

Sunrise



Thursday, 22 February 2024

KBC Sunrise Market Commentary

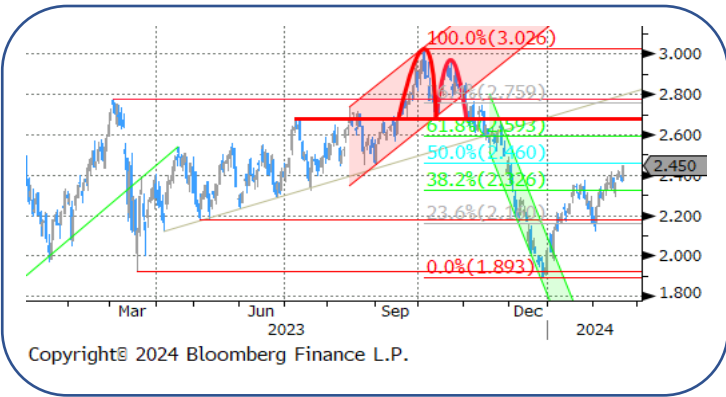
Markets

- Weakness in core bonds was the sole exemption to another wise dull trading day yesterday.** It's hard to point an exact reason. The move already started ahead of ECB Wunsch and Fed Bowman comments, the release of January FOMC Minutes or a weak 20-yr Bond auction. **ECB Wunsch** recently moderated his hawkish tone, but yesterday **showed his true colors again**. He calls it too early to get hopes up on (lower) rates with high wage pressure and a tight labour market suggesting that policy might stay tight for longer. **Fed Bowman**, usually scarce with comments, said that the time for lower rates is certainly not now. **January FOMC Minutes** confirmed that view with most participants noting **the risk of moving too quickly to ease the stance of policy**. Only two of them highlighted the risks of keeping rates too high for too long. On the balance sheet, many participants suggested that it would be appropriate to begin in-depth discussions at the March meeting to guide an eventual decision to slow the pace of its runoff (at some point later in time). Finally, **the US Treasury's 20-yr bond auction tailed significantly with below average demand** (2.39 bid cover). Daily changes on the US yield curve varied between +2.9 bps (30-yr) and +5.4 bps (2-yr) in the close. Yields tested last week's post-CPI and YTD highs, but technical breaks didn't occur. Several tenors are bumping into 100d moving averages as well (eg 4.67% at 2-yr and 4.32% at 10-yr). German yields added 5.6 bps (30-yr) to 8 bps (5-yr) in a daily perspective. **German yields managed new YTD highs across the curve.**
- Strong Nvidia earnings** after WS close lifts risk sentiment in Asia this morning. The Japanese Nikkei 225 finally sets a new record high after 34 years! EUR/USD profits from general sentiment, leaving the 1.08-zone slowly behind. **Global PMI's, ECB Minutes of the January meeting and an avalanche of Fed speakers** feature on today's agenda. With both US and EMU money markets now finally convinced that central bankers will conduct a first rate cut at the earliest in June, we fear that the scope for a big market reaction on the data is limited. **If any, market moves could be strongest in case of positive European surprises.** This could cause some more **underperformance of German Bunds against US Treasuries and together with positive risk sentiment extend EUR/USD's recent rebound.**

News & Views

- News agency Bloomberg suggests that the EU is poised to approve the release of €6.3bn in post-pandemic aid to Poland as early as next week.** People familiar with the discussion indicate that the EC will accept a package of recent political commitments as sufficient to trigger **the first payment from almost € 60bn in grants and loans** that have been blocked over rule-of law concerns as the previous government failed to meet a series of milestones on reversing changes in the judiciary. However, the final decision hasn't been taken yet as some details still have to be ironed out. Any decision of the EC also needs to be rubberstamped by EU member states. **Approval of post-pandemic aid would ultimately pave the way for unlocking an additional €76bn in cohesion funds.** The zloty reversed intraday losses after the Bloomberg report to close at EUR/PLN 4.3175.
- The Indian HSBC composite PMI suggests that activity will continue growing at a strong pace.** The PMI rose from 61.2 to 61.5, the highest level in 7 months. The move was supported by a gain both in the manufacturing measure (56.7 from 56.5) and the services index (62 from 61.8). **New orders across India's private sector rose for the 31st successive month.** International markets again made a positive contribution to companies' order books, as seen by the fastest expansion in new export work since last September, mainly driven by orders for goods.. Despite the solid growth performance, **the rate of charged inflation for Indian goods and services receded to the weakest in a year** as companies were said to have generally observed a lack of cost pressures. Input prices increased at the slowest pace in three-and-a-half years. Overall business confidence eased from January, but remained solid. The Indian Rupee is captured in a very slow strengthening trend against the dollar since end last year trading near USD/INR 82.93, compared to 83.40 mid-December.

