



Wednesday, 17 April 2024

KBC Sunrise Market Commentary

Markets

- Developments in the Middle East gradually lost their grip on global markets with **central bank talk again taking the lead**. Fed Vice-Chair **Jefferson** delivered a perfect assist for **Chair Powell** to acknowledge the consequences of recent strong US activity data while inflation remains stubbornly high. Jefferson warned that the Fed will have to keep rates higher for longer if inflation persists. Expressing his belief for inflation to come down given a steady policy rate didn't prevent further bond selling. **Later, Powell couldn't but fully accept consequences of the Fed's data dependent approach**. In a panel discussion he admitted that recent data didn't provide the greater confidence the Fed needs to start policy erasing. *"Given the strength of the labor market and progress on inflation so far, it is appropriate to allow restrictive policy further time to work and let the data and the evolving outlook guide us"*. Market expectations for a first Fed rate cut are pushed back beyond summer (90% for September) and investors only see about 50% chance that a second cut will follow this year. **US bond yields added between 4.6 bps (30-y) and 8.2 bps (5-y)**. The 2-y yield again tested the 5% barrier and longer maturities all touched new YTD highs. German yields added between 2.4 bps (2-y) and 4.6 bps (10-y). ECB speakers including President Lagarde and Villeroy confirmed last week's guidance that the ECB intends to start cutting rates in June. They admit that the inflation path will be more bumpy later this year. The impact of geopolitical tensions (oil) and the valuation of the euro are on the radar. The amount of additional cuts in H2 is uncertain. **(US) equities held** relatively stable despite the Fed's higher for longer message (S&P 500 -0.21%). **The dollar** rally shifted into a lower gear, but the US currency clearly holds pole position. EUR/USD eased slightly further (close 1.0919). The yen continues outperforming despite multiple verbal warnings from Japanese officials (USD/JPY close 154.72).
- Asian equity markets show a mixed picture, suggesting some stabilization after recent declines. The **yuan remains in the defensive** against a strong dollar with USD/CNY touching a minor YTD top near 7.24. Central bank speakers include ECB's de Cos and Schnabel, Fed's Mester and BoE governor Bailey. **US yield markets might look for a short-term equilibrium after their repositioning**. In Europe, we keep the 10-y swap yield on the radar as it is testing the YTD peak levels from end February. For now, we see no reason to fight the USD-accnt, with the EUR/USD 1.06 big figure within reach. **UK March inflation printed higher than expected** (headline 0.6% M/M and 3.2% Y/Y vs 0.4% and 3.1% expected). Core inflation slowed less than expected to 4.2% Y/Y as did services inflation. The data make an early BoE rate cut unlikely. Sterling rallies to EUR/GBP 0.8533 after the release.

News & Views

- **New Zealand inflation printed line with expectations**. First quarter price growth amounted to 0.6% q/q, a slight acceleration from the 0.5% in 2023Q4. The yearly gauge slowed from 4.7% to 4%, the weakest in three years. Trimmed-mean measures ranged between 0.7% and 0.8% q/q and 4.4-4.6% y/y. **Non-tradeable CPI, a proxy for domestic inflation, picked up from 1.1% q/q to 1.6%**. **The yearly indicator barely slowed to 5.8, which is more than the central bank expected (5.3%)**. At the meeting last week, the RBNZ indicated unchanged policy rates until 2025, citing sticky core inflation. **There's nothing in today's CPI numbers to change the RBNZ's thinking**. Markets **expect an inaugural cut at the final policy meeting this year (November) but conviction has dropped**. The **kiwi dollar** appreciates this morning after a few rough days against the US dollar. NZD/USD rises from 0.588 to 0.59.
- **South Korea's finance ministry issued a statement after its minister discussed the recent weakening of their respective currencies with his Japanese counterpart**. Choi (SK) and Suzuki (JN) expressed "serious concerns" and warned of taking appropriate steps to counter any drastic volatility. SK central bank governor Rhee shortly after labelled the recent SK won moves as a little excessive, noting that yuan and yen weakness are affecting the currency as well. **It's testament to many emerging market currencies coming under selling pressure** after central banks having either cut rates or hinting to do in the near future against the background of a Fed keeping rates high for longer. USD/KRW pared some of recent gains after the statement, trading at around 1386 compared to almost 1400 yesterday. Both Choi and Suzuki will meet their US counterpart Yellen in the US today.

