



Wednesday, 15 May 2024

## KBC Sunrise Market Commentary

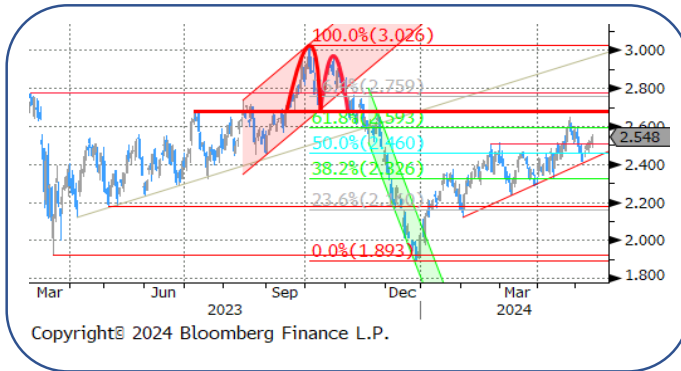
### Markets

- Significantly accelerating monthly US producer price inflation (April) triggered the obvious initial sell-off in US Treasuries and spike in the dollar.** Producer prices rose by 0.5% M/M on the headline and on the core level. Services costs rose by 0.6%, the most since July, while goods prices increased by 0.4% mainly because of fuel costs. The new sticky inflation evidence this time **wasn't the start of a profound UST sell-off or USD rally though (US yields ended 4 to 5 bps lower; EUR/USD close at 1.0819)** with markets rapidly returning to pre-PPI levels. US stock markets gained up to 0.75% with Nasdaq rallying to a new all-time closing high. Splitting hairs over downward March revisions and easing price pressures in certain individual categories (relevant to PCE like airlines and insurance) offered some backward looking explanation but we don't really buy into that narrative. **Fed Chair Powell after European close repeated his post-FOMC message.** He thinks it's still more likely that the Fed will be at a place where they holds the policy rate where it is rather than that the next move would be a hike. **He downplayed the just-released PPI report** as being sort of mixed rather than labelling it hot. He referred to upcoming inflation reports to determine whether inflation will soon fall back to the Fed's 2% target or not. **The first evidence comes this afternoon as the government publishes April consumer prices.** Consensus expects a similar (to March) 0.4% M/M pace for headline prices and a slightly slower one for the core series (0.3%). **Yesterday's market reaction suggests that anything apart from an upward beat should keep US interest rates and the dollar in check** or even prompt a return to levels seen ahead of the previous, hot, March, CPI report (US 2-y: 4.7%, US 10-y: 4.4% and EUR/USD 1.0885). US retail sales (April) and the Empire Manufacturing business survey (May) will be released simultaneously with the inflation numbers though carry a smaller weight from a market perspective. A final interesting feature of yesterday's Powell comments was him noticing that **the restraining effect of the current restrictive monetary policy on the economy could be smaller than expected** given that so many American households and businesses locked in very low rates for a long time ahead of the pandemic.

### News & Views

- China is supposedly considering a proposal to have local governments across the country to buy millions of unsold homes in an attempt to address an ongoing property crisis.** The State Council is said to seek feedback from several provinces and government entities on what is currently **a preliminary plan.** Local state-owned enterprises would be asked to help **purchase unsold homes from distressed developers at steep discounts using loans provided by state banks.** Many of the properties would then be **converted into affordable housing,** the Bloomberg report says. For now, officials are said to still debate the details and the feasibility of the plan and it still can take months for the plan to be finalized if Chinese leaders would decide to go ahead. The plan comes as **the value of house sales declined about 47% in the first quarter** and as the **inventory of unsold houses reached the highest level in 8 years.**
- The Australian Bureau of Statistics showed wage growth easing in Q1 to 0.8% Q/Q and 4.1% Y/Y from 1.0% Q/Q in Q4 of last year.** In the March quarter, **the private sector was the main contributor** to the overall increase in wages, rising 0.8%, while public sector wages rose 0.5%. In Y/Y-terms, private sector wage growth at 4.1% was still **close to peak levels** recorded over the last two quarters of 2023. Public wage growth eased to 3.8% in Q1 down from 4.3% Y/Y in the December quarter. Across both the public and private sector there was **a fall in the proportion of jobs receiving a wage change in the March quarter 2024** compared to March quarter 2023. In terms of real income growth, the wage data should be put **against a 3.6% Y/Y inflation in Q1.** The easing of the wage growth dynamics should give some comfort to the Reserve Bank of Australia as it still kept all options open in its attempt to bring inflation sustainably back to its 2-3% target. The reaction on the Australian interest rate markets was limited this morning (3-y yield +1.5 bps to 3.97%). The market reaction to **a stimulative budget** announced yesterday might be in play. The Aussie dollar remains well bid. At AUD/USD 0.665, the currency is nearing the early March top of 0.6668.

# Graphs



## GE 10y yield

ECB President Lagarde clearly hinted at a summer (June) rate cut which has broad backing. EMU disinflation continued in April and brought headline CPI closer to 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 have come to terms with that.



