

## Sunrise



Moving forward together.

Friday, 19 January 2024

# KBC Sunrise Market Commentary

## Markets

- US and European yields yesterday maintained Wednesday's gains. Data were mostly 'second tier' but supported **the picture of a resilient US economy**. Building permits and housing starts were better than expected. **Weekly US jobless claims** at 187k even printed **at a historically very low level**. The Philly Fed Business outlook also improved, admittedly less than hoped for. **Atlanta president Fed's Bostic**, usually not considered as a hawk within the MPC, joined recent comments **advocating patience for the Fed to embark for the upcoming easing cycle**. He first wants to have a clearer view on the potential impact of political uncertainty in the US and global geopolitical tensions and more evidence that inflation is on track to reach the 2% target. Based on current information, Bostic sees a first Fed rate cut in the Q3. **The US yield steepened** with the 2-y -0.8 bps but the long end adding 5.4 bps (30-y). The Minutes of the December ECB meeting also showed **discomfort within the ECB on markets' aggressive rate cut bets**. The ECB in particular wants more clarity that wage growth slows enough to allow inflation to ease to the 2% target. **The German yield curve showed a similar pattern compared to the US** with the 2-y declining 1.2 bps while the 30-y rose 4.9 bps. **At 2.35%, the German 10-y yield surpassed the 38% retracement level of the October/December decline. If confirmed, this ratifies a the bottoming out pattern**. The rise in (LT) yields this time had no negative impact on equities. Amongst others, positive headlines from the chip sector (TSMC) supported tech stocks. The Nasdaq added 1.35%. The Eurostoxx 50 gained 1.13%. The dollar also maintained Wednesday's gains, but for now not much more than that (DXY 103.54, EUR/USD 1.0876). **Sterling remained well bid**. EUR/GBP dropped to 0.856.
- Asian equities this morning mostly join the rebound on WS yesterday, China again being a notable exception to the rule. US yields this morning again add about 2 bps. The dollar trades little changed (EUR/USD 1.088). **The yen continues to underperform** (USD/JPY 148.7). Japanese national inflation data (CPI ex fresh food at 2.3% from 2.5%) eased as expected, further allowing the BoJ to maintain its wait-and-see approach at next week's meeting. After recent fast decline of the yen, **Fin Min Suzuki restarted verbal interventions**, warning the government is closing monitoring the FX market. **Later today**, the calendar is thin. **Michigan consumer confidence** is expected to improve (slightly) (70.1 from 69.7). Interesting to see consumers' assessment in the wake of strong holiday retail sales. Also keep a close eye at inflation expectations. We expect no big moves in yields. The bottoming out process is gaining credence. A constructive risk sentiment suggests it might be a bit too early for the dollar to start a new upleg. This morning, UK retail sales (ex fuel) dropped 3.3% M/M, much more than expected, giving a conflicting message after stronger than expected CPI earlier this week. EUR/GBP in a first reaction jumps from 0.857 to 0.858.

## News & Views

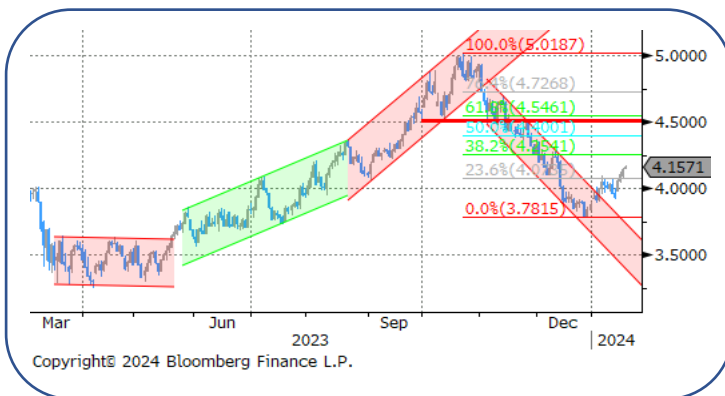
- Poland and the European Commission are looking for ways to unlock funds totaling over €100bn even if judicial reforms get vetoed by Polish president Duda**. The new pro-European Tusk government pledged to meet the EC's conditions to release €76.5bn in regular EU funds and €35.4bn in post-pandemic recovery funds. But in proposing the needed reforms, they are likely to be held back by Duda, a PiS nominee in office until 2025. The president already used his veto powers in other matters. Especially for the recovery funds, time is of the essence. Poland needs to access them before they expire in 2026. The country has already requested €7bn and hopes to receive a total of €23bn this year. The topic is politically sensitive. Hungary is also required to implement reforms to address graft and rule of law concerns. An advisor to PM Orban already accused the EU of using double standards.
- Germany's construction union has demanded a monthly wage increase of €500 for its 930 000 workers** ahead of talks with employers due to start February 22. **That would lift wages as much as 21% in what could potentially worry the ECB** that fast growing wages are not easing enough just yet. President Lagarde at the WEF earlier this week singled out wages as one of the key factors they are looking at before concluding that inflation is on a sustained trend downwards. The huge pay demand comes as real wages declined rapidly since the last collective wage bargaining agreement in 2021. With increases back then ranging from 6.2-8.5%, inflation in 2022 (7.9%) and 2023 (5.9%) hollowed everything and more out in the subsequent years.

