

## Sunrise



Moving forward together.

Thursday, 11 April 2024

## KBC Sunrise Market Commentary

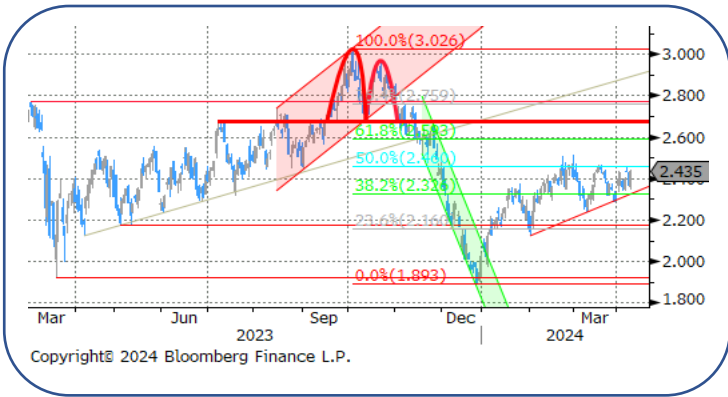
### Markets

- Above-consensus CPI, driven by low 2023 base effects and far more important by (very) strong current price dynamics, sent shockwaves through the bond market yesterday. Ongoing economic resilience and a more than healthy labour market combined with sticky price pressures (January and February were NOT a blip) **raise serious questions to the Fed's ability to cut rates three times this year – or just lower them at all**. The market implied probability after March inflation numbers yesterday for a June rate cut dropped to 20%. July is given a 50% chance only and even September is no longer fully priced in. Cumulative easing amounted to less than 2 rate cuts in 2024. US front end yields surged 23-24 bps. The long end joined by adding 12-18 bps in the 10y-30y bucket, **supported by a tailing \$39bn 10-y auction and unhindered by the FOMC minutes**. Policymakers in the March policy meeting discussions “generally favored” slowing the balance sheet roll-off “fairly soon”. The idea was floated to halve the current monthly pace in USTs (\$60bn) but stick with the \$35bn cap on MBS. With the backing of risk aversion (stocks about 1% lower) and favourable interest rate differentials, there was no stopping the US dollar. DXY surged to a new YTD high of 105.24 – the highest level since mid-November. USD/JPY 152 long acted as a deterrent with markets fearing JPY losses beyond this level would prompt Japanese FX interventions. **But the dollar crushed this resistance zone by closing at 153.24**. New verbal warnings hit the wires this morning but without money on the table for now. EUR/USD posted the biggest one-day decline since March 2023, dropping more than a full big figure from 1.0857 to 1.0743. **The technical charts look dire and pose a great challenge to Lagarde**. The ECB meets today but the decision itself (status quo) won't be surprising. The difficult part lies in the press conference afterwards. Weak (but gradually recovering) economic & credit (e.g. Tuesday's BLS) indicators and ongoing disinflation back the case for a June rate cut. But because the data about Q1 wage negotiations aren't available yet, Lagarde will probably just offer hints instead of outright committing to our base case. The key is what happens next. While the ECB in theory moves independently, **the maneuvering room in practice remains limited when the Fed has its hands tied**. Frankfurt can only lower rates so far before you'll start seeing the consequences for the euro. **A not hawkish enough Lagarde will undoubtedly trigger Bund outperformance and euro weakness** against a resurgent US dollar. EUR/USD 1.0695 is less than half a big figure away. A break lower paves the way for a return to the 2023 low of 1.0448.

### News & Views

- The Bank of Canada kept its policy rate unchanged at 5% yesterday and continues its policy of quantitative tightening**. In its new Monetary Policy Report, the BoC forecasts GDP growth of 1.5% in 2024, 2.2% in 2025 and 1.9% in 2026. The strengthening economy will gradually absorb excess supply through 2025 and into 2026. Since the January update, oil prices averaged about \$5/b more than assumed. Overall financial conditions have eased. Canadian CPI inflation slowed (2.8% Y/Y) with easing in price pressures becoming more broad-based. **Sticky shelter price inflation remains an area of concern though**. The BoC expects CPI inflation to be close to 3% during the first half of this year, move below 2.5% in the second half, and reach the 2% inflation target in 2025. In coming months, **the BoC will look for more evidence that the downward trend in headline and core CPI is sustained**. Interestingly, **the BoC raised its estimate of the nominal neutral rate from 2%-3% in last year's assessment to 2.25%-3.25%**. USD/CAD yesterday surged to a new YTD high (USD/CAD 1.37) as the loonie succumbed to the mighty USD. CAD did slightly outperform against the euro (EUR/CAD 1.47). The market implied probability of a policy rate cut at the next, June, meeting fell from around 75% to 60%.
- Chinese inflation fell again in March (-1% M/M), pulling the Y/Y figure down to 0.1% from 0.7%**. The February figure was driven/distorted by stronger demand over the Lunar New Year holiday. **The setback was broad-based** with services inflation at 0.8% Y/Y from 1.9% and consumer goods prices falling by 0.4% (from -0.1%). Food inflation declined by 2.7% Y/Y (from -0.9%). **Core inflation slowed from 1.2% Y/Y to 0.6%**. Headline CPI averaged zero in Q1 2024, up from -0.3% in Q4 2023 but insufficient to put deflationary concerns to bed.

