



Monday, 22 April 2024

KBC Sunrise Market Commentary

Markets

- Sterling finally snapped.** A speech by **Bank of England Ramsden** was the straw that broke the camel's back. He referred amongst others to the April CPI figure which will likely **show the UK converging with the EU**. Earlier last week, Bank of England governor Bailey also referred to that number which might even (temporarily) dip to/below the BoE's 2% inflation target. **Bailey's comments suggested that the BoE would rather team up with the ECB in turning policy less restrictive in the near term than with the Fed** which is clearly hinting at higher for longer. Ramsden on Friday added that he has more confidence that inflation persistence is easing with the current restrictive policy stance cutting service inflation. **Employment and activity data showed weakness as well last week** while the BoE covered the upside (March) CPI surprise with its dovish statements. UK money markets over the past weeks followed the US rather than the EMU example, making them **vulnerable to a correction** on the BoE's guidance. UK gilts on Friday outperformed with yields falling 2.1 bps (30-yr) to 10.2 bps (2-yr). Money markets currently discount an inaugural 25 bps rate cut in August, with a second one to be delivered at the end of the year. Loss of interest rate support hurt sterling. **EUR/GBP managed a first close outside of the 0.85-0.86 trading range since mid-January**. The pair jumped from 0.8558 to 0.8614, taking out 38% retracement on the EUR/GBP-decline from Nov 23 (0.8768) to Feb 24 (0.8493) at 0.8601 in the process. **EUR/GBP 0.8665 (62% retracement) is minor next resistance ahead of that 0.8768**. Cable (GBP/USD) already fell out of the 2024 sideways trading range on USD-strength (< GBP/USD 1.2519) with the pair closing at a new YTD low of 1.2367. Similar 62% retracement as in EUR/GBP stands at 1.2364, the final support ahead of 1.2037.
- Today's eco calendar won't move markets with EMU April consumer confidence the sole important release.** ECB President Lagarde gives a lecture at Yale university, but she'll stick to previous comments. On Friday for example she stressed two-sided inflation risk and that the ECB won't commit to a preset rate path in H2 2024. We saw some **underperformance at the front end of the EMU curve** on Friday as more governors put **(hawkish) risks against a (dovish) rate path for H2**. This also gave some temporary support for EUR/USD (1.660). Stock markets remain in correction/sell-on-uptick mode with Nasdaq losing another 2%. **On a weekly basis, the tech index fell over 6%**.

News & Views

- S&P raised the outlook on the Greek BBB- rating from stable to positive**, reflecting an expectation that the **tight fiscal regime will continue to spur a reduction in the government debt ratio**. S&P also expects growth to continue to outperform EMU peers. The New Democracy government after last year's election outlined and begun implementing a robust reform agenda aimed at unblocking structural bottlenecks. 2023 growth was slightly softer than expected, but at 2% remained relatively healthy. Even so, S&P indicates that fiscal receipts have not softened, increasing by 6.2% last year, due to still high inflation and dividends from fiscal reforms. In the medium term, **S&P projects real GDP growth to average 2.4% in 2024-2027**, due to a pick-up in investment driven by NextGenEU projects, improved balance sheets of households and the banking system and the fact that the Greek economy is still 22% below its pre-debt crisis peak. **Greece could reach the government's primary budget balance target of 2.1% this year**. Public debt which reached a peak level of 207% of GDP in 2020 is expected **to fall to about 131% by 2027**.
- German Finance Minister Lindner** on the sidelines of the IMF meeting in Washington said its country is **opposed to a new round of joint debt issuance by the EU** as members states should maintain responsibility for their own finances. The comments came as other EU members aim for now joint borrowing to **finance the energy transition, the shift to the digital economy and a revamp of their militaries to address Russia's threat**. In this respect, Lindner indicated that this opposition is not only a question of getting around objections of the constitutional court on a stricter interpretation of legal limits on government borrowing. Lindner also argued that the results of the EU's €800bn pandemic recovery fund were mixed and that a repletion of doesn't seem advisable.

