Tuesday, 19 March 2024

KBC Sunrise Market Commentary

Markets

- **RIP NIRP.** The Bank of Japan ditched the world's last negative policy rate this morning, **raising it from -0.1% to a target range between 0% and 0.1%.** The first hike since 2007 ended an 8-year experiment of sub-zero rates. It also scrapped the (soft) 1% cap on the 10-year yield and formally ended ETF and J-REIT purchases. The decisions followed last week's Rengo wage negotiation outcome which **offered the BoJ the final piece of the puzzle.** The 5.28% pay raise was the biggest since 1991 and will establish a virtuous wage price spiral that brings inflation sustainably at 2% after decades of deflation. **All of it sounds like a seismic monetary policy shock but it comes with a few nuances.** The BoJ stresses that the still-accommodative policy stance won't go anywhere anytime soon. Indeed, the lack of guidance means **today's hike probably won't be followed by rapid follow-through action.** Policymakers including governor Ueda hinted at that long before this morning. It wasn't a unanimous decision either (7-2). Second: the 1% soft cap on the 10-year yield was removed but the BoJ will **still buy JGB's** with roughly the same amount as before (JPY 6tn per month) with the maturities higher than 5 and up to 10 years the focal point. In addition, the central bank said it can step in with **"nimble responses"** in case of a rapid rise in long-term yields. Lastly, the formal end to riskier ETF and J-REIT purchases is merely symbolical as the BoJ barely bought anything already since 2023. Japanese markets were clearly hoping for more. The yen nears the recent lows against the dollar (USD/JPY back above 150) and the euro (EUR/JPY 163.4). Japanese bond yields ease between 0.7 (2-y) and 2.7 bps (10-y). The Reserve Bank of Australia also met this morning (see below). A dovish tweak suppresses the Aussie dollar compared to peers as well. The likes of the dollar and the euro generally trade strong with the former having a slight edge over the latter. EUR/USD lost some ground yesterday. The downleg coincided with a **sharp uptick in oil prices** to the highest level since November around $87/b amid supply cuts/worries and ebbing concerns about global as well as Chinese demand. The pair continues down the same path this morning, confirming a break below the 1.0875 support zone (38.2% retracement on 2023 Q4 rally). DXY is readying an assault of the 104 big figure. Core bonds hold Monday's losses that pushed yields no more than 2 bps higher.

- The BoJ and RBA were today's key events. The economic calendar for the remainder of the day won't inspire markets (ex. Japan) into any directional movement. That's even more so given looming event risk, including coming from tomorrow's Fed meeting. If anything, we expect a solid bottom below core bond yields and see a slight advance of the USD compared to peers.

News & Views

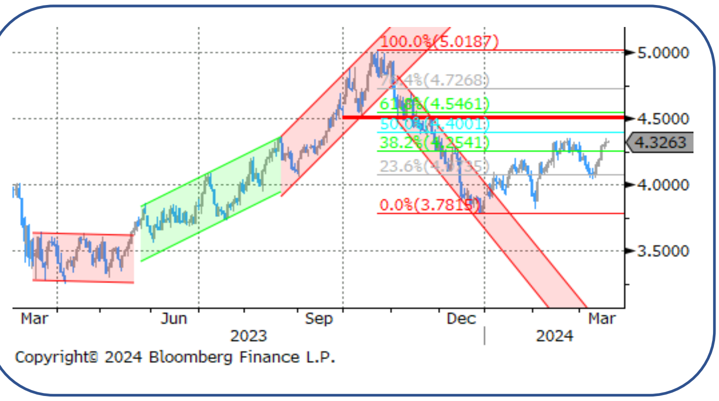
- The Reserve Bank of Australia kept its policy rate unchanged at 4.35% this morning, but **dropped forward guidance that a further increase in interest rates cannot be ruled out.** They changed it by indicating that the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and that **the Board doesn't rule anything in or out.** There are encouraging signs that inflation is moderating, but the economic outlook remains uncertain. **The central forecasts are for inflation to return to the target range of 2%–3% in 2025, and to the midpoint in 2026.** Household consumption growth remains particularly weak but real incomes are expected to rise and support consumption later in the year. Conditions in the labour market continue to ease gradually, although they remain tighter than is consistent with sustained full employment and inflation at target. AUD swap rates drop 5 to 8 bps this morning with the front end of the curve outperforming. The Aussie dollar slips from AUD/USD 0.6560 to 0.6520. First real support stands around 0.6450.

- **Bulgarian FM Vassilev says that he didn't give up on January 1st to adopt the euro, but warned that the start-of-the-year target is very close.** He said that a March or July date would also be possible. Eurogroup president Donohoe said it's up to the government to request a further economic evaluation. **Meeting the inflation test will be key.** Apart from that, political turmoil is delaying efforts to carry out structural reforms.

