

Sunrise



Monday, 08 April 2024

KBC Sunrise Market Commentary

Markets

- Friday's March payrolls were strong across the board.** Employment topped all estimates by growing 303k, wage growth was solid and the unemployment rate eased back to 3.8% despite an uptick in the participation rate. The first Fed governors commenting after the release erred to the hawkish side. Dallas president Logan said there's no urgency in cutting rates, adding that the risk of cutting too soon is higher than being late. She's worried about disinflation stalling. Fed governor Bowman continues to see upside inflation risks and isn't comfortable with cutting until disinflation returns. **Both Logan and Bowman stated the possibility of a higher neutral rate, which would limit the Fed's overall cutting capacity.** US yields across the maturity spectrum revisited the YtD highs. **We expected the break higher would need confirmation from Wednesday's US CPI (March). Yet, it's already happening as we speak.** Granted, Asian dealings usually just pick up where US financial markets left off but the technical breaks are there. Apart moving beyond the YtD high, the US 2-y yield also surpasses resistance from the 200DMA to trade around 4.78%. The 10-y tenor jumped above the 4.40% resistance (50% recovery on the 2023Q4 decline) this morning and eked out further gains to a new 2024 high. US money markets increasingly push a first cut by the Fed further into time and **will look for additional evidence supporting their case in a reaccelerating (headline) CPI.** The dollar neither on Friday neither this morning really stands to benefit from the yield support, despite being driven by the real component and concentrating at the front-end of the curve (>10 bps). EUR/USD rebounded from an intraday-low just south of 1.08 to close unchanged at 1.0837. It's hanging around these levels this morning. Rising German yields offer only part of the explanation since the move higher was only a fraction of what happened in the US (1.2-3.9 bps). A surprisingly resilient risk environment (US stock markets rose up to 1.2%) is a second piece of the puzzle. Equally astounding is the ongoing rally in gold, with new record highs for the shiny metal (again) today. Oil prices retreated sub \$90/barrel with a partial retreat by Israeli forces from southern Gaza easing some of the geopolitical/supply concerns. Other than inflation figures in the US, the eco calendar **gives the stage to the ECB on Thursday.** Frankfurt won't have the desired wage negotiation data by then, giving Lagarde an easy way out of tricky questions. It does have input from the Bank Lending Survey (Tuesday). The central bank of Canada and New Zealand both meet on Wednesday and US banks kick off the Q1 earnings season on Friday. A slew of Fed speeches are scattered across the week.

News & Views

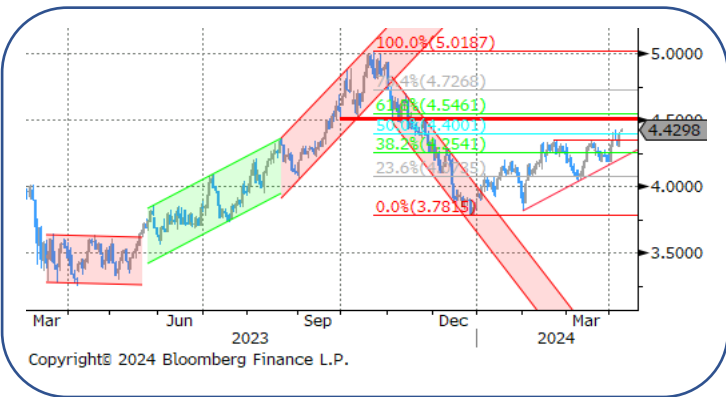
- Peter Pellegrini has won the presidential elections in Slovakia this weekend** as he defeated the pro-Western candidate Ivan Korcok. Pellegrini is an ally of Prime Minister Robert Fico and is seen as Russia-friendly. Pellegrini secured 53.1% of the votes. Even as the president in Slovakia has only limited executive powers, the victory of Pellegrini is seen as supporting a policy of the country further withdrawing its support for Ukraine. **Pellegrini who, as a president, can veto laws and can nominate judges, also might support reforms of the government** with respect to criminal law and media that might be contested by the EU. Despite his Pro-Russian, Ukraine sceptic stance, Pellegrini reiterated that Slovakia will remain a strong member of EU and Nato.
- In a news conference on Friday, Governor of the National Bank of Poland (NBP) **Glapinski said that the NBP didn't discuss rate cuts at last week's policy meeting.** He even indicated that no one is talking about 2024 rate cuts altogether. **The room for rate cuts in 2025 will depend on the inflation figures at the end of this year.** Glapinski reiterated that there is still a high the degree of uncertainty. Polish CPI in Q4 is seen in a wide range between 3.9% (if anti-inflation measures are maintained) and 7.5% (if fully removed). **Glapinski sees current decline in inflation as temporary** (1.9% Y/Y in March) as higher VAT on food prices will filter through in coming months. Glapinski is also **worried about the inflationary impact of real wages rising fast together with a reacceleration of the economy.** Polish 2-y swap yields jumped 9 bps Friday afternoon (5.43%), even as this was partially due to the overall rise in core yields post strong US payrolls. The zloty remains well bid. At EUR/PLN 4.28, the Polish currency is holding within reach of the strongest levels against the euro since February 2020. (YTD low 4.2749).

