



Monday, 05 February 2024

KBC Sunrise Market Commentary

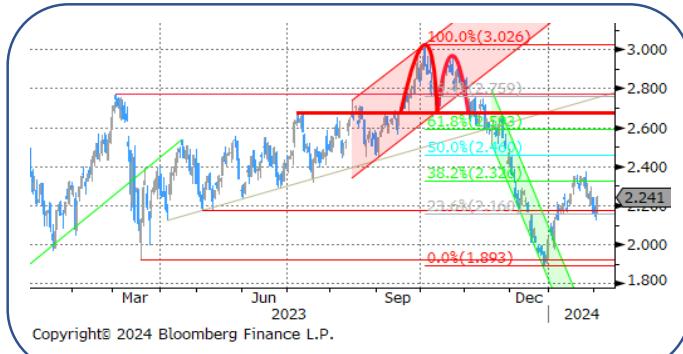
Markets

- Fed Chair Powell signaled last week that the Fed wants additional confirmation that the economy is on a path that should bring inflation back to 2% in a sustainable way, even as inflation developed favorably over the past six months. **The labour market in this respect is an important variable.** Since the December meeting, the Fed again shifted its focus from inflation to both pillars of its mandate: price stability and maximum employment. **For now, the employment pillar doesn't force the Fed to scale back policy restrictions.** The **US economy in January again added an impressive 353k jobs**, with an 126K upward revision for the previous two months on top. **Wage growth accelerated to 0.6% M/M and 4.5% Y/Y** (from 4.3%; 4.1% expected). **Despite the recent rise in productivity, this kind of wage growth probably isn't in line with inflation sustainably returning to 2%.** Data from the consumer survey were less buoyant, but **the unemployment rate remained stable at a low 3.7%.** US yields jumped between 17 bps (5y) and 10.2 bps (30y). German yields followed at a distance, adding between 11.3 bps (5y) and 6.8 bps (30y). **Markets now see only about 20% chance of a March rate cut** and aren't even sure anymore about a first step in May (80%). Even as markets had to scale back expectations on an early/aggressive rate cut cycle, equities held up well supported by positive earnings from tech bellwethers (Nasdaq +1.74%). **The dollar outperformed.** DXY closed at a new YTD top (103.92). EUR/USD dropped below the 1.08 handle (close 1.0788). **Friday's trends in bond and FX markets are extended this morning.** Fed Chair Powell in an interview with CBS yesterday, repeated that it's unlikely that the Fed will cut rates already in March as he sees a danger that recent good inflation readings might not be a true indicator of where inflation is heading. Confirmation is highly needed. The CBS interviewer indicated that Powell even suggested that **it might take until summer for the Fed to start its easing cycle.** The US 2y yield again adds 5 bps. USD extends its ascent (DXY 104, EUR/USD 1.078). Asian equities are trading mixed, **with especially Chinese stocks showing volatility.** They currently recover after another early session sell-off as the securities regulator vowed to take steps to contain the risks from the equity decline.
- Market focus is again on the US with the services ISM and the senior loan officer opinion survey (SLOOS).** The ISM is expected to revert an 'unexpected' December dip (52.0 from 50.5). Also prices and employment subindices deserve attention. For the loan survey, it will be interesting to see to what extend Fed policy is filtering through to actual credit practices as the economy continues to perform well. More signs of US eco resilience might push the US 2y yield for a test/break of the 4.5% resistance area. The technical picture of the dollar is improving. A sustained break of DXY above 104 in this respect would be illustrative. EUR/USD is also captured in a protracted downtrend with 1.0724/12 next key reference on the cards.

