

Sunrise



Moving forward together.

Monday, 12 February 2024

KBC Sunrise Market Commentary

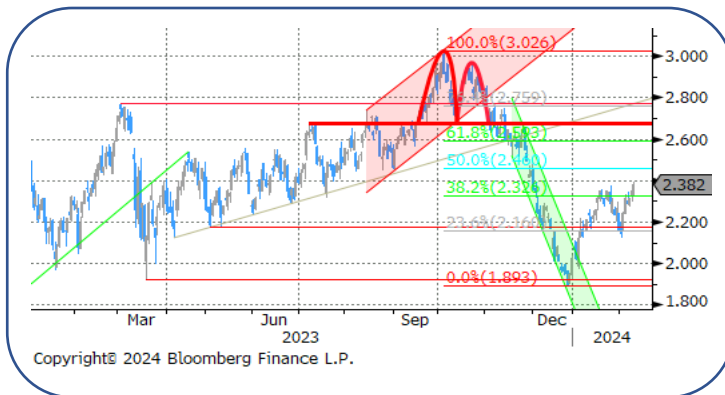
Markets

- Except for the (strong) US services ISM on Monday last week's eco calendar was light. Friday's US CPI revision in this respect didn't change the picture. US auctions (3-y, 10-Y, 30-y) all met solid investor demand. **Even so, yields on both sides of the Atlantic are setting/near new YTD peak levels, testing important technical resistance.** The US 2-y yield nears the 4.50% area. The 10-y is closing in on 4.20%/4.25% (38% retracement October/December decline). Despite a weak cyclical picture in Europe, EMU yields also are testing comparable upside levels (EMU 2-y swap 3.07%/3.15%; EMU 10-y swap 2.75%/2.77%). Central bankers advocated a cautious wait-and-see bias, pushing back against a too aggressive start of the easing cycle. Still they were not specific on the timing of the inaugural rate cut, leaving the market room for interpretation. Upcoming data now will decide to which side of the above-mentioned levels the interest rate domino's will fall. In a daily perspective on Friday, US yields added 2 bps across the curve. The German yield curve inverted further with the 2-y adding 5.6 bps and the 30-y closing unchanged. **Yields volatility apparently remains low enough not to derail a constructive risk sentiment.** The S&P (+0.57%) again touched an all-time record. The Nasdaq also continues to perform strongly (+1.25%). A mild risk sentiment and maybe some 'support' from the short-term interest rate differential helped EUR/USD drifting higher in the 1.08 big figure (close 1.0784). The rise in USD/JPY stalled as the psychological 150-level came on the radar (close 149.29).
- This morning**, many Asian markets are closed for the Lunar New Year holiday. In an interview, **ECB governing Council member de Cos** said that the ECB March projections will be key to assessing first whether the ECB can be sufficiently confident that to 2.0% target can be achieved and, second, the path that is compatible with reaching the target. Of course, this doesn't provide concrete guidance on the specific timing of a first rate cut. Today, we keep an eye at the NY Fed 1-y inflation expectations. There are again plenty of CB speakers (ECB's de Cos & Lane, Fed Barkin and Kashkari and BoE governor Bailey) but we doubt they will bring market-moving stories. **From tomorrow on the data again can fully play their role**, with the US January CPI. On Thursday the US Empire manufacturing, the Philly Fed business outlook and retail sales will give some insight on the resilience of the US economy. **We will also get an extenso update on the US economy** with labour data (Tue), inflation (Wed), and production/GDP (Thu) and finally retail sales on Friday. More signs of resilience of the **UK economy** might push EUR/GBP to go for a challenge of the 0.8493 key support.