Graphs



GE 10y yield

ECB President Lagarde clearly hinted at a Summer (June?) rate cut and seems to have broad backing. EMU disinflation will continue the next two months and bring headline CPI (temporary) at/below the 2% target. Together with weak growth momentum, this gives backing to deliver a first 25 bps rate cut. Markets are again running ahead of themselves in terms of the total amount of rate cuts over the next 12 months.



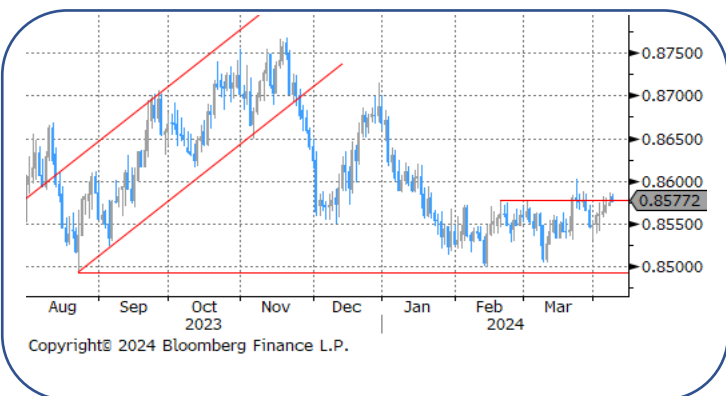
US 10y yield

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 at the earliest) 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, setting fresh YTD highs.



EUR/USD

Economic divergence (US > EMU) and a likely desynchronized rate cut cycle with the ECB exceptionally taking the lead pulled EUR/USD towards the YTD low at 1.0695. A break lower opens the path to last year's low at 1.0494.



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

Monday, 8 April		Consensus	Previous
US			
17:00	NY Fed 1-Yr Inflation Expectations (Mar)	--	3.04%
Japan			
01:30	Labor/Real Cash Earnings YoY (Feb)	1.80%A/-1.30%A	1.50%R/-1.10%R
01:30	Cash Earnings-Same Sample Base YoY (Feb)	1.90%A	2.00%
01:30	Scheduled Full-Time Pay-Same Base YoY (Feb)	2.10%A	2.00%
07:00	Eco Watchers Survey Current SA (Mar)	51.6	51.3
07:00	Eco Watchers Survey Outlook SA (Mar)	53.3	53
EMU			
10:30	Sentix Investor Confidence (Apr)	-8.3	-10.5
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Feb)	0.50%/-6.80%	1.00%/-5.50%
08:00	Trade Balance SA (Feb)	25.0b	27.5b
08:00	Exports SA MoM (Feb)	-0.50%	6.30%
08:00	Imports SA MoM (Feb)	-1.20%	3.70%
Events			
01:01	S&P Global, KPMG and REC UK Report on Jobs		
09:00	Riksbank's Thedeen speech at Nordea in Copenhagen		
11:00	ECB's Stournaras Speaks at Bank of Greece AGM		
11:30	EU to Sell Bonds		
12:00	Riksbank's Thedeen speech in Malmo		
14:00	National Bank of Poland Publishes Minutes of Rate Meeting		
17:15	SNB's Jordan, BIS's Carstens Speak in Zurich		
17:30	BOE's Breeden speaks		
19:00	Riksbank's Thedeen speech in Malmo		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.40	0.09	US	4.75	0.10	DOW	38904.04	307.06	
DE	2.40	0.04	DE	2.88	0.01	NASDAQ	16248.52	199.44	
BE	2.98	0.05	BE	2.93	0.02	NIKKEI	39295.54	303.46	
UK	4.07	0.05	UK	4.22	0.04	DAX	18175.04	-228.09	
JP	0.78	-0.01	JP	0.23	0.02	DJ euro-50	5014.75	-56.01	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.95	4.40	4.18	Ester	3.9070	-0.0050			
5y	2.74	4.15	3.90	Euribor-1	3.8880	0.0110	SOFR-1	5.3198	0.0038
10y	2.68	4.02	3.79	Euribor-3	3.8850	-0.0060	SOFR-3	5.3053	0.0222
				Euribor-6	3.8340	-0.0100	SOFR-6	5.2453	0.0405
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0837	0.0000	EUR/JPY	164.32	0.29	CRB	297.58	1.24	
USD/JPY	151.62	0.28	EUR/GBP	0.8575	0.0003	Gold	2345.40	36.90	
GBP/USD	1.2638	-0.0004	EUR/CHF	0.9771	0.0003	Brent	91.17	0.52	
AUD/USD	0.6579	-0.0009	EUR/SEK	11.5309	-0.0014				
USD/CAD	1.359	0.0047	EUR/NOK	11.6252	-0.0010				

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