Graphs



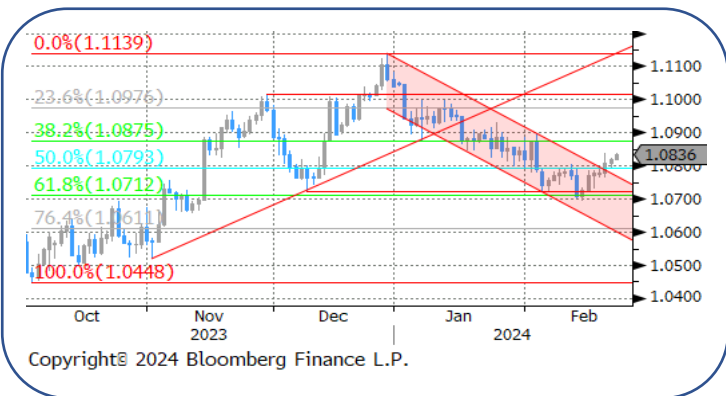
10y yield

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. The greenback is currently losing some momentum with the pair trying to escape the YTD downward channel.



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

Thursday, 22 February		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Jan)	-0.21	-0.15
14:30	Initial Jobless Claims	216k	212k
14:30	Continuing Claims	1884k	1895k
15:45	S&P Global US Manufacturing PMI (Feb P)	50.7	50.7
15:45	S&P Global US Services PMI (Feb P)	52.3	52.5
15:45	S&P Global US Composite PMI (Feb P)	51.8	52
16:00	Existing Home Sales Total/MoM (Jan)	3.97m/4.90%	3.78m/-1.00%
Japan			
01:30	Jibun Bank Japan PMI Composite (Feb P)	50.3A	51.5
01:30	Jibun Bank Japan PMI Mfg (Feb P)	47.2A	48
01:30	Jibun Bank Japan PMI Services (Feb P)	52.5A	53.1
06:30	Nationwide Dept Sales YoY (Jan)	7.10%	5.40%
UK			
10:30	S&P Global UK Manufacturing PMI (Feb P)	47.5	47
10:30	S&P Global UK Services PMI (Feb P)	54.1	54.3
10:30	S&P Global UK Composite PMI (Feb P)	52.9	52.9
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Feb P)	47.0	46.6
10:00	HCOB Eurozone Services PMI (Feb P)	48.8	48.4
10:00	HCOB Eurozone Composite PMI (Feb P)	48.4	47.9
11:00	CPI MoM/YoY (Jan F)	-0.40%/2.80%	-0.40%/2.80%
11:00	CPI Core YoY (Jan F)	3.30%	3.30%
Germany			
09:30	HCOB Germany Manufacturing PMI (Feb P)	46.0	45.5
09:30	HCOB Germany Services PMI (Feb P)	48.0	47.7
09:30	HCOB Germany Composite PMI (Feb P)	47.5	47
France			
09:15	HCOB France Manufacturing PMI (Feb P)	43.5	43.1
09:15	HCOB France Services PMI (Feb P)	45.6	45.4
09:15	HCOB France Composite PMI (Feb P)	45.0	44.6
Belgium			
15:00	Business Confidence (Feb)	--	-16.4
Events			
07:30	BOE's Megan Greene speaks		
13:30	ECB Publishes Account of January Meeting		
16:00	Fed's Jefferson to Give Speech, Q&A		
19:00	Fed's Bowman Speaks to Exchequer Club in Washington		
20:00	Fed's Harker Speaks on Economic Outlook		
23:00	Fed's Cook Speaks at Macrofinance Conference		
23:00	Fed's Kashkari Participates in Panel Discussion on Outlook		

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