

Sunrise



Moving forward together.

Tuesday, 20 February 2024

KBC Sunrise Market Commentary

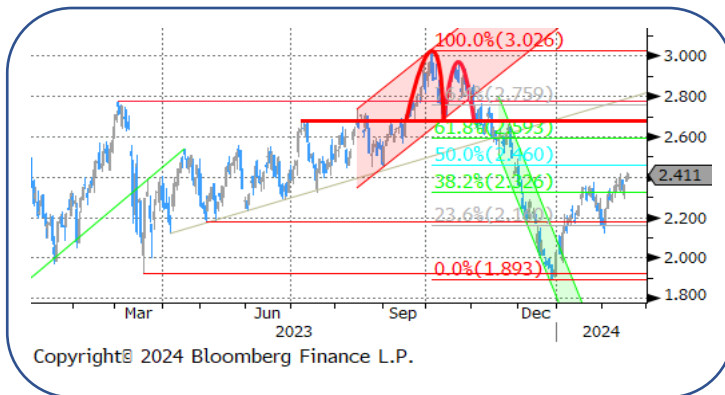
Markets

- **US markets were closed for President's Day yesterday.** The outcome was an uneventful trading session in absence of European eco drivers. Main equity benchmarks ended mixed. Changes on the German yield curve were small apart from a minor outperformance at the very long end (30-yr: +2.4 bps). EUR/USD closed virtually unchanged at 1.0780, remaining withing the YTD downward trend channel. **The pair is bumping into the upper bound of that channel with resistance today at 1.0787.**
- **Chinese stock markets fail to profit from the biggest cut in the 5-y Loan Prime Rate since the 2019 revamp of the system (see News & Views).** The likes of the Shanghai and Shenzhen composite gain only 0.25% with the CSI 300 flat. USD/CNY is again testing the 7.20 resistance area. **The Financial Times runs a story on a significant decline in average reserves at the biggest US banks against bad commercial real estate loans.** According to filings to the FDIC, they have fallen from \$1.60 to \$0.90 for every dollar of commercial real estate debt on which a borrower is at least 30 days late. Early February, US regional banking shares took a blow after New York Community Bank reported huge potential losses on its commercial property loan book, bringing back nasty memories to the SVB collapse about a year ago. Last week, regional bank shares (KBW index) recovered somewhat but **we closely monitor any potential impact on the index and on risk sentiment in general from today's article.**
- Today's eco calendar is again extremely thin. **The ECB publishes an in-house forward-looking tracker of wages,** calculated on the basis of micro data on wage agreements provided by several national central banks. The tracker continues to signal strong wage pressure, but latest agreements indicate some levelling off (slightly above 5%). Wage growth is projected to have peaked in H2 2023 with wage pressures for 2024 hinging particularly on the outcome of ongoing and upcoming negotiation rounds that affect a large share of EMU employees covered by collective wage bargaining. **The ECB specifically wants to see the outcome of Q1 data, which will only be available after the May policy meeting, ruling out any policy rate cuts ahead of that gathering.**

News & Views

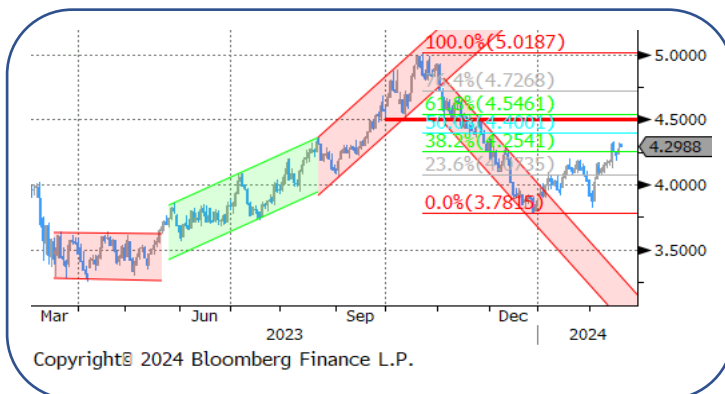
- **Minutes of the February RBA meeting showed that members still considered the option of raising the cash rate by 25 bps** with inflation still well above target. Especially service prices inflation remains high. The case to leave the cash rate target unchanged (4.35%) centered on the observation that **the risk of inflation not returning to the Board's target within a reasonable timeframe had eased.** Inflation was expected to take a further two years or so to return towards the midpoint of the target range under the central forecast. The RBA staff still sees aggregate demand above the economy's supply potential. Members noted that an increase in the cash rate target now could slow the growth of demand further and reduce the risk of inflation not returning to target in an acceptable timeframe. Markets currently see a 75% chance of a first rate cut in June. The Aussie dollar this morning trades marginally weaker at AUD/USD 0.653.
- **The People Bank of China today announced that lenders will reduce the 5-y prime loan rate by a record 25 bps to 3.95%.** The reduction was bigger than the market expected. The 1-year prime loan rate was left unchanged at 3.45%, while markets were divided on a possible small reduction. Reducing this 5-year reference rate is another step of Chinese authorities **to support the ailing property market,** which also weighs on overall economic activity. Today's action could support demand for long-term corporate loans as well. For now, there is not really an euphoric reaction on Chinese markets. According to sources with knowledge of the matter, **Chinese lenders were reportedly selling dollars this morning, to prevent further CNY losses in the wake of the interest rate reduction.**