News & Views

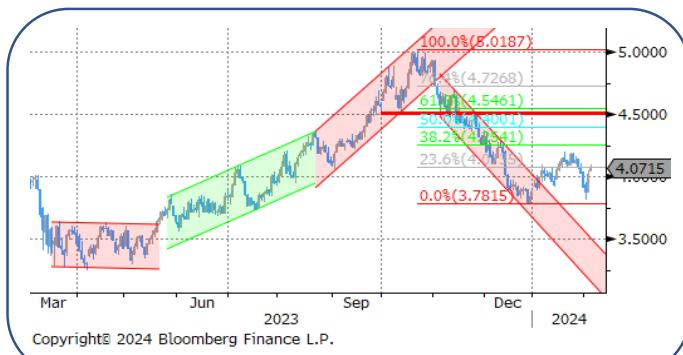
- Slovak Finance Minister Kamenicky** said that his government wants to show investors that they have **a clear consolidation trajectory** and that its plan to reduce the budget deficit is credible. Rating agency Fitch as recently as December, downgraded Slovakia from A to A- over a deterioration of public finances and an unclear consolidation path. The budget deficit was 6.5% of GDP last year and is only to narrow to 6% this year. **The government therefore is working on a €1.5bn package to cut spending and increase revenue**, including cutting energy subsidies given the improving inflation outlook and energy market developments. **Hungary's economy minister Nagy** delivered the **opposite message**, confessing that this year's budget deficit target would be 4.5% of GDP rather than 2.9%. He forecasts the deficit narrowing to 3.7% of GDP in 2025 and to 3% in 2026.
- The Turkish central bank (CBRT) fired its chair Erkan**, 8 months into her job. She cited personal reasons and a smear campaign against her in local media as decision to step aside. **She will be replaced by deputy governor Karahan** who has credentials as an economist at the New York Federal Reserve and is expected to stick with the anti-inflation campaign or even take it slightly further. The CBRT raised policy rates to 45%, but suggested after its final 250 bps move in January that the rate hit a peak. **The Turkish lira still holds close to all-time low levels near EUR/TRY 33.**

Graphs



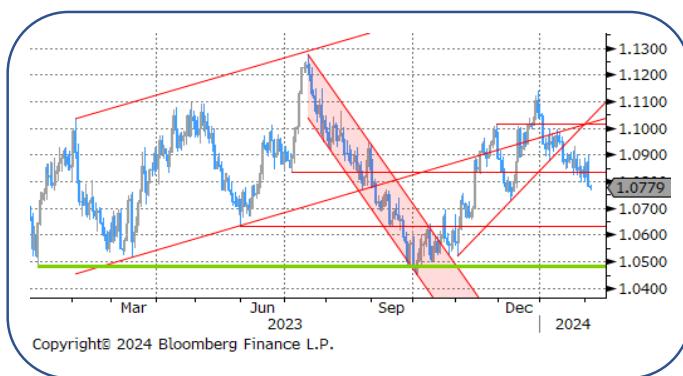
GE 10y yield

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 the 2023 low.** President Lagarde suggested summer might be the right time to start cutting rates but internal division keeps market hopes for an earlier move alive. **Resistance around 2.33% survived, triggering some corrective action lower.**



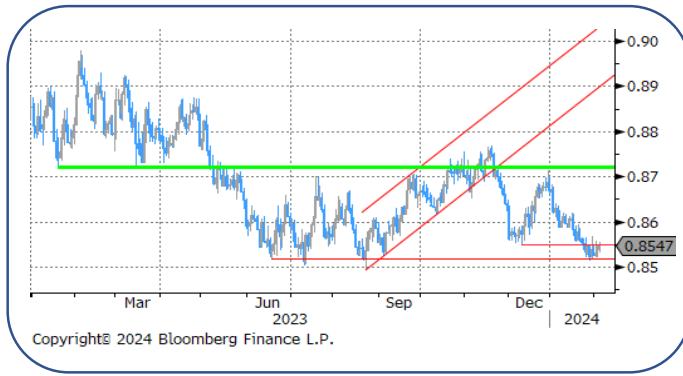
US 10y yield

Fed chair Powell at the January press conference stressed that March wasn't the base case for a rate cut (but perhaps for a tweak to QT). Together with stellar payrolls, investors significantly scaled down aggressive rate cuts bets. US yields rebounded, especially at the front end of the curve. **The US 10-y yield tries to regain the 4% mark.**



EUR/USD

The dollar lost out during the end of 2023 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. EUR/USD fell back below 1.10 with follow-up losses creating a downward trend channel in the running quarter. **Important EUR/USD 1.0724/12 support is coming within reach.**



EUR/GBP

Extremely narrow trading range defined by 0.8493 and 0.8768 in place since May. The recent bullish pound repricing brought the lower bound on the radar. But this support zone is better protected since **the Bank of England in January opened the door for rate cuts**, putting itself on par with the Fed and ECB despite higher inflation. We think the GBP rally went far enough, creating space for a EUR/GBP return higher in the established trading range.