# Graphs



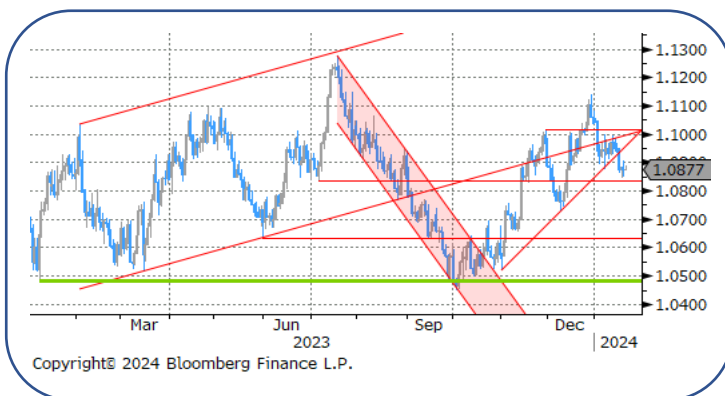
## GE 10y yield

**Huge December bond rally on goldilocks scenario:** avoiding a recession while the disinflationary process allows central bankers to pivot 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 cuts over 2024, start in April). Markets are gradually picking up the message with the 10-y regaining the 38% retracement level (2.33%) of the October/December decline.



