Monday, 26 February 2024

KBC Sunrise Market Commentary

Markets

- Fed governor Waller's ***"What's the rush?"*** got a European follow-up. **ECB members on Friday hijacked the news by similarly advising against jumping the gun in terms of rate cuts.** The economy may be not as surprisingly resilient as the US', the European labour market is. Many governors, both doves and hawks, pointed at the outcome of Q1 wage negotiations as key and suggested June as the earliest occasion to lower rates. Because that meeting precedes the Fed's, July is still in the running as well. Centeno from Portugal was the exception to the rule, saying that the ECB should at least be open for a move in March. The slew of comments did not prevent core bond yields from declining going into the weekend. German rates eased between 5.2-7.7 bps with the belly outperforming. US yields dropped 2.1 (2-y) to 8.6 (30-y) bps in a technically driven session. Lower rates failed to inspire equity markets. After stellar Nvidia earnings triggered another blistering rally on Thursday, most indices steadied around their recent/all-time highs. Currency markets were a spa resort with the dollar nor the euro choosing direction. Sterling gained marginally.
- We're looking at a very quiet start of the week in Asian markets this morning. Equities trade mixed. Futures point at a lower open in both Europe and the US as stocks look for **new catalysts** now the earnings season basically ended. The **economic calendar** this week fortunately contains some potential impetus. **PCE deflators** in the US (Thursday) are worth mentioning as they are the Fed's preferred inflation gauge. Despite strong expected m/m readings (0.3% headline, 0.4% core), the yearly figures should have eased further in January, be it only gradually (especially for the core gauge). CPI's earlier this month, if any, suggest upside risks. **February CPI in the euro area** (Friday, after national readings in the run-up) could drop to 2.5% y/y even as monthly prices may jump a 0.6%. **Strong negative base effects** (which last through April) are the reason why. Similarly, core inflation is set for a drop sub 3%. **Japanese inflation** on Tuesday will be watched as the Bank of Japan's window of opportunity to ditch negative rates/drop YCC is closing. Aside from some price data, the US publishes durable goods orders on Tuesday as well as the **manufacturing ISM** on Friday. The latter is seen extending the bottoming out process that started in November (49.5 from 49.1). We expect both bond and currency markets to display technically insignificant moves in the run-up to these data. The US 10-y yield is nearing first intermediate support around 4.18%. The German one is set for a lower open with 2.29% acting as support parallel to the US. EUR/USD is going nowhere north of 1.08.

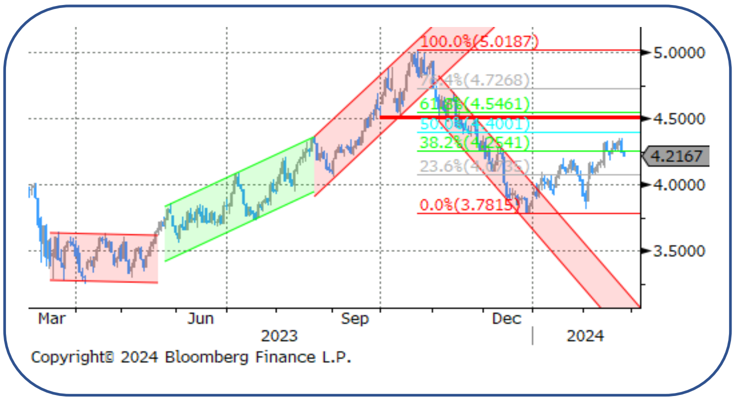
News & Views

- **Rating agency Fitch raised the outlook on the Czech Republic's AA- rating from negative to stable.** Fitch praises the country for successfully navigating pandemic and energy price shocks **without lasting effects on the long-term macro outlook.** Short term growth nevertheless took a hit (-0.4% in 2023) and will only slowly recover (1.2% in 2024). The nation **significantly reduced reliance to Russian gas imports**, diverging to Norwegian supply or LNG terminals in the Netherlands and Germany. **Fiscal consolidation measures have stabilized general government debt/GDP.** Fitch expects the budget deficit to narrow to 2.3% of GDP in 2024 and 2% in 2025 from 3.3% in 2023. Public debt/GDP should be broadly stable at 44.6% in 2024, from 44.2% expected in 2023, and to gradually decline to 44.1% in 2027, driven by narrowing primary budget deficits. The inflation shock has not led to a permanent de-anchoring of inflation expectations with **credible monetary policy** pulling headline CPI within the CNB's target range this year and next.
- Bloomberg reports that the **ECB is close to agreeing on a new monetary framework** which they hope will open to door for an ultimate revival of the interbank market. **The design under consideration will allow the ECB to operate with a smaller balance sheet and still deliver stable funding conditions for banks.** It is envisaged to rely on bond holdings and bank loans to provide sufficient liquidity. A **structural bond portfolio** is seen providing a portion of the necessary funding, though not enough to fulfill banks' needs entirely. In addition, banks will be able to participate in refinancing operations, with durations anticipated to be similar to offerings over the past years. It will take the ECB at least two years to transition into the new system as excess liquidity evaporates from financial markets, according to sources who believe that the central bank is still on track to announce results in the spring.