Calendar & Table

Monday, 5 February		Consensus	Previous
US			
16:00	ISM Services Index (Jan)	52.0	50.5
16:00	ISM Services Prices Paid (Jan)	--	56.7
16:00	ISM Services Employment (Jan)	--	43.8
16:00	ISM Services New Orders (Jan)	--	52.8
Canada			
15:30	S&P Global Canada Composite PMI (Jan)	--	44.7
15:30	S&P Global Canada Services PMI (Jan)	--	44.6
Japan			
01:30	Jibun Bank Japan PMI Composite (Jan F)	A 51.5-	51.1
01:30	Jibun Bank Japan PMI Services (Jan F)	A 53.1	52.7
UK			
10:00	New Car Registrations YoY (Jan)	--	9.80%
10:30	Official Reserves Changes (Jan)	--	\$1665m
10:30	S&P Global UK Services PMI (Jan F)	53.8	53.8
10:30	S&P Global UK Composite PMI (Jan F)	52.5	52.5
EMU			
10:00	HCOB Eurozone Services PMI (Jan F)	48.4	48.4
10:00	HCOB Eurozone Composite PMI (Jan F)	47.9	47.9
10:30	Sentix Investor Confidence (Feb)	-15	-15.8
11:00	PPI MoM/YoY (Dec)	-0.8%/-10.5%	-0.30%/-8.80%
Germany			
08:00	Trade Balance SA (Dec)	--	20.4b
08:00	Exports SA MoM (Dec)	--	3.70%
08:00	Imports SA MoM (Dec)	--	1.90%
Italy			
09:45	HCOB Italy Composite PMI (Jan)	--	48.6
09:45	HCOB Italy Services PMI (Jan)	--	49.8
China			
02:45	Caixin China PMI Composite (Jan)	A 52.5	52.6
02:45	Caixin China PMI Services (Jan)	A 52.7	52.9
Spain			
09:15	HCOB Spain Services PMI (Jan)	--	51.5
09:15	HCOB Spain Composite PMI (Jan)	--	50.4
Sweden			
08:30	Swedbank/Silf PMI Services (Jan)	--	50
08:30	Swedbank/Silf PMI Composite (Jan)	--	49.7
Events			
Q4 earnings	McDonalds (bef-mkt), On Semiconductor (bef-mkt), Caterpillar (12:30), Palantir Technologies (aft-mkt) ...		
11:00	OECD Publishes Interim Economic Outlook		
11:30	EU to Sell Bonds		
20:00	Fed's Bostic Gives Welcoming Remarks		
20:00	Senior Loan Officer Opinion Survey on Bank Lending Practices		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
US	4,02	0,14	US	4,36	0,16	DOW	38654,42	134,58
DE	2,24	0,09	DE	2,57	0,11	NASDAQ	15628,95	267,31
BE	2,87	0,09	BE	2,67	0,11	NIKKEI	36354,16	196,14
UK	3,92	0,17	UK	4,42	0,19	DAX	16918,21	59,17
JP	0,72	0,05	JP	0,11	0,03	DJ euro-50	4654,55	15,95
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d
3y	2,75	3,95	4,06	Ester	3,9060	0,0010		
5y	2,61	3,73	3,78	Euribor-1	3,8640	-0,0090	SOFR-1	5,3212
10y	2,63	3,66	3,70	Euribor-3	3,9000	0,0160	SOFR-3	5,3171
				Euribor-6	3,8370	0,0050	SOFR-6	5,1860
								0,0809
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0788	-0,0084	EUR/JPY	160,07	0,86	CRB	267,74	-1,97
USD/JPY	148,38	1,95	EUR/GBP	0,8541	0,0009	Gold	2053,70	-17,40
GBP/USD	1,2631	-0,0113	EUR/CHF	0,9352	0,0026	Brent	77,33	-1,37
AUD/USD	0,6512	-0,0060	EUR/SEK	11,3294	0,0400			
USD/CAD	1,3463	0,0077	EUR/NOK	11,4535	0,1109			

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