



Tuesday, 16 April 2024

## KBC Sunrise Market Commentary

### Markets

- Markets yesterday initially reacted stoic to Saturday's attack of Iran and against Israel. European and US equity markets even opened in green. Brent oil briefly dropped below the \$90 p/b mark. **Investors apparently expected any Israeli reaction to be guarded as the international community advocated de-escalation.** Yields also resumed the uptrend that was interrupted on Friday. The focus from bond market also returned to the data. US March retail sales printed exceptionally strong both for headline (0.7 % M/M) and core measures (control group 1.1% m/m). The report reinforced recent market positioning assessing that the three rate hikes suggested in the March Fed dots is becoming ever more unlikely. US yields for maturities > 2-y touched new YTD peak levels. The former was blocked by the 5.0% barrier. **Later, risk sentiment turned for the worse as Israeli officials warned the country will respond to the Iran attack.** (US) equities gave of initially gains to close deep in red (Nasdaq -1.79%). Oil reversed course closing north \$90 p/b. Especially short-term US yields ceded part of the early gains. Still, in a steepening move, yields closed between 2.4 bps (2-y) and 8.7 bps (30-y) higher. **German yields** showed similar gains (2-y +5.6 bps, 30-y 8.2 bps) but remain within the **sideways consolidation pattern** that is already in place since February. On FX markets, **the dollar continues to outshine peers.** The trade-weighted index DXY regained the 106 mark (106.21). USD/JPY touched a new 34-y top (close 154.28). EUR/USD saw more follow-through losses on Friday's break below 1.0695 (close 106.24).
- Yesterday's **WS risk-off spilled over to Asia this morning** with regional indices losing up to 2.0%. Chinese data published this morning (cf infra) don't help to improve sentiment. Still US Treasuries struggle to avoid further losses (+1 bp). The dollar outperforms (EUR/USD 1.0615, USD/JPY 134.35). Later today, the **eco calendar** is modestly interesting including ZEW confidence in Germany. In the US, building permits & housing starts and March production data will be released. **Even in a risk-off context, bonds probably aren't in a good position to play a safe haven role as inflationary risks won't disappear anytime soon.** At the same time, **the dollar has few contenders to rival its safe haven credentials.** EUR/USD 1.0611 (76% retracement Oct/Jan) is the finally hurdle for a return to the 2023 low (1.0448). UK labour data published this morning were mostly weaker than expected. Employment in the 3 months to February declined sharply (-156k vs +74k expected). The unemployment rate jumped from 4.0% to 4.2%. Average weekly earnings eases marginally less than expected. Sterling declines in a first reaction (EUR/GBP 0.854).

### News & Views

- Chinese growth beat expectations but it's only a shallow victory.** GDP expanded 1.6% q/q in 2024Q1, accelerating from an upwardly revised 1.2% in Q4 2023 and topping the 1.5% analyst estimate. **The accompanying monthly data releases shed some light on the composition.** Fixed asset investment gained steam in March, accelerating to 4.5% y/y. The upswing, however, was almost entirely driven by state investments growing 7.8% vs a mere 0.5% growth in private investments. **Industrial production** slowed, both by state-owned companies and privately owned ones. The headline figure dropped to 4.5%. **Retail sales** offered little reasons to cheer as well with a deceleration to 3.1% y/y, down from the 5.5% gain in the first two months of the year and even further down from December's 7.4%. **Both industrial production and retail sales missed expectations by a wide margin.** Property investment tumbled 9.5% in March, suggesting few to no signs of improvement in the giant but ailing sector. The **Chinese yuan understandably quickly erased a kneejerk move higher in the wake of the release.** USD/CNY traded at 7.2304 at this morning's low-point before recovering to 7.2376 currently – near the weakest level since mid-November. It is this ongoing CNY weakness that prevents the Chinese central bank to drastically cut rates to jumpstart the economy, especially against the background of a Fed that has its hands tied because of stubbornly high inflation and ongoing economic strength.
- The EU stepped up the trade offensive against China by unleashing a series of probes.** It already launched an investigation into Chinese subsidies for electric vehicles and concluded last month that there was "sufficient evidence" of that, paving the way for import duties by July at the earliest. In addition, the EU will now look into the possibility of illegal support for Chinese windparks on European soil and for solar and railway firms. It will also launch an inquiry into China's procurement of medical devices in the short run.

