Thursday, 02 May 2024

KBC Sunrise Market Commentary

Markets

- The Fed kept the policy rate stable at the 5.25%-5.50% range yesterday. The statement did feature some changes, including that **"In recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective."** It also announced that the Fed will **reduce the pace of QT in Treasuries from $60bn to $25bn** while keeping the $35bn cap in MBS. The "lack of further progress" translated in chair Powell saying it's going to take longer to gain the confidence that inflation is indeed back on track towards target. In terms of policy rates, it boils down in keeping them at the current level for a little while longer. That's exactly what markets have been repricing for in recent months. Some in the outskirts of the market even began contemplating about rate hikes again. **Powell noted it was unlikely that the next move would be an increase.** Minutes later he did say that "In terms of peak rate, […] I think the data will have to answer that question for us." Turning to those data, yesterday's was a mixed bag. The April ADP job report (192k with an upward revision to March) was stronger than expected. But the manufacturing ISM unexpectedly dipped in contraction territory again (49.2) while price pressures in the sector intensified sharply. Yields finished the session lower in technically irrelevant trading. Daily changes varied between -3.5 bps (30y) to -7.5 bps (2y). The dollar lost ground against the euro (EUR/USD 1.0712) though we should add that this happened in holiday-thinned European trading (Labor Day). It was also partially a **spillover from what is a presumed FX intervention by Japanese officials** in late US dealings. USD/JPY dropped sharply from 158 to an intraday low of 153.04 before closing at 154.57. US stock markets swung from gains of up to 1.75% (Nasdaq) in volatile trading.

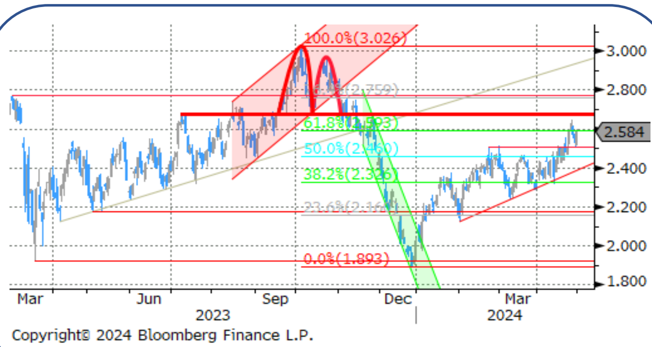
- The Japanese yen is once again in the spotlights during Asian dealings, erasing about half of yesterday's gains and confirming that FX interventions do not change a currency's fundamental course. Stocks in the broad region trade mixed with few news stories to guide them. The dollar and euro trade balanced while yields in the US ease less than 2 bps. The economic calendar contains the (outdated) **Q1 productivity numbers and unit labor costs.** The jobless claims give us the usual weekly look on the labour market. All in all we don't think it'll trigger big swings ahead of tomorrow's US services ISM and the payrolls report. We may see German bonds outperform in core markets as they catch up with the US yesterday but we wouldn't draw any firm conclusions from that. Technical trading could keep EUR/USD oscillating around the 1.07 big figure as it has been doing for the last couple of sessions.

News & Views

- The US Treasury released its quarterly refunding statement yesterday. **Since August 2023, Treasury has significantly increased issuance sizes for nominal coupon and FRN securities.** Based on current projected borrowing needs, Treasury **does not anticipate needing to increase them further for at least the next several quarters.** Actual auction sizes remain steady for the May-July period at their April (peak) level of $69bn, $58bn, $70bn and $44bn for 2-yr, 3-yr, 5-yr and 7-yr sales. The longer tenors follow the same rhythm as in the Fed-Apr period implying higher auction sizes in the first month (cumulative $83bn for 10-yr, 20-yr & 30-yr in May vs $74bn in June & July). Treasury expects to increase the 4-, 6-, and 8-week bill auction sizes in the coming days to ensure sufficient liquidity to meet one-week cash needs around the end of May. Over the course of July, auction sizes will reach the highs from February and March. Finally, **Treasury announced the launch of a buyback program.** They aim to end up with operation sizes of maximum $30bn per quarter across buckers for liquidity support.

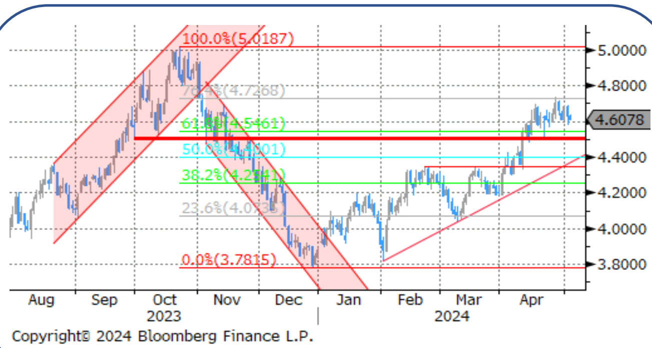
- **Rating agency Moody's raised the outlook on Brazil's Ba2 rating from stable to positive.** Improved growth prospects with upside potential over the medium and long term are one reason. Moody's expects **growth to average around 2% in coming years.** Second, structural reforms over successive administrations support policy effectiveness with institutional guardrails reduce policy uncertainty. Finally, gradual fiscal consolidation may lead to a stabilization of the debt burden. A new fiscal framework limits the increase in real primary spending to 70% of the increase in real revenues in the previous year.

