



Wednesday, 28 February 2024

KBC Sunrise Market Commentary

Markets

- A batch of US data turned out **mixed** yesterday. Strong core capital good shipments (investment proxy) compensated for negatively distorted durable goods orders (Boeing). House prices rose in line with forecasts but consumer confidence unexpectedly retreated on a deteriorating current and six month ahead assessment on the economy and jobs. Second tier business sentiment indicators were unable to settle the debate either, especially with a more important one (manufacturing ISM) scheduled later for release on Friday. US yields whipsawed with net daily changes of -2.6 bps (2-y) to +3.2 bps (30-y) eventually. The \$42bn 7-y auction went smoother than Monday's 5-y but didn't leave a stamp. German Bunds underperformed. They erased intraday gains to push yields 0.4 to 3.3 bps higher to make the curve slightly less inverse. Equities along with major FX didn't choose a strong direction. The EuroStoxx50 hit new multiyear highs but Wall Street finished mixed. EUR/USD ended the day slightly weaker at 1.0844, DXY an inch higher. Above-consensus Japanese CPI helped JPY close to nothing. USD/JPY (150.51) closed well above the daily lows.
- Drowned Under. The central bank of New Zealand **softened its previous threat to lift rates** even further (see below), turning the kiwi dollar into this morning's biggest underperformer. The Aussie dollar trades on the backfoot as well following (incomplete) **monthly CPI figures** (January 3.4% vs 3.6% expected). USD takes a lead during mild risk-off. US cash yields ease less than 2 bps and German yields are ready for a lower open as well. **Belgium kicks off the CPI bonanza today**, be it with a national calculation (instead of the harmonized one). Most of the EU member states (harmonized) CPI readings are due tomorrow (ahead of the euro area figure on Friday), however. In absence of other market-impacting data, it means we may be looking at a quiet trading session with moves being mainly technically inspired. **Fed's Williams (New York), Collins (Boston) and Bostic (Atlanta) hit the wires today**. We expect them to repeat Waller's "what's the rush" (for cutting rates) in some form or another. The power of repetition brought US money markets more or less in line with the December dot plot (three cuts this year) meanwhile. Core bond yields in any case enjoy a solid floor beneath them. The dollar's recent correction looks ready for a reversal. Spillovers from Asian equity markets to Europe could help the greenback in the process.

News & Views

- **The Reserve Bank of New Zealand (RBNZ) kept its policy rate unchanged at 5.5% this morning**. Interest rates need to remain at a **restrictive level for a sustained period of time**. Annual headline CPI is expected to return to the 1%-3% target band by Q4 this year and to the 2%-midpoint later in 2025. **Risks to the inflation outlook are more balanced** than at the time of the November meeting/update. Restrictive monetary policy and lower global growth have contributed to aggregate demand slowing to better match the supply capacity of the NZ economy. High population growth (immigration) still supports aggregate spending and also helps easing capacity constraints in the labour market. Updated forecasts show **policy rates (at least) level until Q1 2025** with the probability of an additional hike being slightly lower (5.6% policy rate peak compared to 5.7% in November). OCR projections otherwise barely changed (unaltered 4.9% in Q4 2025; 3.5% from 3.6% in Q4 2026). Annual inflation is expected at 3.8% for the March FY (from 4.3%), 2.6% for FY 2025 (from 2.4%) and 2% for FY 2026 (unchanged). The new growth path is 0.3%-1.2%-2.8% from 1.2%-1.4%-2.8%. NZD swap rates plunge 16 bps (30-yr) to 23 bps (2-yr) this morning as **markets now rule out an additional rate hike**. The kiwi dollar drops from NZD/USD 0.6170 to 0.6110.
- Bank of England deputy governor Ramsden, who oversees financial markets, said that **the UK central bank may continue running down its QE portfolio even after hitting the "preferred minimum range of reserves"** which it estimates in the range of **£335bn to £495bn**. The BoE's asset portfolio declined from a £895bn peak to currently £735bn with Ramsden suggesting that the **BoE can wind it down completely** should it be necessary. This view contrasts with for example the Fed which wants to maintain a structural bond portfolio to back an ample level of reserves.

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

Wednesday, 28 February		Consensus	Previous
US			
14:30	Advance Goods Trade Balance (Jan)	-\$88.5b	-\$87.9bR
14:30	Retail Inventories MoM (Jan)	0.40%	0.80%
14:30	Wholesale Inventories MoM (Jan P)	0.20%	0.40%
EMU			
11:00	Consumer Confidence (Feb F)	--	-15.5
11:00	Services Confidence (Feb)	9.0	8.8
11:00	Industrial Confidence (Feb)	-9.2	-9.3R
11:00	Economic Confidence (Feb)	96.6	96.2
Belgium			
28FEB	CPI MoM/YoY (Feb)	-/-	0.49%/1.75%
New Zealand			
02:00	RBNZ Official Cash Rate	5.50%A	5.50%
Events			
02:00	RBNZ Monetary Policy Statement		
11:00	Italy to Sell Bonds		
11:30	Germany to Sell Bonds		
20:10	RBNZ Governor at Parliament Select Committee on MPS		
16:30	BOE policymaker Catherine Mann speaks		
18:00	Fed's Bostic Participates in Fireside Chat		
18:15	Fed's Collins Gives Remarks, Fireside Chat		
18:45	Fed's Williams Delivers Keynote Remarks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.30	0.02		US	4.69	-0.02	DOW	38972.41	-96.82
DE	2.46	0.02		DE	2.93	0.00	NASDAQ	16035.3	59.05
BE	3.03	0.03		BE	3.03	0.01	NIKKEI	39208.03	-31.49
UK	4.20	0.03		UK	4.35	0.04	DAX	17556.49	133.26
JP	0.70	0.01		JP	0.18	0.01	DJ euro-50	4885.74	21.45
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	3.04	4.31	4.37	Ester	3.9050	0.0010			
5y	2.85	4.05	4.08	Euribor-1	3.8550	0.0120	SOFR-1	5.3251	0.0014
10y	2.80	3.92	3.92	Euribor-3	3.9520	0.0000	SOFR-3	5.3411	-0.0027
				Euribor-6	3.9180	0.0170	SOFR-6	5.2934	-0.0055
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0844	-0.0007		EUR/JPY	163.22	-0.31	CRB	276.49	2.86
USD/JPY	150.51	-0.19		EUR/GBP	0.8549	-0.0006	Gold	2044.10	5.20
GBP/USD	1.2685	0.0000		EUR/CHF	0.9528	-0.0022	Brent	83.65	1.12
AUD/USD	0.6544	0.0004		EUR/SEK	11.1782	0.0179			
USD/CAD	1.3528	0.0023		EUR/NOK	11.4221	0.0165			



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