



Friday, 19 April 2024

## KBC Sunrise Market Commentary

### Markets

- After a brief correction Wednesday, **core yields again turned north yesterday**. US yields added between 6.2 bps (5-y) and 3 bps (30-y). The Philly Fed business outlook printed much stronger than expected (15.5 from 3.2). Weekly jobless claims (212k) confirmed the narrative of a resilient US labour market. **Fed governors turn ever more guarded on any possible rate hikes this year**. Fed's **Bostic** favours a scenario of 1 cut at the end of this year. Fed's **Kashkari** repeated the Fed needs more confidence that inflation is declining further. It is possible to delay a rate cut to 2025. Bunds gained slightly less, between 2.8 bps (30-y) and 3.8 bps (2-y) as ECB officials try to find how much autonomous rate cuts are possible if the Fed stays on hold for longer. Equities traded mixed (EuroStoxx 50 +0.46%, Nasdaq minus 0.52%). Even so, EMU and US indices remain in **a sell-on-upticks dynamics** with first relevant support levels coming closer. Higher (US) yields also helped the dollar to reverse early softness. EUR/USD closed at 1.0643 (from 1.0673). USD/JPY tested multi-year peak levels in the 154.70/80 area. DXY regained the 106 barrier.
- **Markets this morning are thrown in risk-off modus on headlines** of an Israeli attack on Iran. In a first reaction, Asian equities spiked lower, but currently are unwinding part of the initial losses. Safe haven flows propelled US Treasuries with yields briefly declining more than 10 bps, but a reversal currently limits the decline between 4.5 (2-y) and 6.5 (10-y) bps. EUR/USD briefly dropped to the 1.061 area, but the 1.06 support remains intact for now (currently 1.063). The yen briefly strengthened below USD/JPY 154, but also this move could not be sustained (154.3). **Brent oil** jumped from \$87 p/b to temporary trade above \$90 p/b, but also eases back to \$88.75. **Later today**, the developments in the Middle East probably will continue to dominate the market dynamics as there are **no important data on the agenda**. The market reaction on Friday last week suggested that a reaction to attacks between Iran and Israel could stay modest as long as markets don't anticipate a large scale escalation. **We assume any setback in yields to stay limited**. Higher oil or commodity prices even might further raise the inflation expectations component/risk premium for yields at longer maturities. The dollar maintains a positive momentum. A break of EUR/USD below 1.06 would suggest further losses/USD gains. This morning, **UK March retail sales printed slightly softer than expected** (headline 0.0% M/M and 0.8% Y/Y). EUR/GBP gains a few ticks post the release (0.8565).

### News & Views

- **Japanese inflation eased in March**. Headline prices rose 2.7%, down from 2.8% in February. The BoJ's preferred gauge excluding fresh food came in at 2.6% vs 2.8% the month before while a measure ignoring energy prices as well eased from 3.2% to 2.9% - the first sub 3% reading since November 2022. **While all gauges fell short of expectations (0.1 ppt), they remain above the 2% BoJ target for two years running**. Services price growth slowed to 2.1% but should stay supported going forward on the biggest wage negotiation (>5%) outcome in decades. Coupled with the country's weak(ening) currency – the Japanese yen recently hit a new 34-y low against the dollar – and the government's decision to phase out utility subsidies from May (creating base effects), **inflation could easily go up again in coming months**. Today's numbers aren't going to change the BoJ's widely expected status quo at the April 26 meeting. But upward revisions to the inflation forecast (+2% at the end of the policy horizon?!) may lay the groundwork for another rate hike later this year. The yen completely ignored the CPI outcome with geopolitical events dominating trading this morning. USD/JPY dropped to an intraday low of 153.59 after Israel retaliated for an Iranian strike last weekend in a tit-for-that response that risks escalating. The pair quickly pared losses to 154.31.
- **Yesterday's European summit revealed sharp opposition against a France-led push for reforms to deepen financial market integration and central supervision**. The project at stake, **Capital Markets Union**, mostly puts larger economies including Germany, Italy, Spain and the Netherlands against smaller countries that are wary to cede national oversight and regulatory powers to Brussels. The idea to create a CMU was already floated a decade ago but stranded quickly. Major challenges including the green transition and defense spending renewed momentum (for some at least) for an overhaul, believing that it would help tap private capital to fund the investments.

# 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.



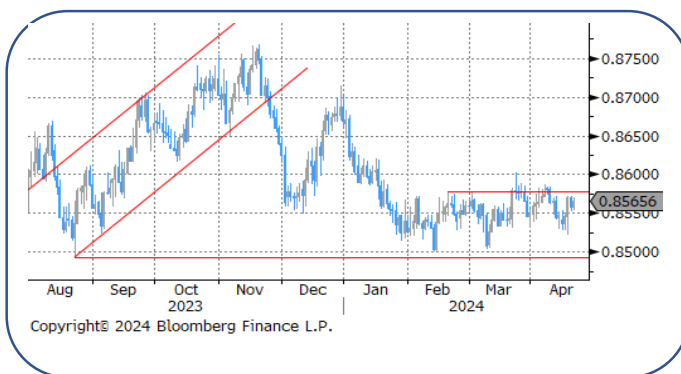
## US 10y yield

**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

Friday, 19 April		Consensus	Previous
<b>Japan</b>			
01:30	Natl CPI YoY (Mar)	2.70%A	2.80%
01:30	Natl CPI Ex Fresh Food YoY (Mar)	2.60%A	2.80%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Mar)	2.90%A	3.20%
<b>UK</b>			
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Mar)	0.30%/1.00%	0.00%/-0.40%
08:00	Retail Sales Ex Auto Fuel MoM/YoY (Mar)	0.30%/1.00%	0.20%/-0.50%
<b>Germany</b>			
08:00	PPI MoM/YoY (Mar)	0.10%/-3.30%	-0.40%/-4.10%
<b>Events</b>			
Q1 earnings	Procter & Gamble (bef-mkt), American Express (13:00) ...		
16:15	BOE's Ramsden speaks		
16:30	Fed's Goolsbee Participates in Q&A		
18:30	BOE's Catherine Mann speaks		
21:00	ECB's Nagel Speaks		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,63	0,05	US	4,99	0,05	DOW	37775,38	22,07	
DE	2,50	0,03	DE	2,98	0,04	NASDAQ	15601,5	-81,87	
BE	3,06	0,03	BE	3,03	0,02	NIKKEI	37086,03	-993,67	
UK	4,27	0,01	UK	4,49	0,02	DAX	17837,4	67,38	
JP	0,84	-0,03	JP	0,27	-0,01	DJ euro-50	4936,57	22,44	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,11	4,67	4,49	Ester	3,9090	0,0010			
5y	2,90	4,42	4,18	Euribor-1	3,8550	0,0270	SOFR-1	5,3176	-0,0001
10y	2,81	4,25	4,00	Euribor-3	3,8970	0,0020	SOFR-3	5,3260	0,0004
				Euribor-6	3,8430	0,0010	SOFR-6	5,3030	0,0066
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0643	-0,0030	EUR/JPY	164,59	-0,18	CRB	295,60	1,16	
USD/JPY	154,64	0,25	EUR/GBP	0,8558	-0,0012	Gold	2398,00	9,60	
GBP/USD	1,2436	-0,0018	EUR/CHF	0,9711	-0,0010	Brent	87,11	-0,18	
AUD/USD	0,6421	-0,0014	EUR/SEK	11,6754	-0,0050				
USD/CAD	1,3767	-0,0006	EUR/NOK	11,7663	0,0241				

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