

Sunrise



Moving forward together.

Tuesday, 23 January 2024

KBC Sunrise Market Commentary

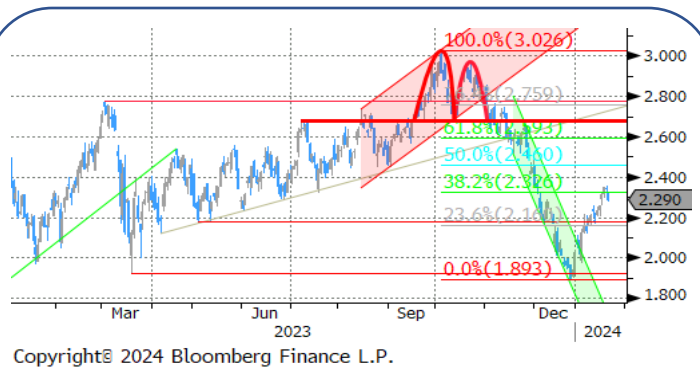
Markets

- The Bank of Japan kept its monetary policy unchanged this morning** with a -0.1% policy rate and a 10-yr JGB target with a “soft” upper bound of 1%. In its new policy forecasts, the BoJ kept its inflation forecast for the current fiscal year unchanged at 2.8%, **while lowering it from 2.8% to 2.4% for the fiscal year starting April 2024** (especially because of declining oil prices) **and slightly increasing the one for fiscal year 2025 from 1.7% to 1.8%**. Risks to the forecasts are **“generally balanced”** over the policy horizon whereas the BoJ previously suggested that the 2025 projection was skewed to the downside. The outcome of **spring wage talks** (shunto) seems to be the pivotal moment for the BoJ to whether or not proceed (more rapidly) with its policy normalization process. The BoJ’s wants more signs on the risks of a wage-price spiral before acting. **The Japanese central bank pencils a growth path of 1.8%-1.2%-1% for fiscal year 2023-2025** compared with 2%-1%-1% in October. The outcome of the meeting was as broadly expected and doesn’t impact Japanese bond markets. **The yen initially prevented more losses, but this was more thanks to the Friday-Monday comeback of core bonds rather than with the BoJ outcome.** It even started appreciating a bit during BoJ governor Ueda’s press conference as he said to mull if negative rates should be kept if the price goal is in sight. The currency is nevertheless in desperate need of some firmer backing. USD/JPY rose towards the 148-area prompting a first **FX intervention warning** by Fin Min Suzuki on Friday. End 2022 and end 2023, the USD/JPY 150-zone has proven critical resulting in effective interventions (2022) and significant verbal warnings (2023).
- Today’s eco calendar remains rather soft** ahead of EMU January PMI’s (tomorrow), 4th quarter US GDP data and the ECB policy meeting (both on Thursday) later this week. Blackout periods hold central bankers back from commenting, though the ECB with its quarterly **Bank Lending Survey** still publishes a key piece of information today. Other things to watch are the **January Richmond Fed Manufacturing** index in the US and **EMU consumer confidence**. The US Treasury starts its end-of-month refinancing operation with a **\$60bn 2-yr Note auction** while **Q4 earnings season** gets more and more traction with Netflix today’s highlight after US close. **Investors since Friday turned to a more neutral approach** going into key ECB and Fed (next week) meetings after scaling back end 2023 aggressive policy rate cut bets. We nevertheless think that too much policy easing is still discounted. **In that same move, the dollar gives away some ground (EUR/USD 1.0910) while stock markets flourish.** Both the US Dow Jones and S&P 500 yesterday closed at record levels for a second straight session.

News & Views

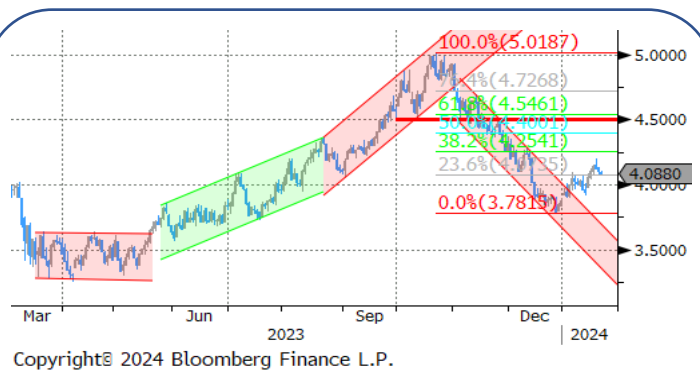
- Chinese authorities are considering a package of measures to stabilize the slumping stock market**, Bloomberg reported citing people familiar with the matter. Policymakers are said **seeking to mobilize about 2 trillion yuan**; mainly from **offshore accounts of Chinese state-owned enterprises**, as part of a **stabilization fund to buy shares onshore through the Hong Kong exchange link**. Officials also are said to have earmarked **at least CNH 300bn of local funds to invest in onshore shares**. Other additional measures might still be added to the plans and concrete steps might be announced as soon as this week. The ‘plans’ are aimed at restoring confidence as Chinese equity markets are under heavy selling pressure with the CSI 300 touching the lowest level in about 5-years. The CSI 300 reversed an earlier loss, but gains currently are still very modest at +0.5%.
- According to a survey of National Australia Bank, **business conditions softened further in December from 9 to 7. Business confidence still improved from -8 to -1.** However, especially subseries on prices and costs have eased substantially compared to the previous month. Labour costs eased from 2.3% Q/Q to 1.8% Q/Q. purchase costs slowed from 2.5% to 1.6% while price growth for final products declined to 0.9% from 1.2%. Capacity utilization also eased from 83.6% to 82.7%. **Indications on price growth should give the Reserve Bank of Australia some comfort as it currently maintains a wait-and-see approach after raising the policy rate to 4.35%.**