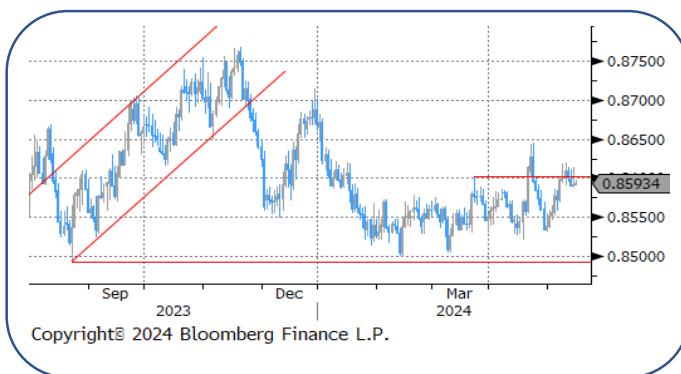
## US 10y yield

The Fed in May acknowledged the lack of progress towards the 2% inflation objective, but Fed's Powell left the door open for rate cuts later this year. Soft US ISM's and weaker than expected payrolls supported markets' hope on a first cut post summer, triggering a correction off YTD peak levels. Sticky inflation suggests any rate cut will be a tough balancing act. 4.37% (38% retracement Dec/April) already might prove strong support for the US 10-y yield.



## EUR/USD

Economic divergence, a likely desynchronized rate cut cycle with the ECB exceptionally taking the lead and higher than expected US CPI data pushed EUR/USD to the 1.06 area. From there, better EMU data gave the euro some breathing space. The dollar lost further momentum on softer than expected early May US data. Some further consolidation in the 1.07/1.09 are might be on the cards short-term.



## 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.

# Calendar & Table

Wednesday, 15 May		Consensus	Previous
<b>US</b>			
14:30	Empire Manufacturing (May)	-10	-14.3
<b>14:30</b>	<b>CPI MoM/YoY (Apr)</b>	<b>0.40%/3.40%</b>	<b>0.40%/3.50%</b>
14:30	CPI Ex Food and Energy MoM/YoY (Apr)	0.30%/3.60%	0.40%/3.80%
<b>14:30</b>	<b>Retail Sales Advance MoM (Apr)</b>	<b>0.40%</b>	<b>0.70%</b>
14:30	Retail Sales Ex Auto MoM (Apr)	0.20%	1.10%
14:30	Retail Sales Ex Auto and Gas (Apr)	0.20%	1.00%
<b>14:30</b>	<b>Retail Sales Control Group (Apr)</b>	<b>0.10%</b>	<b>1.10%</b>
16:00	NAHB Housing Market Index (May)	50	51
22:00	Net Long-term TIC Flows (Mar)	--	\$71.5b
<b>EMU</b>			
11:00	GDP SA QoQ/YoY (1Q P)	0.30%/0.40%	0.30%/0.40%
11:00	Industrial Production SA MoM/WDA YoY (Mar)	0.50%/-1.30%	0.80%/-6.40%
<b>China</b>			
03:20	1-Yr Medium-Term Lending Facility Rate	2.50%	2.50%
03:20	1-Yr Medium-Term Lending Facilities Volume	150.0b	100.0b
<b>Poland</b>			
<b>10:00</b>	<b>GDP SA QoQ/YoY (1Q P)</b>	<b>0.60%/1.80%</b>	<b>0.00%/1.00%</b>
<b>Sweden</b>			
<b>08:00</b>	<b>CPI MoM/YoY (Apr)</b>	<b>0.40%/4.00%</b>	<b>0.10%/4.10%</b>
08:00	CPIF MoM/YoY (Apr)	0.40%/2.40%	0.10%/2.20%
08:00	CPIF Excl. Energy MoM/YoY (Apr)	0.40%/3.00%	0.00%/2.90%
<b>Events</b>			
10:00	ECB's Muller Speaks		
<b>11:00</b>	<b>EU Commission Economic Forecasts</b>		
<b>11:00</b>	<b>ECB's Villeroy speaks</b>		
12:20	ECB's Makhlouf Speaks		
<b>16:00</b>	<b>Fed's Barr Testifies Before House Committee</b>		
16:05	Fed's Ben Bernanke testifies on BOE		
<b>18:00</b>	<b>Fed's Kashkari Speaks in Fireside Chat</b>		
<b>21:20</b>	<b>Fed's Bowman Speaks on Financial Landscape</b>		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.44	-0.05		US	4.81	-0.05	DOW	39558.11	126.60
DE	2.55	0.04		DE	2.99	0.03	NASDAQ	16511.18	122.94
BE	3.09	0.04		BE	3.08	0.03	NIKKEI	38376.04	19.98
UK	4.17	0.00		UK	4.32	-0.01	DAX	18716.42	-25.80
JP	0.96	0.00		JP	0.34	0.00	DJ euro-50	5080.29	1.33
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.11	4.48	4.29	€STR	3.9070	0.0000			
5y	2.90	4.22	4.01	Euribor-1	3.8380	0.0100	SOFR-1	5.3200	-0.0001
10y	2.82	4.07	3.87	Euribor-3	3.8240	-0.0040	SOFR-3	5.3269	-0.0032
				Euribor-6	3.7990	-0.0010	SOFR-6	5.2896	-0.0110
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0819	0.0029		EUR/JPY	169.25	0.69	CRB	287.38	-0.31
USD/JPY	156.42	0.20		EUR/GBP	0.8592	0.0001	Gold	2359.90	16.90
GBP/USD	1.2592	0.0033		EUR/CHF	0.9808	0.0008	Brent	82.38	-0.98
AUD/USD	0.6627	0.0019		EUR/SEK	11.6932	-0.0055			
USD/CAD	1.3651	-0.0015		EUR/NOK	11.6939	0.0248			

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