Thursday, 18 April 2024

KBC Sunrise Market Commentary

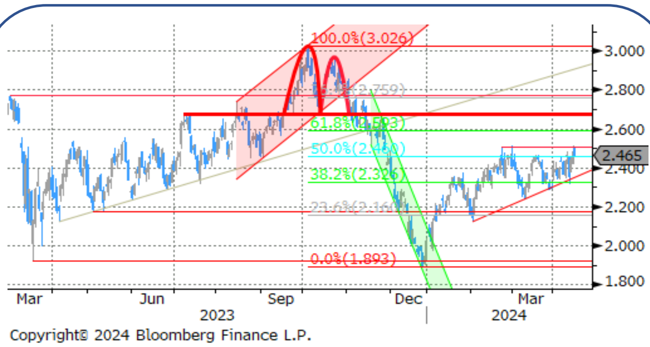
Markets

- In a session deprived of key data, yields and the USD yesterday faced a correction on recent rise. Markets concluded that, without new data evidence on strong US demand or sticky inflation, **enough Fed rate cut delay is discounted.** A decline in oil prices (high US stockpiles) also supported core bonds. US yields dropped between 5.5 bps (2-y) and 8.6 bps (5-y). The Fed Beige Book preparing the May Fed meeting reported slight or modest growth in most districts. Also job growth was labeled very slow to modest. Price increases were seen at a similar pace compared to March. Contacts still saw some upside risks to the near term inflation development. **Bunds underperformed Treasuries.** The 2-y yield rose slightly (+0.8 bp) while the 30y yield shed 2.8 bps. Several ECB members including Centeno, Cipollone, Lagarde and Holzmann commented on monetary policy. From **Holzmann,** we retain he admits **that the inflation situation in Europe is different from the US. At the same time he suggested that ECB moving ahead of the Fed makes rate cuts less effective.** Lagarde also stressed the different nature of EMU inflation compared to the US. She also indicated that the ECB will monitor the impact of FX on inflation. **The correction in US yields annex decline in oil prices, wasn't enough to propel equities** (Nasdaq 1.15%). **US and EMU indices are captured in a sell-on-upticks correction.** The dollar also returned part of recent gains. EUR/USD jumped from the 1.061 area to close at 1.0673. **UK inflation data (easing slightly less than expected) only had a temporary impact on UK markets.** Later, BoE governor Bailey also assessed that the nature of inflation in Europe (and the UK) is different from demand driving inflation in the US. He expects headline inflation to return to 2.0% soon even as core/service inflation stays elevated. A different nature in inflation at some point might allow the BoE start cutting rates before the Fed. Sterling reversed a small gain post the CPI data. EUR/GBP closed at 0.857 **(from 0.8645).**
- **Asian markets** this morning are trading in positive territory. Amongst other, regional markets apparently draw some comforted from a **joint statement of the finance ministers of the US, Japan and Korea** sharing concerns on the recent depreciation of the won and the yen. Even so, the direct advantage for the yen remains limited (USD/JPY 154.2). **Later today,** the eco calendar contains US jobless claims, the Philly Fed business outlook and existing home sales. Plenty of Fed and ECB policy makers are again scheduled to speak. **Without high profile news, yesterday correction on bond markets and in the dollar might have some further to go.**

News & Views

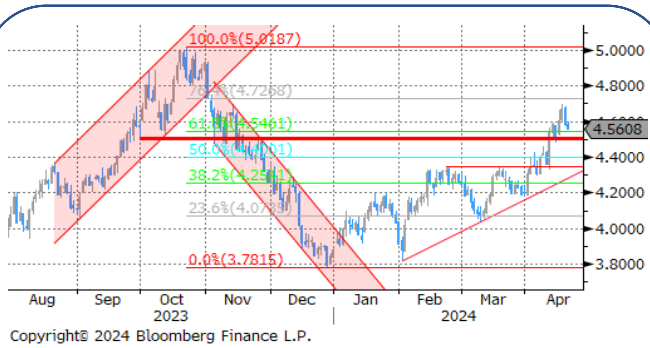
- **ECB executive board member Schnabel said the central bank should consider rethinking the way it forecasts growth and inflation** with the ultimate goal of improving communication and to be able to respond to shocks rapidly. Relying on the current policy of publishing **baseline projections only is risky, Schnabel said, warning they convey a false sense of precision.** She advocates the regular and consistent use of alternative scenario's to the baseline to highlight the inherent forecast uncertainty. And while the ECB already produces those, they are overlooked by investors. Her comments **come after former Fed chair Bernanke advised the Bank of England on how to improve its projections, including publishing an outlook for rates with scenario's showing the best path for reaching the 2% inflation target.** Schnabel also saw benefits in using a Fed-like dot plot. It "can help convey uncertainty about the future path of the economy while providing greater clarity about where policymakers see rates moving in the future. At the same time, they may overly condition market pricing, thereby reducing its informational content."
- **The IMF in its fiscal monitor warned the US' massive deficits have stoked inflation and pose significant risks for the global economy.** It expects a fiscal shortage of 7.1% next year. It has also concerns about China with a projected 7.6% in 2025 adding to already quickly piling up debt. **The US and China, along with the UK and Italy are the four countries labeled as "critically need to take policy action to address fundamental imbalances between spending and revenues".** The fiscal position of the US raises short-term risks to the disinflation process, as well as longer-term fiscal and financial stability risks for the global economy, the IMF chief economist said. **Rising US borrowing costs as a result typically have spillover effects across the world** and create **FX turbulence, the IMF noted.** And while Chinese debt tends to be domestically held, its dynamics could still affect Chinese trading partners.

