Thursday, 29 February 2024

KBC Sunrise Market Commentary

Markets

- Barring an outdated US Q4 GDP and PCE revision there was again not much to inspire markets yesterday. Speeches from Fed's Williams, Collins and Bostic yielded the known mantra of data dependency and caution against premature cuts. That resulted in muted trading. **Core bonds gained with US Treasuries outperforming, specifically into the final hours of US trading.** Net daily changes varied between -2.2 (30-y) and -5.6 bps (2-y). German yields eased less than 2 bps Equities meandered around the highs. Wall Street recorded some minor losses. Investors favoured the largest currencies over the likes of NOK, SEK and especially AUD (weaker than expected January CPI) and NZD (central bank softened its rate hike threat). EUR/USD closed almost unchanged but experienced a sharp intraday U-turn. The pair tested the 1.08 big figure in early European dealings. Some flagged French president Macron's apparent openness towards (NATO) boots on the Ukrainian ground and the Kremlin's staunch warning against it as a reason for euro weakness. The common currency recovered in the hours after. The trade-weighted dollar eked out a small gain to just south of 104. Sterling and the Japanese yen completed the top four of the scoreboard. The latter is jumping straight to the first place this morning, though. **Bank of Japan governor Takata gave a strong signal towards the end of the central bank's ultra-easy monetary policy.** He said the 2% price target is finally coming into sight and put Japan "at a juncture for a shift in the entrenched belief that wages and inflation won't rise." His speech comes at a time when dwindling growth momentum and decelerating (but still above-target) inflation is closing the BoJ's window of opportunity. Takata's "It's fine to shift the gear one notch lower" now **rekindles speculation** even if he said it wouldn't be one rate hike after another. USD/JPY tanks about a full yen to below 150. Japanese yields rise between 0.9 and 2.6 bps with the 2-y setting a new 13-year high. US Treasury yields are broadly stable and currencies ex JPY trade mostly flat. Today's economic calendar finally gets a bit interesting. The US publishes **PCE deflators** for January. These lag the regular CPI's but being the Fed's preferred inflation gauge they are worth following. Other US data include weekly jobless claims and personal income & spending. The European eco calendar focuses at **national inflation readings** from France & Germany over Spain to Portugal. Risks, if any, are slightly tilted to the downside. Markets have come a long way in finally adjusting to central bank talk. For this reason both US PCE and European CPI would have to deviate strongly in one way or another to unlock the rates – and by extension the FX stalemate.

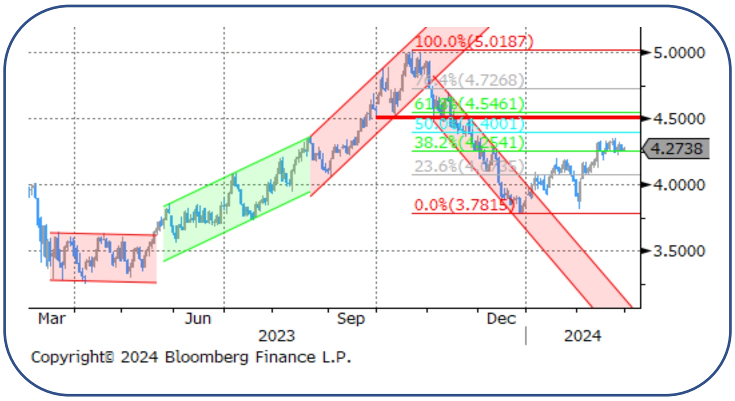
News & Views

- News agency Bloomberg refers to an email sent out by the US Bureau of Labour Statistics, commenting on the unexpected surge in January CPI inflation and more specifically rental inflation. **The BLS indicates that the weights for single family detached homes increased materially from December 2023 to January 2024. The relative weighting compared to multifamily units changed.** Both contribute to the owner equivalent rent (OER) component which is by far the largest individual component of the CPI basket. Giving more importance to the single-family detached homes suggests that **OER can remain sticky at high levels for longer given** restraint supply in this specific part of the housing market.
- Reuters provides more off the record insight on the **ECB's future liquidity management for the banking sector.** The framework needs changing following the end of the negative/zero interest rate policy and as the ECB started draining excess liquidity by winding down its APP/PEPP bond portfolios. Sources suggest that the central could as soon as March 13 announce a **"demand-driven" floor system, similar to the Bank of England's approach.** The ECB will thus still effectively set the lowest rate at which banks can lend to each other. Under the system, **the ECB would also lower the main refinancing rate (4.5%) closer to the deposit rate (4%)**, reducing the penalty and stigma for financial institutions short in cash (narrow corridor). **In the future, the ECB will no longer single-handedly decide how much liquidity it provides to the banking system via its regular refinancing operations, but consult commercial banks** on determining the amount. Other decisions would include allowing some fluctuation in ESTR around the ECB's own deposit rate and keeping minimum reserve requirements at 1% of customer deposits.

