

Sunrise



Moving forward together.

Tuesday, 27 February 2024

KBC Sunrise Market Commentary

Markets

- A news-poor trading session yesterday didn't prevent German yields from rebounding sharply after Friday's setback. A belated reaction to the hawkish ECB talk or simply repositioning ahead of the end of month and/or critical data later this week? Either way, changes varied between 7.1-8.1 bps across the curve. US Treasuries outperformed, adding 1.9 to 3.6 bps. A **dual US auction** went smooth in the 2-y tenor but printed mixed in the 5-y. Most major equity indices eased from (record) highs. The euro traded stronger, helped higher by narrowing interest rate differentials. EUR/USD extended the mid-February recovery to 1.0851. DXY (trade-weighted dollar index) suggested some overall USD weakness was in play as well, declining to 103.827. USD/JPY continues to hover near recent highs north of 150. JPY is looking increasingly vulnerable for a sharp sell-off. If the dollar doesn't come to the rescue, then the Bank of Japan has to. This morning's **higher-than-expected inflation numbers** (see below) offer a (tiny) bit of respite. The BoJ's core gauge (excluding food but including oil products) eased to 2% in January. That measure is expected to jump higher in February as energy subsidies distorted last year's m/m (-0.6%) reading to the downside. Sterling lost ground throughout the session though within the technical barriers. EUR/GBP gained to 0.8554.
- The eco calendar still has something to offer after the Japanese CPI numbers. The **US takes center stage** with durable goods orders, house price data, some regional business sentiment indicators and consumer confidence (Conference Board). Their importance for trading would have been bigger if it weren't for the other important data that's scheduled for release later this week (including PCE deflators and manufacturing ISM). **But if anything, another solid string would further cement the idea of a first Fed cut in July rather than June.** That should provide a solid floor beneath US yields. The 2-y yield is nearing the first resistance in the 4.80% region but we don't expect that level to break. The 10-y tenor is looking at 4.40%. The dollar should soon find some support as well (EUR/USD 1.0862/1.0865), especially if equities continue to struggle for direction after they are no longer flanked by (mostly stellar) earnings releases. Several central bankers have and will hit the wires in the meantime. Kansas Fed's Schmid in Asian dealings sees no need to preemptively adjust policy and said he's in no hurry to halt the balance-sheet runoff. Sticking to the subject of monetary policy, the **Hungarian central bank is bound to cut rates today.** The jury's out whether the MNB will stick to 75 bps to ensure forint stability or capitalize the stronger disinflation and scale up to 100 bps.

News & Views

- National Japanese inflation data slowed less than hoped in January. **Headline CPI declined from 2.6% Y/Y to 2.2% (vs 1.9% consensus) with the CPI ex fresh food gauge – the BoJ's favorite – down to 2% Y/Y from 2.3% (vs 1.9% forecast).** Another core gauge that excludes fresh food and energy slowed to 3.5% Y/Y from 3.7% (vs 3.3%). **A jump in prices of foreign technical travel packages skewed today's outcome** as it turns out that the base of comparison for this series was January 2020, not 2023. The ministry of internal affairs and communications said that they had stopped surveying the prices for the past three years due to the difficulties in collecting stable price data following the onset of Covid. Japanese bond yields are nevertheless slightly higher this morning with the 2-yr yield at the highest level since early 2011. The Japanese yen fails to profit and remains in dire straits north of USD/JPY 150.
- US President Biden said in NBC's "Late Night with Seth Meyers" that there was an **agreement in principle for a ceasefire between Israel and Hamas during Ramadan in the Gaza Strip (March 10 – April 9).** In exchange, more hostages would be released. It would also allow for Palestinians to evacuate from the southern city of Rafah. The next phase in the war is expected to be an Israeli ground move into this city. US President Biden hopes that a temporary ceasefire would help change the dynamic towards a two-state solution. There has been no official reaction from Israel yet. PM Netanyahu vowed to destroy Hamas and so far rejected the two-state solution idea.

