Thursday, 28 March 2024

KBC Sunrise Market Commentary

Markets

- German Bunds outperformed US Treasuries yesterday on **milder than expected Spanish CPI and soft comments from Italian ECB board member Cipollone.** He suggested that the ECB might be able to reduce rates swiftly as the to give the economy a chance to recover as inflation eases. German yields declined between 5.8 bps (5 & 10-y) and 4.3 bps (2-y). US yields ceded between 2.3 bps (2-y) and 4.7 bps (30-y). A $43bn 7-y US Treasury action went smoothly. A further easing of financial conditions supported equities (Dow +1.22%). **The dollar mostly succeded marginal gains** (DXY close 104.34; EUR/USD 1.0828). USD/JPY 152 remains a potential line in the sand for BoJ interventions. The yen gained modestly to close at USD/JPY 151.33, but the picture remains fragile.

- After US close, **Fed Waller brought gave an update on his end of February "What's The Rush" comments in a** speech before the before the Economic Club of New York titled: "There's Still No Rush". **Economic output and the labor market show continued strength, while progress in reducing inflation has slowed.** Economic growth is slowing from elevated levels, but evidence of a significant slowdown is sparse. There are indications that the labour market is moving toward a better balance, but it is still adding jobs at a rapid pace. With respect to inflation, Waller analyses that 3 and 6 month annualized core measures were running at a 4.2% and 3.9% pace in February. These shorter-term inflation measures suggest that progress has slowed or even may have stalled. Waller wants ***'to see at least a couple months of better inflation data before I have enough confidence that beginning to cut rates will keep the economy on a path to 2 percent inflation.'.*** This hope for evidence de facto won't be evident as base effects suggest a further upward drift in inflation in the next five months. A first Fed rate cut in June seems highly premature. US yields this morning add between 4 bps (2-y) and 0.5 bps (10-y).

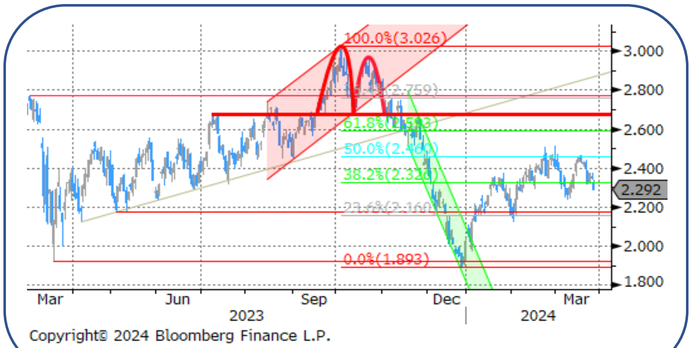
- **Later today,** the eco calendar contains **US weekly jobless claims, the MNI Chicago PMI and pending home sales.** German retail sales again disappointed (-1.9% M/M) this morning. Belgium and Portugal publish February inflation data. French, German, Italian and US PCE deflators are tomorrow on tap. Wallers' comments might help to put a floor below (US and EMU) yields and benefit the dollar with EUR/USD closing in on the 1.08 big figure/support area.

News & Views

- **Rating agency S&P affirmed the US' AA+ rating with a stable outlook.** The decision is supported by the wealth, resilience, and diversity of its economy, its institutional strengths, extensive economic policy flexibility including proactive monetary policy and the unique status of the dollar as the world's leading reserve currency. But **comparatively weak fiscal indicators that continue to constrain the sovereign credit rating offset those strengths.** The agency notes that (bipartisan) efforts to meaningfully lower deficits and tackle budgetary rigidities remain elusive. Deficits are projected to average 6% of GDP in the coming years, pushing the debt to GDP ratio from 94% in 2023 beyond 100% in 2026-2027. Due to a changed interest environment, S&P expects net general government interest to revenues to stick around the 2023 levels of 11%. GDP growth is seen at 2.5% this year before averaging to 1.7% in 2025-2027. Inflation should ease from 2.8% this year towards the 2% over the next couple of years.

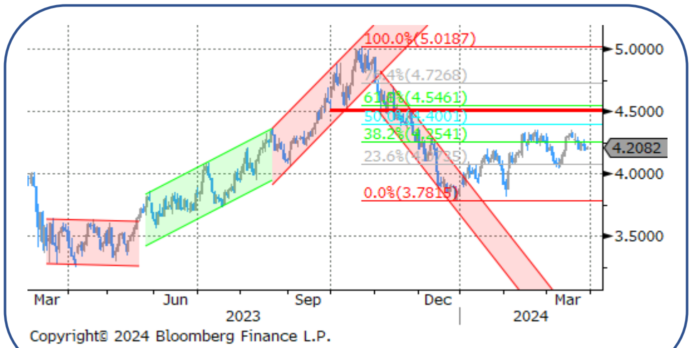
- Polish **MPC member Maslowska in an interview with PAP newswire said it's possible to think about rate cuts in the second half of 2025 or early 2026.** She refers to the many uncertainties that could drive up inflation and the current projection of not hitting the target until 2026. Maslowska didn't even want to rule out a hike this year should one or more of the upside risks materialize. On the zloty, which continues to trade around the multiyear highs of EUR/PLN at 4.3, she said **there's still room for appreciation** that could be tolerated. Her colleague Iwona Duda sounded slightly less hawkish. While she saw no room for rate cuts this year, the discussion itself could start at the end of 2024..

