

## Sunrise



Moving forward together.

Tuesday, 26 March 2024

# KBC Sunrise Market Commentary

## Markets

- In a more or less **synchronic, technically inspired move US, EMU and UK bond markets reversed most of Friday's rally**. Eco data were few and mostly second tier. **Marginally softer-than-expected US new homes sales** (-0,3% M/M) had little impact on trading. **Fed speakers covered the full spectrum of intra-FOMC views**. **Fed's Goolsbee** supports the median view of three rate cuts, but wants to see more progress with especially housing inflation puzzling the outlook. **Fed's Cook** also advocated a cautious approach as the disinflation process has become more uneven. **Fed's Bostic** reiterated his view that, if the economy develops as expected, the Fed can be patient with only one rate cut penciled in for this year. US yields rebounded between 3.6 bps (2-y) and 5.7 bps (10-y). **A \$66bn 2-y US Note auction was solid**. **German yields rebounded** between 5.8 bps (2-y) and 3.2 bps (30-y). Even so, markets still see > 80% chance of a first rate cut in June. **ECB's Lane** in this respect said he's confident that the wage normalization process is on track. **ECB's Panetta** (BoI) sees inflation quickly cooling to 2%, allowing for a possible rate cut. **The rebound in yields had no unequivocal impact on other markets**. **Equities** showed a mixed picture (S&P 500 -0.31%, Eurostoxx + 0.27%). **Oil remains** well bid (Brent \$86.8/b). The rise in yields didn't help the dollar. DXY lost modest ground (close 104.22). EUR/USD rebounded to close at 1.0837. The rebound of the yen, even against a soft dollar remains limited despite high profile verbal interventions from Vice Fin Min Kanda. EUR/GBP was blocked in a tight intraday trading range (close little changed at 0.8575).
- Asian equities this morning show no clear trend** as investors take a cautious approach toward the end of the quarter. **The PBOC again strengthened the fixing of the yuan**, resulting in a further improvement of the off-shore yuan while the on-shore currency is trading marginally softer (USD/CNY 7.2194). **Later today**, the US Philly Fed Non-Manufacturing Survey, durable goods orders, house price data and consumer confidence (Conf. Board) will be published. Durable goods orders are notoriously volatile. Shipments are expected to ease after a strong reading last month. Higher than expected house prices might keep housing-related inflation in focus. **US consumer confidence** is expected to stabilize (107 from 106.7). We don't expect today's releases to be a 'game-changer'. Bond market sentiment remains a bit diffuse after last week's 'mixed Fed guidance'. Yesterday's rebound suggests that there is little room for markets to further position for an early/aggressive Fed easing cycle. **If so, the downside in the dollar should stay well protected**. Also keep an eye at the policy decision of the Hungarian central Bank (MNB). After the recent decline of the forint, **the MNB will probably scale back the one-off February pace of a 100 bps cut**. **Most market participants expect 75 bps easing, but 50 bps might also be on the table**.

## News & Views

- The US' independent budgetary watchdog warned for a Liz Truss-style market shock if the government fails to address the matter of ballooning federal debt**. Swagel, director of the CBO, referred to the gilt and pound collapse in September 2022 when former PM Truss announced sweeping tax cuts funded by more debt. It eventually led to her resignation after being in office for only 45 days. Swagel said the US was not there yet but **risks are rising**. His comments came a day after the CBO issued new longer-term economic projections, which showed debt levels rising to 166% of GDP in 2054. But in 5 years already, the US debt-to-GDP ratio would exceed the WWII high of 116%. **The US is expected to run deficits of about 6% over the next 10 years** before increasing further on higher net interest outlays. These forecasts are based on the scheduled expiry of Trump's 2017 tax cuts in 2025. Some calculations estimate the cost at \$5tn for making these permanent.
- The French 2023 deficit turned out bigger than the government expected in a setback for president Macron's ambition to address the country's fiscal challenges**. Official figures issued this morning showed the shortage expanding from 4.8% in 2022 to 5.5% last year. The Élysée had penciled in a marginal uptick to 4.9%. **Growth in tax revenues slowed sharply amid economic stagnation while spending eased only slightly**. Debt-to-GDP dropped from 111.9% at the end of 2022 to 110.6%.