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.**



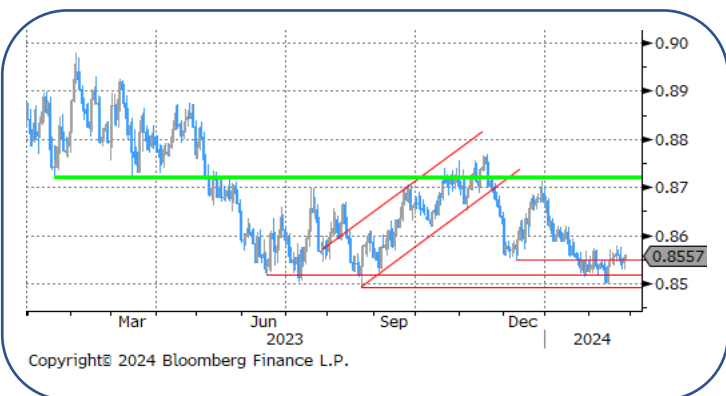
US 10y yield

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

Tuesday, 27 February		Consensus	Previous
US			
14:30	Durable Goods Orders (Jan P)	-5.00%	0.00%
14:30	Durables Ex Transportation (Jan P)	0.20%	0.50%
14:30	Cap Goods Orders Nondef Ex Air (Jan P)	0.10%	0.20%
14:30	Cap Goods Ship Nondef Ex Air (Jan P)	0.10%	0.00%
15:00	House Price Purchase Index QoQ (4Q)	--	2.10%
15:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Dec)	0.20%/6.00%	0.15%/5.40%
15:00	S&P CoreLogic CS US HPI YoY NSA (Dec)	--	5.14%
16:00	Conf. Board Consumer Confidence (Feb)	115.0	114.8
16:00	Conf. Board Present Situation (Feb)	--	161.3
16:00	Conf. Board Expectations (Feb)	--	83.8
16:00	Richmond Fed Business Conditions (Feb)	--	-3
16:00	Richmond Fed Manufact. Index (Feb)	--	-15
16:30	Dallas Fed Services Activity (Feb)	--	-9.3
Japan			
00:30	Natl CPI YoY (Jan)	2.00%	2.60%
00:30	Natl CPI Ex Fresh Food YoY (Jan)	2.00%	2.30%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Jan)	3.50%	3.70%
UK			
01:01	BRC Shop Price Index YoY (Feb)	2.50%A	2.90%
EMU			
10:00	M3 Money Supply YoY (Jan)	0.30%	0.10%
Germany			
08:00	GfK Consumer Confidence (Mar)	-29	-29.7
France			
08:45	Consumer Confidence (Feb)	92	91
Hungary			
14:00	Central Bank Rate Decision	9.00%	10.00%
Events			
01:40	Fed's Schmid Gives Speech on Economy, Monetary Policy Outlook		
08:00	Riksbank's Thedeen speaks at event in Norrkoping		
14:40	BOE Deputy Governor Dave Ramsden speaks		
15:05	Fed's Barr Speaks on Counterparty Credit Risk		
19:00	U.S. To Sell USD42 Bln 7-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.28	0.03		US	4.72	0.03	DOW	39069.23	-62.30
DE	2.44	0.08		DE	2.92	0.07	NASDAQ	15976.25	-20.57
BE	3.01	0.09		BE	3.02	0.07	NIKKEI	39239.52	5.81
UK	4.16	0.13		UK	4.31	-0.23	DAX	17423.23	3.90
JP	0.70	0.01		JP	0.17	0.01	DJ euro-50	4864.29	-8.28
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.03	4.30	4.34	Ester	3.9040	-0.0030			
5y	2.84	4.04	4.05	Euribor-1	3.8430	-0.0080	SOFR-1	5.3237	0.0030
10y	2.78	3.90	3.90	Euribor-3	3.9520	0.0190	SOFR-3	5.3438	0.0058
				Euribor-6	3.9010	-0.0130	SOFR-6	5.2989	0.0137
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0851	0.0030		EUR/JPY	163.53	0.67	CRB	273.64	2.81
USD/JPY	150.7	0.19		EUR/GBP	0.8554	0.0015	Gold	2038.90	-10.50
GBP/USD	1.2685	0.0013		EUR/CHF	0.9549	0.0015	Brent	82.53	0.91
AUD/USD	0.654	-0.0022		EUR/SEK	11.1603	-0.0125			
USD/CAD	1.3505	0.0000		EUR/NOK	11.4056	0.0007			

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