Graphs



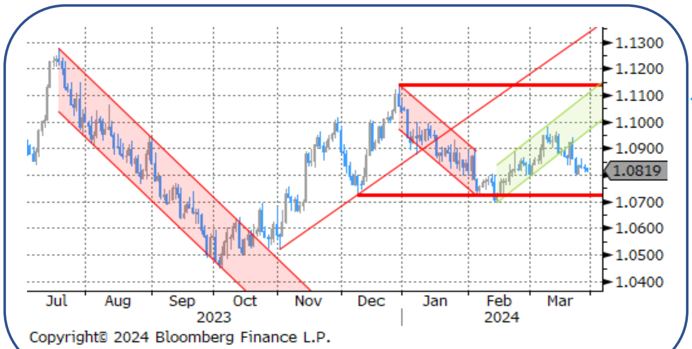
GE 10y yield

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.**



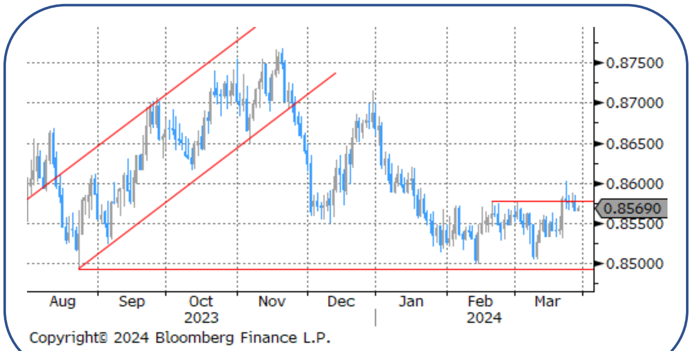
US 10y yield

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

Thursday, 28 March		Consensus	Previous
US			
13:30	**Initial Jobless Claims**	**212k**	**210k**
13:30	Continuing Claims	1815k	1807k
14:45	MNI Chicago PMI (Mar)	46	44
15:00	Pending Home Sales MoM/NSA YoY (Feb)	1.50%/--	-4.90%/-6.80%
15:00	U. of Mich. Sentiment (Mar F)	76.5	76.5
16:00	Kansas City Fed Manf. Activity (Mar)	-4	-4
EMU			
10:00	M3 Money Supply YoY (Feb)	0.30%	0.10%
Germany			
09:55	Unemployment Change (000's) (Mar)	10.0k	11.0k
09:55	Unemployment Claims Rate SA (Mar)	5.90%	5.90%
Italy			
10:00	Consumer Confidence Index (Mar)	97.6	97
10:00	Manufacturing Confidence (Mar)	87.8	87.3
10:00	Economic Sentiment (Mar)	--	95.8
12:00	PPI MoM/YoY (Feb)	--/--	-2.50%/-14.00%
Belgium			
28MAR	**CPI MoM/YoY (Mar)**	**--/--**	**0.71%/3.20%**
Events			
18:30	**ECB's Villeroy speaks**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,19	-0,04		US	4,57	-0,02	DOW	39760,08	477,75
DE	2,29	-0,06		DE	2,83	-0,04	NASDAQ	16399,52	83,82
BE	2,88	-0,04		BE	2,87	-0,05	NIKKEI	40168,07	-594,66
UK	3,93	-0,04		UK	4,14	-0,04	DAX	18477,09	92,74
JP	0,71	-0,02		JP	0,19	-0,01	DJ euro-50	5081,74	17,56
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,89	4,21	4,12	Ester	3,9060	0,0000			
5y	2,66	3,96	3,82	Euribor-1	3,8350	0,0050	SOFR-1	5,3280	-0,0003
10y	2,58	3,83	3,66	Euribor-3	3,9080	0,0060	SOFR-3	5,2999	-0,0059
				Euribor-6	3,8620	0,0040	SOFR-6	5,2195	-0,0059
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0828	-0,0003		EUR/JPY	163,75	-0,41	CRB	286,76	-1,05
USD/JPY	151,33	-0,23		EUR/GBP	0,8566	-0,0011	Gold	2212,70	13,50
GBP/USD	1,264	0,0012		EUR/CHF	0,9786	-0,0005	Brent	86,09	-0,16
AUD/USD	0,6535	0,0002		EUR/SEK	11,4903	0,0185			
USD/CAD	1,3568	-0,0016		EUR/NOK	11,6763	0,0232			

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