

## Sunrise



Moving forward together.

Wednesday, 27 March 2024

# KBC Sunrise Market Commentary

## Markets

- Quite a long series of US data (including consumer confidence, house price data, durable goods orders and regional business sentiment) yesterday failed to provide any clear directional guidance for US and broader markets trading. **US and German yields lost 1-2 bps across the curve.** This **low volatility environment** initially supported a further upward drift in equities, but US indices surrendered in the final hour of trading. The S&P 500 closed 0.28% lower. The Eurostoxx 50 still finished in green (+0.40%) at a multi-year top. **The dollar overcame initial softness**, but the move already occurred before the correction in US equities. DXY closed at 104.30. EUR/USD intraday filled offers above 1.086, but closed at 1.083. The dollar outperformed the yen despite ongoing interventions warnings from Japanese officials (close 151.56).

**In central Europe**, the forint **drew some comfort as the Hungarian central bank (MNB) scaled back the pace of rate cuts from 100 bps in February to 75 bps yesterday (to 8.25%).** The MNB downwardly revised its 2024 inflation outlook to a range of 3.5%-5.0%. However, financial stability issues make the MNB to follow a careful approach. Vice governor Virag at the press conference even indicated that MNB policy entered a new phase due to market risks. Virag signaled a further slowing of the pace of rate cuts in Q2. The forint strengthened from levels close to EUR/HUF 397 yesterday morning to close near EUR/HUF 395.5
- This morning Asian equities are trading mixed with China underperforming and Japan outperforming.** The Nikkei (+0.9%) just missed a new record close. **The yen touched the weakest level against the dollar since 1990, but the USD/JPY 152 barriers survives.** BOJ member Naoki Tamura advocated slow but steady further policy normalization. However, these comments didn't change market perception that conditions will remain loose for quite some time to come, keeping the yen in the defensive. Further yen losses were avoided as Fin Min Suzuki warned that they are watching market moves with a high sense of urgency and that they will take **bold measures against excessive moves.** Intervention fears pushed USD/JPY back to the 151.7 area. However, 'hard money' is probably needed to give the yen some real breathing space. **Later today**, there are no important data in the US. In Europe confidence data from the European Commission will be published and **Spanish inflation data might give a first glimpse of the EMU March inflation dynamics.** The Swedish Riksbank is expected to leave its policy rate unchanged, but markets will look out how strongly it reconfirms guidance on a possible rate cut already in H1. **In core US and EMU yield markets we expect more technical trading ahead of additional EMU national inflation data tomorrow and the US PCE deflators on Friday.** EUR/USD still is at risk of losing the 1.0796 support area.

## News & Views

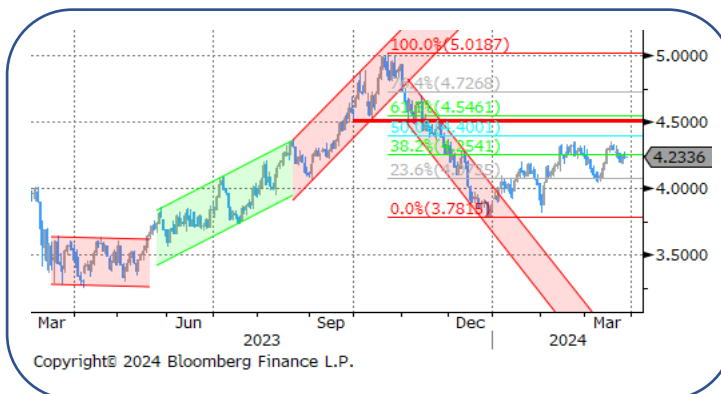
- Australia's monthly CPI indicator rose 3.4% y/y in February.** Prices have been rising at that pace for three consecutive months now. Excluding volatile items including fuel, fruit and vegetables, **a core gauge rose 3.9%, down from 4.1%.** The Australian Bureau of Statistics singled out housing (4.6%), food (3.6%), alcohol and tobacco (6.1%) and insurance & financial services (8.4%) as the most significant contributors. Within housing, rents increased by 7.6%. The acceleration from 7.4% in January reflects a tight rental market and low vacancy rates across the country. **Food price rises were the slowest (annually) since January 2022** amid falling prices in meat and seafood as well as fruit and vegetables. Holiday travel and accommodation prices eased 1.3% y/y. The Australian dollar fell marginally as the 3.4% outcome defied market expectations for a minor uptick to 3.5%. But **AUD/USD soon recovered, trading virtually unchanged around 0.653.**
- Cocoa prices topped \$10 000 per ton for the first time ever yesterday.** Prices have been steadily rising since 2023 and hovered just north of \$4000 at the beginning of the year. The meteoric rise in just two months finds its roots in poor harvests from key African producers. Bad weather and old, decaying trees suffering from disease have slashed crop yields in Ivory Coast and Ghana, which together cover more than two-thirds of the world output. The price surge is likely to have been exacerbated by a short squeeze as well.