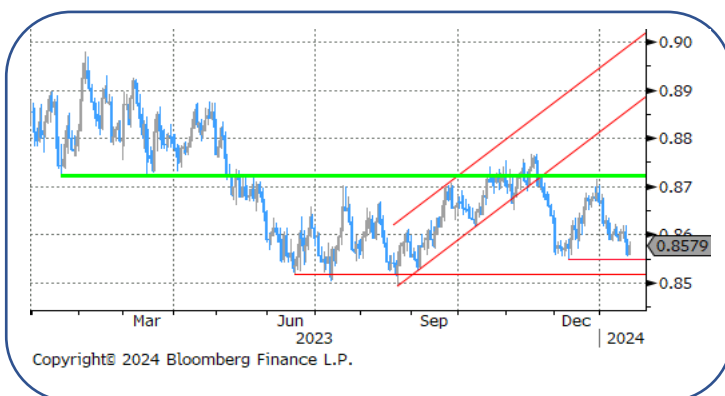
## US 10y yield

**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

| Friday, 19 January |   | Consensus           | Previous           |
|--------------------|---|---------------------|--------------------|
| <b>US</b>          |   |                     |                    |
| 16:00              | <b>U. of Mich. Sentiment (Jan P)</b>                              | <b>70.1</b>         | <b>69.7</b>        |
| 16:00              | U. of Mich. Expectations (Jan P)                                  | 67.0                | 67.4               |
| 16:00              | U. of Mich. Current Conditions (Jan P)                            | 73.0                | 73.3               |
| 16:00              | U. of Mich. 1 Yr Inflation (Jan P)                                | 3.10%               | 3.10%              |
| 16:00              | U. of Mich. 5-10 Yr Inflation (Jan P)                             | 3.00%               | 2.90%              |
| 16:00              | Existing Home Sales MoM/Total (Dec)                               | 0.30%/3.83m         | 0.80%/3.82m        |
| 22:00              | Net Long-term TIC Flows (Nov)                                     | --                  | \$3.3b             |
| <b>Canada</b>      |   |                     |                    |
| 14:30              | Retail Sales MoM (Nov)  | 0.00%               | 0.70%              |
| 14:30              | Retail Sales Ex Auto MoM (Nov)                                    | -0.10%              | 0.60%              |
| <b>Japan</b>       |   |                     |                    |
| 00:30              | <b>Natl CPI YoY (Dec)</b>   | <b>2.60%A</b>       | <b>2.80%</b>       |
| 00:30              | Natl CPI Ex Fresh Food YoY (Dec)                                  | 2.30%A              | 2.50%              |
| 00:30              | Natl CPI Ex Fresh Food, Energy YoY (Dec)                          | 3.70%A              | 3.80%              |
| 05:30              | Tertiary Industry Index MoM (Nov)                                 | -0.70%A             | -0.20%R            |
| <b>UK</b>          |   |                     |                    |
| 08:00              | Retail Sales Inc Auto Fuel MoM/YoY (Dec)                          | -0.50%/1.10%        | 1.30%/0.10%        |
| 08:00              | <b>Retail Sales Ex Auto Fuel MoM/YoY (Dec)</b>                    | <b>-0.70%/1.40%</b> | <b>1.30%/0.30%</b> |
| <b>Germany</b>     |   |                     |                    |
| 08:00              | PPI MoM/YoY (Dec)   | -0.40%/-8.00%       | -0.50%/-7.90%      |
| <b>Events</b>      |   |                     |                    |
| Q4 earnings        | Schlumberger (13:00) ...  |                     |                    |
| 11:00              | <b>ECB's Lagarde, IMF's Georgieva, Germany's Lindner in Davos</b> |                     |                    |
| 14:30              | <b>Fed's Goolsbee Speaks on CNBC</b>                              |                     |                    |
| 17:15              | <b>Fed's Daly Speaks on Fox Business</b>                          |                     |                    |
| 19:00              | Fed's Barr Speaks About Bank Regulation                           |                     |                    |
| 22:15              | <b>Fed's Daly Speaks in Fireside Chat</b>                         |                     |                    |

| 10-year    | Close  | -1d     | 2-year     | Close     | -1d     | Stocks      | Close    | -1d    |         |
|------------|--------|---------|------------|-----------|---------|-------------|----------|--------|---------|
| US         | 4,14   | 0,04    | US         | 4,35      | -0,01   | DOW         | 37468,61 | 201,94 |         |
| DE         | 2,35   | 0,03    | DE         | 2,69      | -0,01   | NASDAQ      | 15055,65 | 200,03 |         |
| BE         | 2,99   | 0,03    | BE         | 2,72      | -0,01   | NIKKEI      | 35963,27 | 497,10 |         |
| UK         | 3,93   | -0,05   | UK         | 4,30      | -0,08   | DAX         | 16567,35 | 135,66 |         |
| JP         | 0,67   | 0,02    | JP         | 0,04      | 0,00    | DJ euro-50  | 4453,05  | 49,97  |         |
| IRS        | EUR    | USD     | GBP        | EUR       | -1d     | -2d         | USD      | -1d    | -2d     |
| 3y         | 2,80   | 3,93    | 4,00       | Ester     | 3,9070  | 0,0030      |          |        |         |
| 5y         | 2,69   | 3,78    | 3,73       | Euribor-1 | 3,8690  | -0,0060     | SOFR-1   | 5,3322 | -0,0035 |
| 10y        | 2,73   | 3,76    | 3,70       | Euribor-3 | 3,9700  | 0,0670      | SOFR-3   | 5,3130 | -0,0065 |
|            |        |         |            | Euribor-6 | 3,9280  | 0,0660      | SOFR-6   | 5,1564 | -0,0144 |
| Currencies | Close  | -1d     | Currencies | Close     | -1d     | Commodities | Close    | -1d    |         |
| EUR/USD    | 1,0876 | -0,0007 | EUR/JPY    | 161,15    | -0,09   | CRB         | 265,46   | 2,42   |         |
| USD/JPY    | 148,16 | 0,00    | EUR/GBP    | 0,8560    | -0,0025 | Gold        | 2021,60  | 15,10  |         |
| GBP/USD    | 1,2706 | 0,0030  | EUR/CHF    | 0,9442    | 0,0035  | Brent       | 79,10    | 1,22   |         |
| AUD/USD    | 0,6573 | 0,0021  | EUR/SEK    | 11,4052   | 0,0368  |             |          |        |         |
| USD/CAD    | 1,3487 | -0,0019 | EUR/NOK    | 11,4521   | 0,0134  |             |          |        |         |

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