# Graphs



## GE 10y yield

**EMU disinflation will continue next month and bring headline CPI (temporary) at/below the 2% target.**

Together with a weak growth momentum, this gives **backing to deliver a first 25 bps rate cut.** The ECB in April laid the groundwork for a June cut without pre-committing to any particular rate path. **Markets have pared easing bets but still expect too much** given that the Fed's tied hands limit the ECB's manoeuvring room as well.



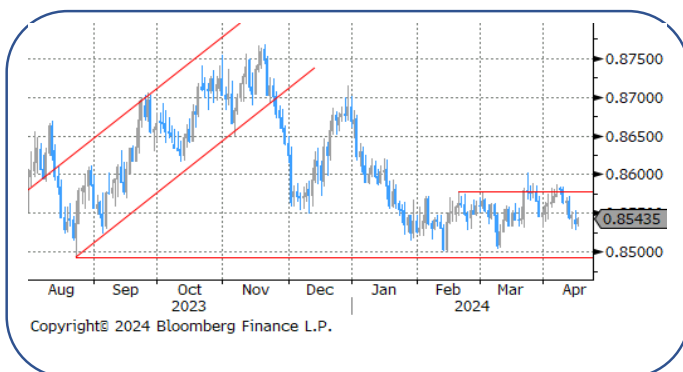
## US 10y yield

**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 questions 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, with the 1.0448 2023 low looming on the horizon.



## EUR/GBP

The remaining two hawks dropped calls for a rate hike at the March BOE meeting. **The debate is now focused at the timing of rate cuts.** UK money markets are unsure whether the BoE will be able to join the ECB with a first cut in June. However, for now expectations for a later/slower start of the BoE easing cycle don't really help sterling. The EUR/GBP 0.8493 - 0.8768 sideways range continues to guide trading.