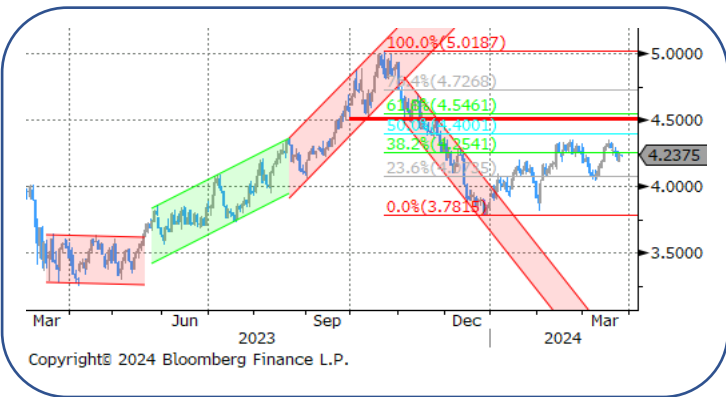
# Graphs



**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.**



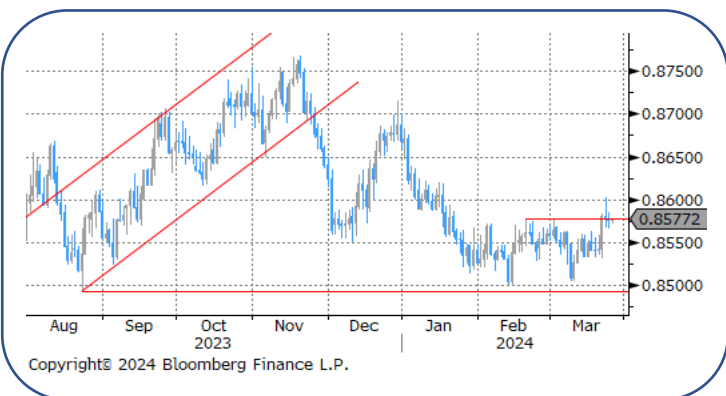
**US 10y yield**

**The March dot plot contained several hawkish elements including a symbolically higher neutral rate.** In our view they set the stage for a later (September) start of a possibly shallower cutting cycle. Upcoming CPI readings (through base effects) and resilient eco data should confirm this. US yields continue to enjoy a solid bottom across the maturity spectrum. The YtD high for the 10-y yield remains within reach.



**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. EUR/USD in March oscillated around 1.09. Resistance at around 1.0981 came close but wasn't easy to break given growing economic and monetary divergence.



**EUR/GBP**

The remaining two hawks dropped calls for a rate hike at the March Bank of England policy meeting. **The debate is now squarely focused at the timing of rate cuts.** UK money markets frontload the start from August to June, similar to the ECB. Sterling's downside turned more vulnerable with the topside of the sideways EUR/GBP 0.8493 - 0.8768 trading range serving as the first real technical reference.

# Calendar & Table

Tuesday, 26 March		Consensus	Previous
<b>US</b>			
13:30	Philadelphia Fed Non-Manufacturing Activity (Mar)	--	-8.8
<b>13:30</b>	<b>Durable Goods Orders (Feb P)</b>	<b>1.00%</b>	<b>-6.20%</b>
13:30	Durables Ex Transportation (Feb P)	0.40%	-0.40%
13:30	Cap Goods Orders Nondef Ex Air (Feb P)	0.10%	0.00%
<b>13:30</b>	<b>Cap Goods Ship Nondef Ex Air (Feb P)</b>	<b>0.10%</b>	<b>0.90%</b>
14:00	FHFA House Price Index MoM (Jan)	0.30%	0.10%
14:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Jan)	0.20%/6.60%	0.21%/6.13%
<b>15:00</b>	<b>Conf. Board Consumer Confidence (Mar)</b>	<b>107</b>	<b>106.7</b>
15:00	Conf. Board Present Situation (Mar)	--	147.2
15:00	Conf. Board Expectations (Mar)	--	79.8
15:00	Richmond Fed Manufact. Index (Mar)	-5	-5
15:00	Richmond Fed Business Conditions (Mar)	--	-7
15:30	Dallas Fed Services Activity (Mar)	--	-3.9
<b>Japan</b>			
00:50	PPI Services YoY (Feb)	2.10%A	2.10%
<b>Germany</b>			
08:00	GfK Consumer Confidence (Apr)	-28	-29
<b>Hungary</b>			
<b>14:00</b>	<b>Central Bank Rate Decision</b>	<b>8.25%</b>	<b>9.00%</b>
<b>Events</b>			
05:30	RBNZ's Conway Speaks About February MPS		
12:00	Germany to Sell Bonds		
18:00	U.S. To Sell USD67 Bln 5-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.25	0.05	US	4.63	0.04	DOW	39313.64	-162.26	
DE	2.37	0.05	DE	2.89	0.06	NASDAQ	16384.47	-44.35	
BE	2.94	0.05	BE	2.93	0.06	NIKKEI	40398.03	-16.09	
UK	3.99	0.06	UK	4.18	0.06	DAX	18261.31	55.37	
JP	0.74	0.01	JP	0.20	0.00	DJ euro-50	5044.19	13.04	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.94	4.24	4.14	Ester	3.9090	0.0000			
5y	2.73	4.00	3.85	Euribor-1	3.8420	-0.0110	SOFR-1	5.3319	0.0008
10y	2.66	3.89	3.72	Euribor-3	3.8860	-0.0170	SOFR-3	5.3123	0.0055
				Euribor-6	3.8550	-0.0190	SOFR-6	5.2330	0.0152
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0837	0.0029	EUR/JPY	164.09	0.42	CRB	288.94	3.18	
USD/JPY	151.42	0.01	EUR/GBP	0.8576	-0.0001	Gold	2198.20	16.60	
GBP/USD	1.2636	0.0035	EUR/CHF	0.9747	0.0048	Brent	86.75	1.32	
AUD/USD	0.654	0.0025	EUR/SEK	11.4623	0.0433				
USD/CAD	1.3586	-0.0018	EUR/NOK	11.6117	-0.0131				

## 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
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
CSOB Economics – Markets Prague		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)



This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.