Graphs

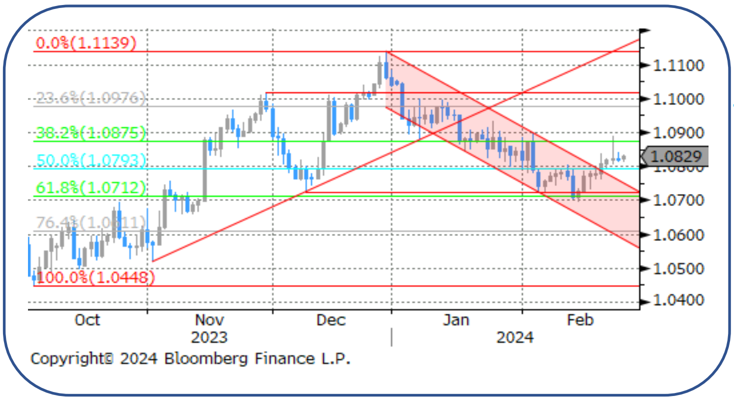
10y yield

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.**



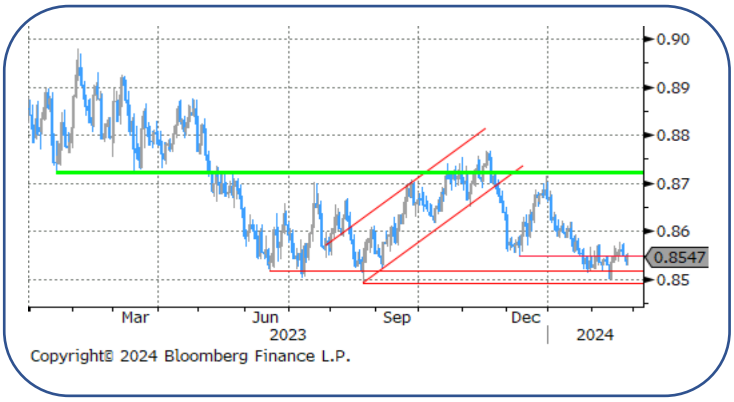
US 10y yield

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 EUR/USD 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

Monday, 26 February		Consensus	Previous
US			
16:00	New Home Sales Total/MoM (Jan)	684k/3.00%	664k/8.00%
16:30	Dallas Fed Manf. Activity (Feb)	-14.0	-27.4
Japan			
00:50	PPI Services YoY (Jan)	2.10%A	2.40%
UK			
12:00	CBI Total Dist. Reported Sales (Feb)	--	-33
12:00	CBI Retailing Reported Sales (Feb)	-31	-50
Events			
09:00	ECB's Vujcic Speaks		
10:00	**Bank of England Deputy Governor Sarah Breeden speaks**		
12:00	**BOE Chief Economist Huw Pill speaks**		
12:30	ECB's Stournaras Speaks		
17:00	**ECB's Lagarde Speaks in EU Parliament**		
17:30	U.S. To Sell USD63 Bln 2-Year Notes		
19:00	U.S. To Sell USD64 Bln 5-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.25	-0.07		US	4.69	-0.02	DOW	39131.53	62.42
DE	2.36	-0.08		DE	2.85	-0.05	NASDAQ	15996.82	-44.80
BE	2.91	-0.09		BE	2.95	-0.05	NIKKEI	39233.71	135.03
UK	4.04	-0.07		UK	4.54	-0.06	DAX	17419.33	48.88
JP	0.69	-0.03		JP	0.16	0.00	DJ euro-50	4872.57	17.21
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.95	4.27	4.29	Ester	3.9090	0.0000			
5y	2.76	4.01	3.99	Euribor-1	3.8510	-0.0130	SOFR-1	5.3207	0.0015
10y	2.70	3.88	3.83	Euribor-3	3.9330	-0.0120	SOFR-3	5.3380	0.0067
				Euribor-6	3.9140	0.0070	SOFR-6	5.2852	0.0075
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0821	-0.0002		EUR/JPY	162.86	-0.06	CRB	270.82	-3.28
USD/JPY	150.51	-0.02		EUR/GBP	0.8539	-0.0009	Gold	2049.40	18.70
GBP/USD	1.2672	0.0012		EUR/CHF	0.9534	0.0008	Brent	81.62	-2.05
AUD/USD	0.6562	0.0005		EUR/SEK	11.1728	-0.0101			
USD/CAD	1.3505	0.0023		EUR/NOK	11.4049	0.0277			

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