Graphs



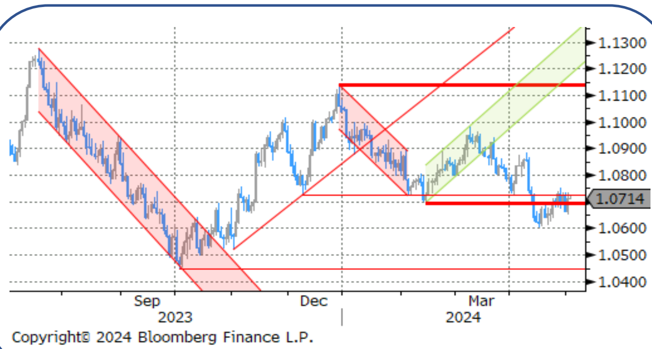
GE 10y yield

ECB President Lagarde clearly hinted at a summer (June) rate cut and has broad backing. **EMU disinflation will continue in April and bring headline CPI (temporarily) 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 moves difficult. Markets come to terms with that, pushing yields up.



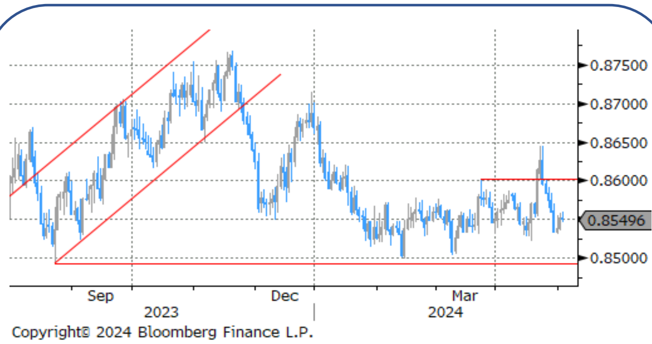
US 10y yield

The Fed in May **acknowledged the lack of progress** towards the 2% inflation objective. Upcoming CPI readings and a resilient economy/labour market will continue to **prevent the Fed to cut rates fast nor deep.** September at the earliest, but December is more likely. US yields, especially at the front end, could catch a breather after the recent sharp repricing, but their bottom is well protected.



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 previous YTD low at 1.0695. **Stronger-than-expected US March inflation figures forced a technical break.** Last year's low at 1.0494 looks vulnerable.



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). Anticipating a repricing eventually, **sterling is more vulnerable.** The topside of the sideways EUR/GBP 0.8493 - 0.8768 trading range serves as the first real technical reference.

Thursday, 02 May 2024

Calendar & Table

Thursday, 2 May		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Apr)	--	0.70%
14:30	Trade Balance (Mar)	-$69.7b	-$68.9b
14:30	Nonfarm Productivity (1Q P)	0.50%	3.30%
14:30	**Unit Labor Costs (1Q P)**	**4.00%**	**0.40%**
14:30	**Initial Jobless Claims**	**211k**	**207k**
14:30	Continuing Claims	1790k	1781k
16:00	Factory Orders (Mar)	1.60%	1.40%
16:00	Durable Goods Orders (Mar F)	2.60%	2.60%
16:00	Cap Goods Ship Nondef Ex Air (Mar F)	--	0.20%
Japan			
07:00	Consumer Confidence Index (Apr)	39.8	39.5
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Apr F)	--	45.6
Czech Republic			
14:30	**Repurchase Rate**	**5.25%**	**5.75%**
Events			
Q1 earnings	Moderna (bef-mkt), Coinbase (aft-mkt), Apple (aft-mkt) ...		
10:50	France to Sell Bonds		
11:00	**OECD Publishes Economic Outlook**		
22:15	**ECB's Lane Speaks**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.63	-0.05		US	4.96	-0.07	DOW	37903.29	87.37
DE	2.58	0.00		DE	3.03	0.00	NASDAQ	15605.48	-52.34
BE	3.11	0.00		BE	3.15	0.00	NIKKEI	38220.97	-53.08
UK	4.37	0.02		UK	4.51	0.00	DAX	17932.17	0.00
JP	0.90	0.01		JP	0.29	0.01	DJ euro-50	4921.22	0.00
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.19	4.67	4.55	€STR	3.8890	0.0000			
5y	2.97	4.42	4.26	Euribor-1	3.8730	0.0000	SOFR-1	5.3242	0.0017
10y	2.86	4.26	4.09	Euribor-3	3.8250	0.0000	SOFR-3	5.3367	-0.0006
				Euribor-6	3.7950	0.0000	SOFR-6	5.3250	-0.0112
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0712	0.0046		EUR/JPY	165.58	-2.64	CRB	285.44	-6.02
USD/JPY	154.57	-3.23		EUR/GBP	0.8552	0.0014	Gold	2311.00	8.10
GBP/USD	1.2527	0.0035		EUR/CHF	0.9811	0.0005	Brent	83.44	-2.89
AUD/USD	0.6523	0.0050		EUR/SEK	11.7073	-0.0510			
USD/CAD	1.3739	-0.0039		EUR/NOK	11.8255	-0.0298			

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
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
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		

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