Graphs



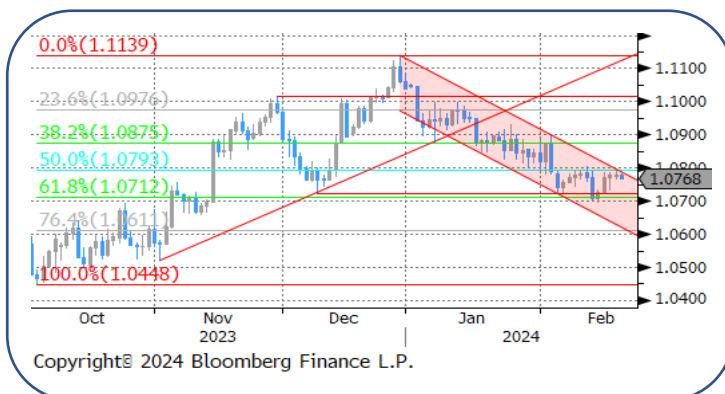
10y yield

Huge December bond rally on goldilocks scenario: avoiding a recession while the disinflationary process allows central bankers to pivot to rate cuts. 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% remains under test but to move still lacks conviction due to the poor EMU economic performance.**



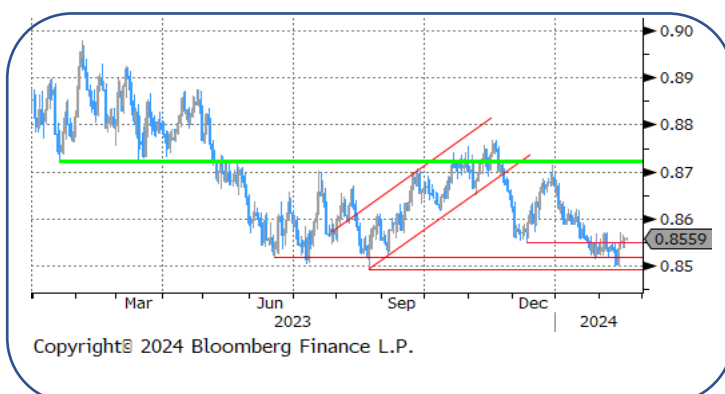
US 10y yield

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). Stellar payrolls and a big beat in the January US CPI, forced investors to abandon hopes an early/aggressive Fed rate cut. US yields jumped to new YTD highs. **A sustained move above 4.20/4.25% resistance suggests more upside.**



EUR/USD

The dollar lost out during the end of 2023 bond rally, but the 2023 high (1.1276) stayed out of reach. The change of dynamics on bond markets improved the dollar's prospects. EUR/USD is captured in a downward trend channel in the running quarter with next support at 1.0724/12 at risk of giving away. A break opens the way to the 1.0448 2023 low, with dollar strength meeting a vulnerable single currency.



EUR/GBP

Going nowhere. Extremely narrow trading range defined by EUR/GBP 0.8493 and 0.8768 in place since May. 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 prevails though.

Calendar & Table

Tuesday, 20 February		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Feb)	--	-3.7
Canada			
14:30	CPI NSA MoM/YoY (Jan)	0.40%/3.30%	-0.30%/3.40%
14:30	Trim YoY% (Jan)	3.60%	3.70%
14:30	Median YoY% (Jan)	3.60%	3.60%
EMU			
08:00	EU27 New Car Registrations (Jan)	--	-3.30%
10:00	ECB Current Account SA (Dec)	--	24.6b
11:00	Construction Output MoM/YoY (Dec)	--/--	-1.00%/-2.20%
Belgium			
11:00	Consumer Confidence Index (Feb)	--	-2
China			
02:15	1/5-Year Loan Prime Rate	3.45%/3.95%	3.45%/4.20%
Events			
01:30	RBA Minutes of Feb. Policy Meeting		
11:00	ECB Publishes Euro-Area Indicator of Negotiated Wage Rates		
11:30	Germany to Sell EU5 Billion of 2.5% 2026 Bonds		
17:55	Riksbank's Thedeen speaks at Swedbank event in Stockholm		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.28	0.00		US	4.64	0.00	DOW	38627.99	0.00
DE	2.41	0.01		DE	2.82	0.00	NASDAQ	15775.65	0.00
BE	2.99	0.00		BE	2.92	-0.01	NIKKEI	38363.61	-106.77
UK	4.11	0.00		UK	4.61	-0.01	DAX	17092.26	-25.18
JP	0.74	0.00		JP	0.15	0.00	DJ euro-50	4763.07	-2.58
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.96	4.25	4.29	Ester	3.9100	0.0010			
5y	2.79	4.02	4.01	Euribor-1	3.8510	-0.0300	SOFR-1	5.3178	0.0000
10y	2.77	3.92	3.90	Euribor-3	3.9320	-0.0010	SOFR-3	5.3225	0.0000
				Euribor-6	3.9150	0.0200	SOFR-6	5.2575	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0779	0.0002		EUR/JPY	161.84	0.02	CRB	272.59	0.00
USD/JPY	150.13	-0.08		EUR/GBP	0.8558	0.0005	Gold	2024.10	0.00
GBP/USD	1.2594	-0.0008		EUR/CHF	0.9512	0.0019	Brent	83.56	0.09
AUD/USD	0.654	0.0009		EUR/SEK	11.2085	-0.0508			
USD/CAD	1.3491	0.0006		EUR/NOK	11.3036	-0.0202			

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