News & Views

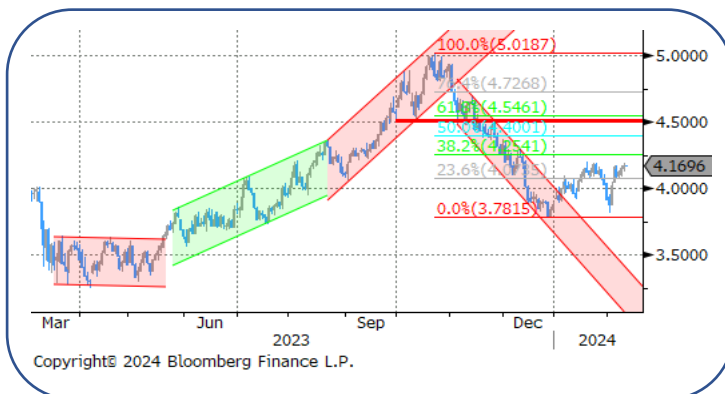
- EU officials from the Commission, Parliament and Council late yesterday reached an agreement on the new fiscal framework.** They replace the strict 3% (deficit) – 60% (debt-to-GDP) rules that have been suspended ever since the pandemic. The reformed pact is a less tight one allowing for debt reduction over a period of four to seven years. Frugal states including Germany, however, called for annual targets for cutting public debt and limits for public spending while the likes of Italy and France sought some exemptions to create enough room for public investments in the greening sector, defense and technology. **The compromise that was found means that Spain would probably have to do the most extra fiscal tightening**, i.e. reducing its structural primary deficit by the maximum of an additional 1% point of GDP. Germany, facing harsh spending limits following the constitutional court ruling last year, would not be impacted by the new rules.
- Germany's ruling coalition suffered losses in yesterday's partial repeat in Berlin of the 2021 federal election.** The repeat was ordered by the constitutional court end last year over voting irregularities amid long queues, result announcements while polling stations were still open and the Berlin marathon hampering the access in and around the city. While the defeat does not change the balance of power in the lower house of parliament, **it is a sign of the time with Scholz's government rating plummeting to record lows in recent months.** Benefiting from this are the main opposition party CDU/CSU and the far-right AfD. This year's June European Parliament elections and three important regional ballots in September in eastern Germany could spell similar trouble for the traffic light coalition. The next general election in Germany is due in the fall of 2025.

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 2.37% top survived, but any correction remains limited.**



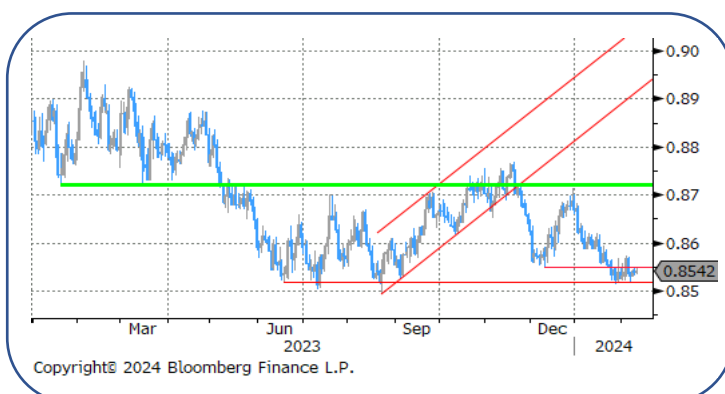
US 10y yield

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 is nearing the 4.20/4.25 resistance area.**



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. For now, euro weakness is keeping the EUR/GBP cross rate near the key 0.8493 support area.

Calendar & Table

Monday, 12 February		Consensus	Previous
US			
17:00	NY Fed 1-Yr Inflation Expectations (Jan)	--	3.01%
20:00	Monthly Budget Statement (Jan)	-\$21.0b	-\$129.4b
Belgium			
10FEB-20FEB	Budget Balance YTD (Jan)	--	-27.398b
Events			
12-16FEB	Chinese markets closed for Lunar New Year		
12FEB	Japanese markets closed for National Foundation Day		
09:00	ECB's De Cos Speaks in Madrid		
10:45	ECB's Lane Speaks		
14:15	ECB's Lane Speaks		
16:50	ECB's Cipollone Speaks		
18:00	Fed's Barkin Speaks at Atlanta Economics Club Event		
19:00	BOE Governor Andrew Bailey speaks		
19:00	Fed's Kashkari Moderates Economic Club of Minnesota Discussion		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,18	0,02		US	4,48	0,03	DOW	38671,69	-54,64
DE	2,38	0,03		DE	2,72	0,06	NASDAQ	15990,66	196,95
BE	3,01	0,03		BE	2,87	0,08	NIKKEI	36897,42	0,00
UK	4,09	0,04		UK	4,60	0,05	DAX	16926,5	-37,33
JP	0,73	0,00		JP	0,11	0,00	DJ euro-50	4715,87	5,09
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	2,91	4,08	4,25	Ester	3,9100	0,0020			
5y	2,77	3,88	3,98	Euribor-1	3,8350	-0,0380	SOFR-1	5,3206	-0,0009
10y	2,76	3,81	3,84	Euribor-3	3,8910	-0,0070	SOFR-3	5,3105	0,0010
				Euribor-6	3,8980	0,0100	SOFR-6	5,1974	0,0064
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0784	0,0006		EUR/JPY	161	0,06	CRB	274,34	0,77
USD/JPY	149,29	-0,03		EUR/GBP	0,8540	-0,0002	Gold	2038,70	-9,20
GBP/USD	1,2628	0,0011		EUR/CHF	0,9434	0,0017	Brent	82,19	0,56
AUD/USD	0,6524	0,0032		EUR/SEK	11,2737	-0,0160			
USD/CAD	1,346	0,0002		EUR/NOK	11,3745	-0,0701			

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