Graphs

GE 10y yield

Huge December bond rally on goldilocks scenario: avoiding a recession while the disinflationary process allows central bankers to pivot to rate cuts. However, a strong February CPI validated recent ECB guidance that more confirmation is needed to decide on the timing of the first ECB rate cut, probably in summer. The 10-y German yield came close to the 2.50% barrier, **but the move ran into resistance due to the poor EMU economic performance.**

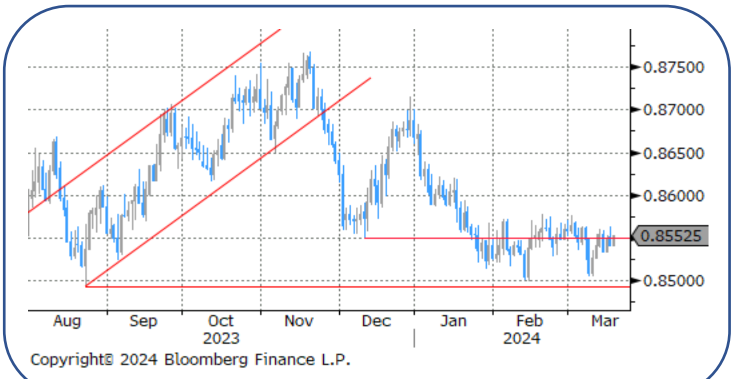


US 10y yield

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/February US CPI, forced investors to abandon hopes on an early/aggressive Fed rate cut. US yields revisit the YTD highs.

EUR/USD

The dollar lost out during the end of 2023 bond rally, but the 2023 high (1.1276) stayed out of reach. **The 2024 comeback thereafter** lost momentum mid-February after the USD failed to overcome resistance in the 1.07 area. Return action higher allowed EUR/USD to escape from the downward channel. Low volatility dominates trading.



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. No clear directional trend in low volatility trading.

Calendar & Table

Tuesday, 19 March		Consensus	Previous
US			
13:30	Building Permits MoM/Total (Feb)	0.50%/1496k	-0.30%R/1489kR
13:30	Housing Starts MoM/Total (Feb)	8.20%/1440k	-14.80%/1331k
21:00	Net Long-term TIC Flows (Jan)	--	$160.2b
Canada			
13:30	**CPI NSA MoM/YoY (Feb)**	**0.60%/3.10%**	**0.00%/2.90%**
13:30	Median YoY% (Feb)	3.30%	3.30%
13:30	Trim YoY% (Feb)	3.40%	3.40%
Japan			
19MAR	**BOJ Policy Balance Rate**	**0.00%A/0.10%A**	**-0.10%**
19MAR	**BOJ 10-Yr Yield Target**	**SCRAPPED**	**0.00%**
EMU			
11:00	ZEW Survey Expectations (Mar)	--	25
Germany			
11:00	ZEW Survey Expectations (Mar)	20.5	19.9
11:00	ZEW Survey Current Situation (Mar)	-82.0	-81.7
Australia			
04:30	**RBA Cash Rate Target**	**4.35%A**	**4.35%**
Events			
09:30	ECB's Guindos Speaks		
15:00	FOMC Begins Two-Day Meeting		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.32	0.02		US	4.73	0.00	DOW	38790.43	75.66
DE	2.46	0.02		DE	2.95	0.01	NASDAQ	16103.45	130.28
BE	2.98	0.01		BE	2.98	-0.01	NIKKEI	40003.6	263.16
UK	4.09	-0.01		UK	4.30	-0.03	DAX	17932.68	-3.97
JP	0.74	-0.03		JP	0.18	-0.01	DJ euro-50	4982.76	-3.26
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.01	4.36	4.31	Ester	3.9090	0.0000			
5y	2.81	4.10	4.00	Euribor-1	3.8550	-0.0070	SOFR-1	5.3292	0.0007
10y	2.72	3.94	3.81	Euribor-3	3.9280	0.0000	SOFR-3	5.3341	0.0003
				Euribor-6	3.9150	0.0070	SOFR-6	5.2811	0.0005
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0872	-0.0017		EUR/JPY	162.17	-0.14	CRB	287.24	2.61
USD/JPY	149.15	0.11		EUR/GBP	0.8542	-0.0008	Gold	2185.90	2.80
GBP/USD	1.2729	-0.0007		EUR/CHF	0.9653	0.0031	Brent	86.89	1.55
AUD/USD	0.656	0.0000		EUR/SEK	11.3435	0.0615			
USD/CAD	1.3534	-0.0008		EUR/NOK	11.584	0.0237			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		**Bratislava**	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		**Budapest**	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at www.kbceconomics.be