Graphs



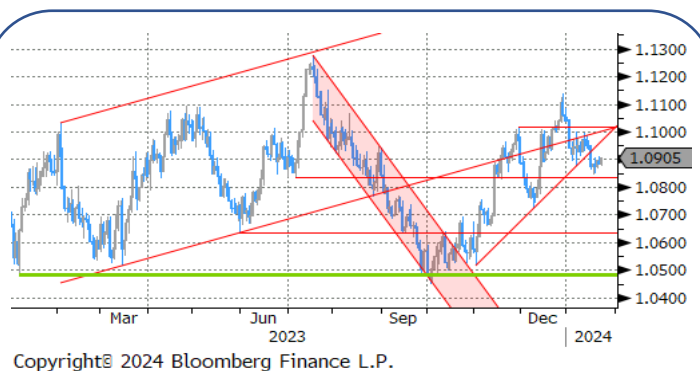
GE 10y yield

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 the 2023 low**. ECB members push back against aggressive market pricing with president Lagarde suggesting summer might be the right time to start cutting rates. **Bond yields rebounded since the turn of the year, with first important resistance at 2.33% broken.**



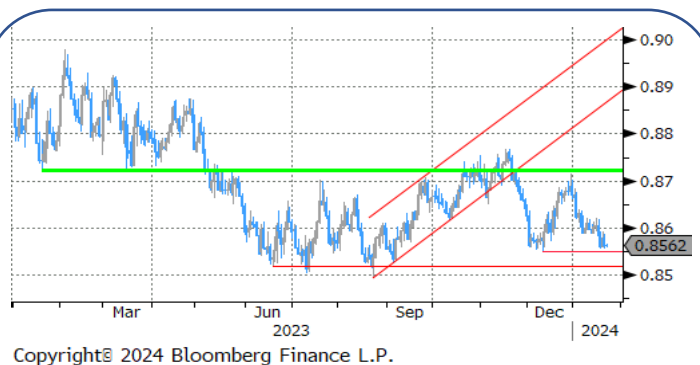
US 10y yield

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/May. Market focus might switch from inflation to activity data. The **return above 4% is made the technical picture more neutral.**



EUR/USD

The dollar lost out during the end of 2023 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 remained out of reach. The change of dynamics on bond markets improved the dollar's prospects with EUR/USD trading back below 1.10. The Q4 2023 uptrend is morphing into more sideways trading.



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

Tuesday, 23 January		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Jan)	--	6.3
16:00	Richmond Fed Manufact. Index (Jan)	-6	-11
16:00	Richmond Fed Business Conditions (Jan)	--	0
Japan			
23JAN	BOJ Policy Balance Rate	-0.10%A	-0.10%
23JAN	BOJ 10-Yr Yield Target	0.00%A	0.00%
23JAN	BOJ CPI Current Forecast (1Q)	2.80%A	2.80%
23JAN	BOJ CPI Current Forecast +1 (1Q)	2.40%A	2.80%
23JAN	BOJ CPI Current Forecast +2 (1Q)	1.80%A	1.70%
23JAN	BOJ GDP Current Forecast (1Q)	1.80%A	2.00%
23JAN	BOJ GDP Current Forecast +1 (1Q)	1.20%A	1.00%
23JAN	BOJ GDP Current Forecast +2 (1Q)	1.00%A	1.00%
UK			
08:00	Public Finances (PSNCR) (Dec)	--	12.5b
08:00	PSNB ex Banking Groups (Dec)	14.1b	14.3b
EMU			
16:00	Consumer Confidence (Jan P)	-14.3	-15
Events			
Q4 earnings	Procter & Gamble (bef-mkt), Halliburton (bef-mkt), 3M (bef-mkt), Netflix (22:00) ...		
10:00	ECB Bank Lending Survey		
19:00	U.S. To Sell USD60 Bln 2-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.11	-0.02		US	4.39	0.01	DOW	38001.81	138.01
DE	2.29	-0.05		DE	2.69	-0.05	NASDAQ	15360.29	49.32
BE	2.92	-0.05		BE	2.72	-0.05	NIKKEI	36517.57	-29.38
UK	3.90	-0.02		UK	4.31	-0.01	DAX	16683.36	128.23
JP	0.67	0.01		JP	0.05	0.02	DJ euro-50	4480.32	31.49
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.80	3.95	4.02	Ester	3.9020	-0.0020			
5y	2.67	3.77	3.75	Euribor-1	3.8590	0.0050	SOFR-1	5.3327	0.0010
10y	2.69	3.74	3.68	Euribor-3	3.9450	-0.0130	SOFR-3	5.3234	0.0062
				Euribor-6	3.9250	0.0170	SOFR-6	5.1890	0.0101
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0883	-0.0015		EUR/JPY	161.19	-0.28	CRB	266.95	1.58
USD/JPY	148.1	-0.02		EUR/GBP	0.8563	-0.0016	Gold	2041.60	-7.00
GBP/USD	1.2709	0.0006		EUR/CHF	0.9458	-0.0003	Brent	80.06	1.50
AUD/USD	0.657	-0.0027		EUR/SEK	11.3876	-0.0183			
USD/CAD	1.3479	0.0050		EUR/NOK	11.4495	0.0157			

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