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.



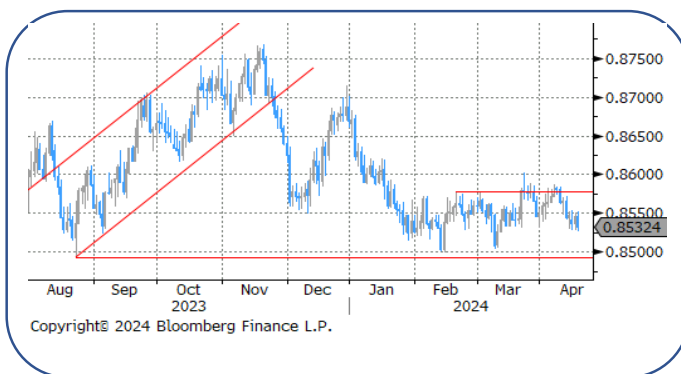
US 10y yield

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

Wednesday, 17 April		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	0.10%
22:00	Net Long-term TIC Flows (Feb)	--	\$36.1b
Japan			
01:50	Trade Balance Adjusted (Mar)	-¥701.5bA	-¥566.2bR
01:50	Exports/Imports YoY (Mar)	7.30%A/-4.90%A	7.80%/0.50%
UK			
08:00	CPI MoM/YoY (Mar)	0.40%/3.10%	0.60%/3.40%
08:00	CPI Core YoY (Mar)	4.10%	4.50%
08:00	CPI Services YoY (Mar)	5.80%	6.10%
08:00	CPIH YoY (Mar)	3.60%	3.80%
08:00	RPI MoM/YoY (Mar)	0.40%/4.20%	0.80%/4.50%
08:00	RPI YoY (Mar)	4.20%	4.50%
08:00	RPI Ex Mort Int.Payments (YoY) (Mar)	3.20%	3.50%
08:00	PPI Output NSA MoM/YoY (Mar)	0.20%/0.60%	0.30%/0.40%
08:00	PPI Input NSA MoM/YoY (Mar)	0.10%/-2.70%	-0.40%/-2.70%
10:30	House Price Index YoY (Feb)	--	-0.60%
EMU			
11:00	CPI MoM/YoY (Mar F)	0.80%/2.40%	0.80%/2.40%
11:00	CPI Core YoY (Mar F)	2.90%	2.90%
Events			
Q1 earnings	US Bancorp (bef-mkt), Alcoa (aft-mkt) ...		
11:30	Germany to Sell Bonds		
14:05	BOE's Megan Greene speaks on panel		
15:00	ECB's Cipollone Speaks		
16:00	Riksbank's Floden speaks on monetary policy communication		
17:00	ECB's de Cos Speaks		
17:45	ECB's Schnabel Speaks		
18:00	BOE Governor Bailey speaks in Washington		
20:00	BOE's Haskel speaks		
20:00	Federal Reserve Releases Beige Book		
23:30	Fed's Mester Gives Update on Fed		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,67	0,07		US	4,99	0,07	DOW	37798,97	63,86
DE	2,49	0,05		DE	2,94	0,02	NASDAQ	15865,25	-19,77
BE	3,06	0,05		BE	3,01	0,03	NIKKEI	37961,8	-509,40
UK	4,30	0,06		UK	4,48	0,07	DAX	17766,23	-260,35
JP	0,89	0,02		JP	0,28	0,00	DJ euro-50	4916,99	-67,49
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,08	4,69	4,50	Ester	3,9110	0,0040			
5y	2,88	4,45	4,20	Euribor-1	3,8550	0,0090	SOFR-1	5,3196	0,0032
10y	2,81	4,28	4,03	Euribor-3	3,9040	0,0160	SOFR-3	5,3293	0,0080
				Euribor-6	3,8420	0,0220	SOFR-6	5,3090	0,0164
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0619	-0,0005		EUR/JPY	164,29	0,38	CRB	296,84	-1,34
USD/JPY	154,72	0,44		EUR/GBP	0,8545	0,0009	Gold	2407,80	24,80
GBP/USD	1,2426	-0,0020		EUR/CHF	0,9695	0,0009	Brent	90,02	-0,08
AUD/USD	0,6402	-0,0040		EUR/SEK	11,6411	0,0755			
USD/CAD	1,3829	0,0041		EUR/NOK	11,6652	0,0406			

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