# Graphs



**GE 10y yield**

A June rate cut 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. But markets are running ahead of themselves in terms of the total amount of rate cuts over the next 12 months as the Fed's tied hands limit the ECB's manoeuvring room.



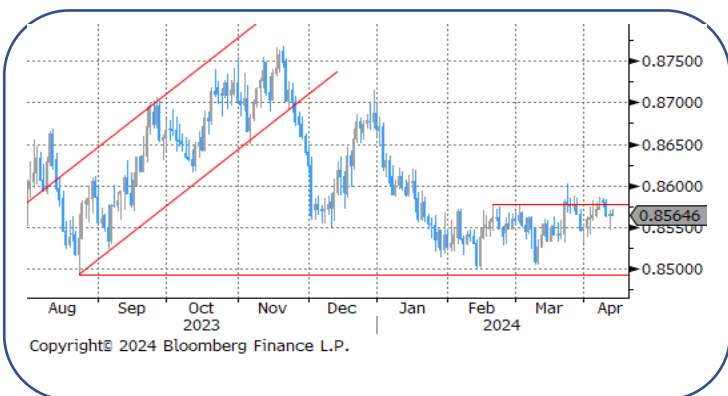
**US 10y yield**

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. March payrolls and CPI not only confirmed this, they raise question to the Fed's ability to cut rates at all. 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. The technical recovery after avoiding a break lower was wiped out following stronger-than-expected US March inflation figures. The downside looks increasingly vulnerable.



**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, 11 April		Consensus	Previous
<b>US</b>			
14:30	<b>PPI Final Demand MoM/YoY (Mar)</b>	0.30%/2.20%	0.60%/1.60%
14:30	PPI Ex Food and Energy MoM/YoY (Mar)	0.20%/2.30%	0.30%/2.00%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Mar)	0.20%/--	0.40%/2.80%
14:30	<b>Initial Jobless Claims</b>	<b>215k</b>	<b>221k</b>
14:30	Continuing Claims	1800k	1791k
<b>Japan</b>			
01:50	Money Stock M3 YoY (Mar)	1.80%A	1.80%
<b>UK</b>			
01:01	RICS House Price Balance (Mar)	-4%A	-10%
<b>EMU</b>			
14:15	<b>ECB Main Refinancing Rate</b>	<b>4.50%</b>	<b>4.50%</b>
14:15	<b>ECB Marginal Lending Facility</b>	<b>4.75%</b>	<b>4.75%</b>
14:15	<b>ECB Deposit Facility Rate</b>	<b>4.00%</b>	<b>4.00%</b>
<b>Germany</b>			
11APR	Current Account Balance (Feb)	--	29.7b
<b>Italy</b>			
10:00	Industrial Production MoM/WDA YoY (Feb)	0.50%/-2.70%	-1.20%/-3.40%
<b>China</b>			
03:30	PPI YoY (Mar)	-2.80%A	-2.70%
03:30	<b>CPI YoY (Mar)</b>	<b>0.10%A</b>	<b>0.70%</b>
<b>Hungary</b>			
08:30	<b>CPI MoM/YoY (Mar)</b>	<b>0.60%/3.50%</b>	<b>0.70%/3.70%</b>
<b>Events</b>			
10:30	Bank of England Bank Liabilities/Credit Conditions Surveys		
11:00	Italy to Sell Bonds		
13:15	Riksbank's Jansson speech on the economy and monetary policy		
14:45	<b>ECB President Christine Lagarde Holds Press Conference</b>		
14:45	<b>Fed's Williams Gives Keynote Remarks</b>		
18:00	<b>Fed's Collins Speaks at Economic Club of New York</b>		
19:00	U.S. To Sell USD22 Bln 30-Year Bond		
19:30	<b>Fed's Bostic Participates in Moderated Conversation</b>		
20:00	<b>BOE's Megan Greene speaks</b>		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4.54	0.18		US	4.97	0.23		DOW	38461.51	-422.16
DE	2.44	0.06		DE	2.97	0.08		NASDAQ	16170.36	-136.28
BE	2.99	0.06		BE	3.00	0.07		NIKKEI	39416.81	-165.00
UK	4.15	0.12		UK	4.35	0.14		DAX	18097.3	20.61
JP	0.86	0.05		JP	0.27	0.04		DJ euro-50	5000.83	9.93
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	3.04	4.64	4.33	Ester	3.9070	-0.0020				
5y	2.81	4.36	4.02	Euribor-1	3.8540	0.0170		SOFR-1	5.3210	0.0010
10y	2.71	4.17	3.86	Euribor-3	3.9120	-0.0040		SOFR-3	5.3325	0.0327
				Euribor-6	3.8300	-0.0380		SOFR-6	5.3167	0.0817
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.0743	-0.0114		EUR/JPY	164.54	-0.26		CRB	297.86	1.13
USD/JPY	153.16	1.40		EUR/GBP	0.8566	0.0002		Gold	2348.40	-14.00
GBP/USD	1.254	-0.0138		EUR/CHF	0.9806	-0.0003		Brent	90.48	1.06
AUD/USD	0.6512	-0.0117		EUR/SEK	11.5156	0.0573				
USD/CAD	1.3682	0.0111		EUR/NOK	11.6353	0.0449				

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