# Calendar & Table

Tuesday, 16 April		Consensus	Previous
<b>US</b>			
14:30	Building Permits MoM/Total (Mar)	-0.90%/1510k	2.40%R/1524kR
14:30	Housing Starts MoM/Total (Mar)	-2.40%/1485k	10.70%/1521k
14:30	New York Fed Services Business Activity (Apr)	--	0.6
15:15	Industrial Production MoM (Mar)	0.40%	0.10%
15:15	Capacity Utilization (Mar)	78.50%	78.30%
15:15	Manufacturing (SIC) Production (Mar)	0.20%	0.80%
<b>Canada</b>			
<b>14:30</b>	<b>CPI NSA MoM/YoY (Mar)</b>	<b>0.70%/2.90%</b>	<b>0.30%/2.80%</b>
14:30	Median YoY% (Mar)	3.00%	3.10%
14:30	Trim YoY% (Mar)	3.20%	3.20%
<b>UK</b>			
08:00	Average Weekly Earnings 3M/YoY (Feb)	5.50%	5.60%
<b>08:00</b>	<b>Weekly Earnings ex-Bonus 3M/YoY (Feb)</b>	<b>5.80%</b>	<b>6.10%</b>
<b>08:00</b>	<b>ILO Unemployment Rate 3Mths (Feb)</b>	<b>4.00%</b>	<b>3.90%</b>
08:00	Employment Change 3M/3M (Feb)	74k	-21k
08:00	Payrolled Employees Monthly Change (Mar)	20k	20k
08:00	Claimant Count Rate (Mar)	--	4.00%
08:00	Jobless Claims Change (Mar)	--	16.8k
<b>EMU</b>			
11:00	ZEW Survey Expectations (Apr)	--	33.5
11:00	Trade Balance SA (Feb)	21.8b	28.1b
<b>Germany</b>			
11:00	ZEW Survey Expectations (Apr)	35.5	31.7
11:00	ZEW Survey Current Situation (Apr)	-76.0	-80.5
<b>China</b>			
03:30	New Home Prices MoM (Mar)	-0.34%A	-0.36%
03:30	Used Home Prices MoM (Mar)	-0.53%A	-0.62%
<b>04:00</b>	<b>GDP SA QoQ/YoY (1Q)</b>	<b>1.60%A/5.30%A</b>	<b>1.20%R/5.20%</b>
04:00	GDP YTD YoY (1Q)	5.30%A	5.20%
<b>04:00</b>	<b>Industrial Production YoY/YTD YoY (Mar)</b>	<b>4.50%A/6.10%A</b>	<b>--/7.00%</b>
<b>04:00</b>	<b>Retail Sales YoY/YTD YoY (Mar)</b>	<b>3.10%A/4.70%A</b>	<b>--/5.50%</b>
04:00	Fixed Assets Ex Rural YTD YoY (Mar)	4.50%A	4.20%
04:00	Property Investment YTD YoY (Mar)	-9.50%A	-9.00%
04:00	Residential Property Sales YTD YoY (Mar)	-30.70%A	-32.70%
04:00	Surveyed Jobless Rate (Mar)	5.20%A	5.30%
<b>Poland</b>			
14:00	CPI Core MoM/YoY (Mar)	0.50%/4.60%	0.50%/5.40%
<b>Events</b>			
Q1 earnings	Johnson & Johnson (12:45), Bank of America (12:45), Morgan Stanley (13:30) ...		
<b>16APR</b>	<b>IMF publishes World Economic Outlook</b>		
02:00	Fed's Daly Gives Keynote Remarks		
10:00	ECB's Rehn Speaks		
<b>11:00</b>	<b>BOE Deputy Governor Clare Lombardelli testifies</b>		
<b>15:00</b>	<b>Fed's Jefferson Speaks at Monetary Policy Forum</b>		
<b>18:30</b>	<b>ECB's Villeroy Speaks</b>		
<b>19:00</b>	<b>BOE Governor Andrew Bailey speaks</b>		
19:15	Fed's Powell Participates in Moderated Q&A		
20:00	ECB's Vujcic Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,60	0,08		US	4,92	0,02	DOW	37735,11	-248,13
DE	2,44	0,08		DE	2,91	0,06	NASDAQ	15885,02	-290,07
BE	3,01	0,09		BE	2,98	0,07	NIKKEI	38505,33	-727,47
UK	4,24	0,10		UK	4,41	0,06	DAX	18026,58	96,26
JP	0,87	0,00		JP	0,28	0,01	DJ euro-50	4984,48	29,47
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,02	4,61	4,40	Ester	3,9070	-0,0030			
5y	2,82	4,37	4,11	Euribor-1	3,8460	0,0100	SOFR-1	5,3164	-0,0010
10y	2,75	4,22	3,96	Euribor-3	3,8880	-0,0350	SOFR-3	5,3213	0,0034
				Euribor-6	3,8200	-0,0450	SOFR-6	5,2926	0,0108
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0624	-0,0019		EUR/JPY	163,91	0,78	CRB	298,18	0,31
USD/JPY	154,28	1,05		EUR/GBP	0,8537	-0,0011	Gold	2383,00	8,90
GBP/USD	1,2446	-0,0006		EUR/CHF	0,9686	-0,0044	Brent	90,10	-0,35
AUD/USD	0,6442	-0,0025		EUR/SEK	11,5656	-0,0189			
USD/CAD	1,3788	0,0013		EUR/NOK	11,6246	0,0218			

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

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.