# 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.**



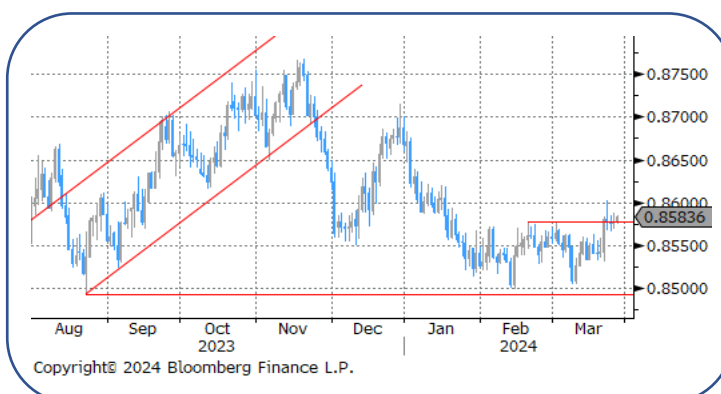
## US 10y yield

**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

Wednesday, 27 March		Consensus	Previous
<b>UK</b>			
01:01	Lloyds Business Barometer (Mar)	42A	42
01:01	Lloyds Own Price Expectations (Mar)	57A	58
<b>EMU</b>			
11:00	Consumer Confidence (Mar F)	--	-14.9
11:00	Services Confidence (Mar)	7.8	6
11:00	Industrial Confidence (Mar)	-9.5	-9.5
11:00	<b>Economic Confidence (Mar)</b>	<b>96.2</b>	<b>95.4</b>
<b>France</b>			
08:45	Consumer Confidence (Mar)	90	89
<b>Spain</b>			
09:00	<b>CPI EU Harmonised MoM/YoY (Mar P)</b>	<b>1.40%/3.30%</b>	<b>0.40%/2.90%</b>
09:00	CPI MoM/YoY (Mar P)	0.60%/3.10%	0.40%/2.80%
09:00	CPI Core YoY (Mar P)	3.40%	3.50%
<b>Sweden</b>			
09:30	<b>Riksbank Policy Rate</b>	<b>--</b>	<b>4.00%</b>
<b>Events</b>			
10:00	ECB's Cipollone Speaks		
11:00	Italy to Sell Bonds		
11:30	Germany to Sell EU3 Billion of 2.4% 2030 Bonds		
11:30	Bank of England financial policy committee minutes		
19:00	U.S. To Sell USD43 Bln 7-Year Notes		
23:00	<b>Fed's Waller Speaks on Economic Outlook</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,23	-0,01		US	4,59	-0,03	DOW	39282,33	-31,31
DE	2,35	-0,02		DE	2,87	-0,01	NASDAQ	16315,7	-68,77
BE	2,92	-0,02		BE	2,92	-0,01	NIKKEI	40762,73	364,70
UK	3,97	-0,02		UK	4,18	0,00	DAX	18384,35	123,04
JP	0,73	-0,01		JP	0,20	0,00	DJ euro-50	5064,18	19,99
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2,93	4,24	4,15	Ester	3,9060	-0,0030			
5y	2,71	3,99	3,85	Euribor-1	3,8300	-0,0120	SOFR-1	5,3283	-0,0036
10y	2,63	3,87	3,69	Euribor-3	3,9020	0,0160	SOFR-3	5,3058	-0,0065
				Euribor-6	3,8580	0,0030	SOFR-6	5,2254	-0,0076
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0831	-0,0006		EUR/JPY	164,16	0,07	CRB	287,82	-1,12
USD/JPY	151,56	0,14		EUR/GBP	0,8577	0,0001	Gold	2199,20	1,00
GBP/USD	1,2628	-0,0008		EUR/CHF	0,9791	0,0044	Brent	86,25	-0,50
AUD/USD	0,6533	-0,0007		EUR/SEK	11,4718	0,0095			
USD/CAD	1,3584	-0,0002		EUR/NOK	11,6531	0,0414			

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