Graphs



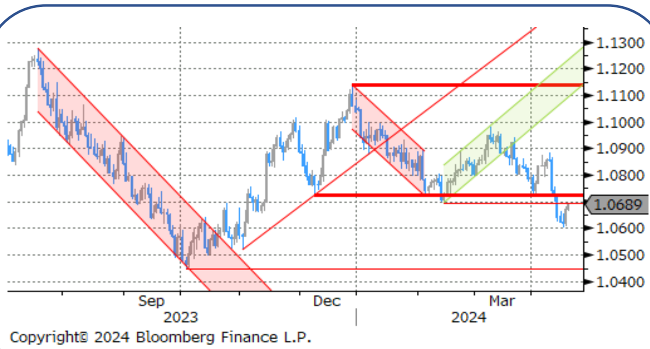
GE 10y yield

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.



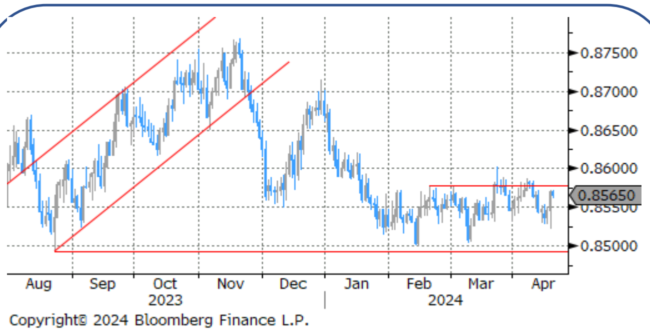
US 10y yield

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

Thursday, 18 April		Consensus	Previous
US			
14:30	Philadelphia Fed Business Outlook (Apr)	2.0	3.2
14:30	**Initial Jobless Claims**	**215k**	**211k**
14:30	Continuing Claims	1818k	1817k
16:00	Existing Home Sales MoM/Total (Mar)	-4.10%/4.20m	9.50%/4.38m
Japan			
06:30	Tertiary Industry Index MoM (Feb)	0.50%	0.30%
EMU			
11:00	Construction Output MoM/YoY (Feb)	--/--	0.50%/0.80%
Events			
Q1 earnings	Netflix (22:00), Western Alliance Bancorp (aft-mkt) …		
00:30	**Fed's Bowman Speaks at IIF Global Outlook Forum**		
08:30	**Riksbank's Bunge speaks on current monetary policy**		
09:00	**ECB's Guindos Speaks**		
14:00	**Bundesbank Chief Nagel, Germany's Lindner Speak in Washington**		
15:15	Fed's Bowman Speaks at SIFMA Roundtable		
15:15	**Fed's Williams Participates in Moderated Discussion**		
16:00	**Riksbank's Jansson speaks on current monetary policy**		
17:00	**Fed's Bostic Speaks in Fireside Chat on Economy**		
18:00	**SNB's Martin Speaks at Money Market Event in Zurich**		
19:30	ECB's Centeno, Simkus Speak		
21:00	ECB's Vujcic Speaks		
23:45	**Fed's Bostic Chats About Economy, Monetary Policy**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,59	-0,08		US	4,93	-0,05	DOW	37753,31	-45,66
DE	2,47	-0,02		DE	2,94	0,01	NASDAQ	15683,37	-181,88
BE	3,03	-0,03		BE	3,01	0,00	NIKKEI	38101,97	140,17
UK	4,26	-0,04		UK	4,46	-0,01	DAX	17770,02	3,79
JP	0,87	-0,01		JP	0,28	0,00	DJ euro-50	4914,13	-2,86
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,06	4,62	4,45	Ester	3,9080	-0,0030			
5y	2,85	4,37	4,15	Euribor-1	3,8280	-0,0270	SOFR-1	5,3177	-0,0019
10y	2,77	4,21	3,98	Euribor-3	3,8950	-0,0090	SOFR-3	5,3256	-0,0037
				Euribor-6	3,8420	0,0000	SOFR-6	5,2964	-0,0126
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0673	0,0054		EUR/JPY	164,77	0,48	CRB	294,44	-2,40
USD/JPY	154,39	-0,33		EUR/GBP	0,8570	0,0025	Gold	2388,40	-19,40
GBP/USD	1,2454	0,0028		EUR/CHF	0,9721	0,0026	Brent	87,29	-2,73
AUD/USD	0,6435	0,0033		EUR/SEK	11,6804	0,0393			
USD/CAD	1,3773	-0,0056		EUR/NOK	11,7422	0,0770			

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