Graphs



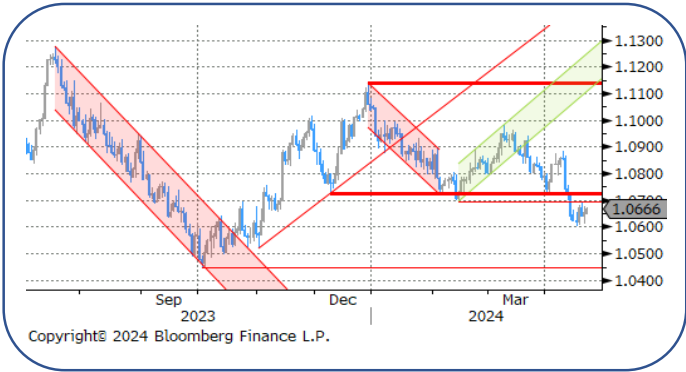
GE 10y yield

ECB President Lagarde clearly hinted at a summer (June?) rate cut and 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. A more bumpy inflation path in H2 2024 and the Fed's higher for longer strategy make follow-up move difficult.



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. Upcoming CPI readings (through base effects) and resilient eco data should confirm this. 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. Stronger-than-expected US March inflation figures forced a technical break, opening the path to last year's low at 1.0494.



EUR/GBP

Debate at the Bank of England is focused at the timing of rate cuts. Most BoE members align with the ECB rather than with Fed view, suggesting that the disinflation process provides a window of opportunity to make policy less restrictive (in the near term). 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

Monday, 22 April		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Mar)	0.09	0.05
UK			
01:01	Rightmove House Prices MoM/YoY (Apr)	1.10%/1.70%	1.50%/0.80%
12:00	CBI Trends Total Orders (Apr)	-16	-18
12:00	CBI Trends Selling Prices (Apr)	20	21
12:00	CBI Business Optimism (Apr)	--	-3
EMU			
11:00	Govt Debt/GDP Ratio (2023 P)	--	91.00%
16:00	Consumer Confidence (Apr P)	-14.5	-14.9
France			
22APR	Retail Sales SA YoY (Mar)	--	-1.40%
Belgium			
11:00	Consumer Confidence Index (Apr)	--	-5
China			
03:15	5-Year Loan Prime Rate	3.95%A	3.95%
03:15	1-Year Loan Prime Rate	3.45%A	3.45%
Events			
11:05	BOE's Benjamin speaks		
17:30	ECB's Villeroy speaks in Paris		
17:30	ECB's Lagarde Speaks		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.62	-0.01	US	4.99	0.00	DOW	37986.4	211.02	
DE	2.50	0.00	DE	3.00	0.02	NASDAQ	15282.01	-319.49	
BE	3.06	0.00	BE	3.05	0.02	NIKKEI	37420.9	352.55	
UK	4.23	-0.04	UK	4.38	-0.10	DAX	17737.36	-100.04	
JP	0.89	0.04	JP	0.28	0.01	DJ euro-50	4918.09	-18.48	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.12	4.67	4.42	Ester	3.9100	0.0010			
5y	2.91	4.42	4.12	Euribor-1	3.8370	-0.0180	SOFR-1	5.3149	-0.0027
10y	2.81	4.24	3.96	Euribor-3	3.8920	-0.0050	SOFR-3	5.3219	-0.0041
				Euribor-6	3.8460	0.0030	SOFR-6	5.2980	-0.0050
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0656	0.0013	EUR/JPY	164.7	0.11	CRB	298.15	2.55	
USD/JPY	154.64	0.00	EUR/GBP	0.8614	0.0056	Gold	2413.80	15.80	
GBP/USD	1.237	-0.0066	EUR/CHF	0.9703	-0.0007	Brent	87.29	0.18	
AUD/USD	0.6418	-0.0003	EUR/SEK	11.6386	-0.0368				
USD/CAD	1.3751	-0.0016	EUR/NOK	11.7389	-0.0274				

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