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

Thursday, 29 February		Consensus	Previous
US			
14:30	**Personal Income/Spending (Jan)**	**0.40%/0.20%**	**0.30%/0.70%**
14:30	Real Personal Spending (Jan)	-0.10%	0.50%
14:30	**PCE Deflator MoM/YoY (Jan)**	**0.30%/2.40%**	**0.20%/2.60%**
14:30	PCE Core Deflator MoM/YoY (Jan)	0.40%/2.80%	0.20%/2.90%
14:30	**Initial Jobless Claims**	**210k**	**201k**
14:30	Continuing Claims	1874k	1862k
15:45	MNI Chicago PMI (Feb)	48.0	46
16:00	Pending Home Sales MoM/NSA YoY (Jan)	1.50%/-4.40%	8.30%/-1.00%
17:00	Kansas City Fed Manf. Activity (Feb)	-2	-9
Canada			
14:30	**Quarterly GDP Annualized (4Q)**	**0.80%**	**-1.10%**
Japan			
00:50	Retail Sales MoM/YoY (Jan)	0.80%A/2.30%A	-2.60%R/2.30%R
00:50	Industrial Production MoM/YoY (Jan P)	-7.50%A/-1.50%A	1.40%/-1.00%
06:00	Housing Starts YoY (Jan)	-7.50%A	-4.00%
UK			
10:30	Net Consumer Credit (Jan)	--	1.2b
10:30	Money Supply M4 MoM/YoY (Jan)	--/--	0.50%/-0.90%
Germany			
09:55	Unemployment Change (000's) (Feb)	5.0k	-2.0k
09:55	Unemployment Claims Rate SA (Feb)	5.80%	5.80%
14:00	CPI MoM/YoY (Feb P)	0.50%/2.60%	0.20%/2.90%
14:00	**CPI EU Harmonized MoM (Feb P)**	**0.60%/2.70%**	**-0.20%/3.10%**
France			
08:45	**CPI EU Harmonized MoM/YoY (Feb P)**	**0.80%/3.10%**	**-0.20%/3.40%**
08:45	CPI MoM/YoY (Feb P)	0.70%/2.80%	-0.20%/3.10%
08:45	Consumer Spending MoM/YoY (Jan)	-0.20%/--	0.30%/1.30%
Spain			
09:00	CPI MoM/YoY (Feb P)	0.40%/2..80%	0.10%/3.40%
09:00	CPI Core YoY (Feb P)	3.30%	3.60%
09:00	**CPI EU Harmonised MoM/YoY (Feb P)**	**0.20%/2.80%**	**-0.20%/3.50%**
Sweden			
08:00	**GDP QoQ/WDA YoY (4Q)**	**0.10£/--**	**-0.30%/-1.40%**
Events			
03:00	**RBNZ Governor News Conference After OCR Decision**		
16:50	Fed's Bostic Participates in Fireside Chat		
17:00	**Fed's Goolsbee Gives Remarks on Monetary Policy**		
19:15	Fed's Mester Speaks on Financial Stability and Regulation		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.26	-0.04		US	4.64	-0.06	DOW	38949.02	-23.39
DE	2.46	0.00		DE	2.92	-0.01	NASDAQ	15947.74	-87.56
BE	3.03	-0.01		BE	3.01	-0.02	NIKKEI	39166.19	-41.84
UK	4.19	-0.01		UK	4.34	-0.01	DAX	17601.22	44.73
JP	0.71	0.01		JP	0.18	0.01	DJ euro-50	4883.77	-1.97
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.03	4.26	4.36	Ester	3.9060	0.0010			
5y	2.84	4.00	4.07	Euribor-1	3.8560	0.0010	SOFR-1	5.3241	-0.0010
10y	2.79	3.88	3.90	Euribor-3	3.9420	-0.0100	SOFR-3	5.3357	-0.0054
				Euribor-6	3.9150	-0.0030	SOFR-6	5.2736	-0.0198
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0838	-0.0006		EUR/JPY	163.33	0.11	CRB	275.27	-1.22
USD/JPY	150.69	0.18		EUR/GBP	0.8560	0.0011	Gold	2042.70	-1.40
GBP/USD	1.2662	-0.0023		EUR/CHF	0.9525	-0.0003	Brent	83.68	0.03
AUD/USD	0.6496	-0.0048		EUR/SEK	11.1996	0.0214			
USD/CAD	1.3577	0.0049		EUR/NOK	11.4795	0.0574			

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