.30%	0.60%
14:30	Retail Sales Control Group (Dec)	0.20%	0.40%
14:30	Import Price Index MoM/YoY (Dec)	-0.50%/-2.00%	-0.40%/-1.40%
14:30	Import Price Index ex Petroleum MoM (Dec)	-0.10%	0.20%
14:30	Export Price Index MoM/YoY (Dec)	-0.70%/-0.70%	-0.90%/-5.20%
15:15	Industrial Production MoM (Dec)	-0.10%	0.20%
15:15	Capacity Utilization (Dec)	78.70%	78.80%
15:15	Manufacturing (SIC) Production (Dec)	0.00%	0.30%
16:00	NAHB Housing Market Index (Jan)	39	37
UK			
08:00	CPI MoM/YoY (Dec)	0.20%/3.80%	-0.20%/3.90%
08:00	CPI Core YoY (Dec)	4.90%	5.10%
08:00	CPI Services YoY (Dec)	6.10%	6.30%
08:00	CPIH YoY (Dec)	4.00%	4.20%
08:00	RPI MoM/YoY (Dec)	0.40%/5.10%	-0.10%/5.30%
08:00	RPI Ex Mort Int.Payments (YoY) (Dec)	3.90%	4.10%
08:00	PPI Output NSA MoM/YoY (Dec)	-0.20%/0.40%	-0.10%/-0.20%
08:00	PPI Input NSA MoM (Dec)	-0.60%/-1.90%	-0.30%/-2.60%
10:30	House Price Index YoY (Nov)	--	-1.20%
EMU			
11:00	CPI MoM/YoY (Dec F)	0.20%/2.90%	0.20%/2.90%
11:00	CPI Core YoY (Dec F)	3.40%	3.40%
China			
02:30	New Home Prices MoM (Dec)	-0.45%A	-0.37%
03:00	GDP SA QoQ/YoY (4Q)	1.00%A/5.20%A	1.50%R/4.90%
03:00	GDP YTD YoY (4Q)	5.20%A	5.20%
03:00	Industrial Production YoY/YTD YoY (Dec)	6.80%/4.60%A	6.60%/4.30%
03:00	Industrial Production YoY (Dec)	6.80%A	6.60%
03:00	Fixed Assets Ex Rural YTD YoY (Dec)	3.00%A	2.90%
03:00	Property Investment YTD YoY (Dec)	-9.60%A	-9.40%
03:00	Residential Property Sales YTD YoY (Dec)	-6.00%A	-4.30%
03:00	Retail Sales YoY/YTD YoY (Dec)	7.40%A/7.20%A	10.10%/7.20%
03:00	Surveyed Jobless Rate (Dec)	5.10%A	5.00%
Events			
Q4 earnings	Charles Schwab (bef-mkt), Alcoa (bef-mkt) ...		
09:10	Riksbank's Breman speech on monetary policy		
09:35	ECB's Vastle, Hungary's Virag Speak		
10:15	ECB's Simkus Speaks		
12:30	ECB's Vujcic Speaks		
13:15	ECB's Knot speaks at WEF in Davos		
15:00	Fed's Barr Speaks at Conference on Cyber Risk		
15:00	Fed's Bowman Speaks About Future of Bank Capital Reform		
16:15	ECB's Lagarde in Davos		
19:30	Bundesbank Chief Nagel Speaks in Davos		
19:00	U.S. To Sell USD13 Bln 20-Year Bond		
20:00	Federal Reserve Releases Beige Book		
21:00	Fed's Williams Speaks at NY Fed Event		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4,06	0,12		US	4,22	0,08		DOW	37361,12	-231,86
DE	2,26	0,02		DE	2,60	0,00		NASDAQ	14944,35	-28,41
BE	2,79	0,03		BE	2,65	0,03		NIKKEI	35477,75	-141,43
UK	3,80	0,00		UK	4,16	0,00		DAX	16571,68	-50,54
JP	0,61	0,01		JP	0,03	0,01		DJ euro-50	4446,51	-8,17
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	2,70	3,80	3,83	Ester	3,9050	0,0030				
5y	2,59	3,66	3,58	Euribor-1	3,8940	0,0260		SOFR-1	5,3343	0,0022
10y	2,65	3,67	3,58	Euribor-3	3,8940	-0,0340		SOFR-3	5,3120	0,0115
				Euribor-6	3,8670	-0,0070		SOFR-6	5,1322	0,0467
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,0875	-0,0075		EUR/JPY	160,06	0,46		CRB	264,30	-0,08
USD/JPY	147,19	1,46		EUR/GBP	0,8606	0,0002		Gold	2030,20	-21,40
GBP/USD	1,2637	-0,0090		EUR/CHF	0,9370	-0,0001		Brent	78,29	0,14
AUD/USD	0,6584	-0,0076		EUR/SEK	11,3544	0,0494				
USD/CAD	1,3495	0,0067		EUR/NOK	11,3842	0,0464				