PKB’s Market Espresso

Short. Rich. Strong.

Three is a crowd

CPI once again topped estimates providing little comfort and support towards the Fed's will to begin cutting interest rates:

- **US March CPI* inflation** hotter than expected - **Headline 3.5%**, expectation was 3.4% - **Core 3.8%** against 3.7%, also a surprise
- Three-month average at 4.2%, six-months at 3.9%
- **Three upside surprises** are hard to ignore!
- Textbook market reaction:
    - Bond yields up
    - US Dollar up
    - Equities down
- **Strong retail sales** (+0.7% vs. 0.4%) reinforce the perception of **strength in the economy**
- Fed's Chairman Powell himself has **doubts**!

(*) Consumer Price Index

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Fed: Higher for (even) longer

Chair Powell signaled there is **no rush to cut** interest rates – recent data shows **little improvement on inflation**, rates can be kept steady for as long as needed!

- "Lack of additional progress made on inflation after the rapid decline witnessed end of 2023, more **time** is **needed** to gain **sufficient confidence** in reaching 2% inflation target"
- Market now pricing less than **two cuts** in 2024- Reduction of rates may come relatively **late in the year**, if at all
- Furthermore, the Fed cannot ignore the **November presidential elections**
- Treasury **yields** reaching **year to date highs – two year** briefly **exceeding 5.0%**, the highest level since November

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ECB meeting reading

ECB April meeting increases the optimism around a first cut by central bank in June - unless April/May data surprises to the upside

- **Optionality has been retained** – but probability of no action in June seems low. **Some members** of Governing Council were in favor of already **cutting in April**!
- **Fed sensitive**, not Fed dependent!
- Almost **no information** given on **future** moves after June – decisions will be taken meeting by meeting with mantra remaining **data dependency**
- **Stickiness in inflation**, also in light of new developments in the Middle East, suggests ECB will tilt towards **gradual moves**

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Commodities rally

- **Gold's** conundrum – models have broken down
- Dollar, real rates, volatility **fail to explain** gold's rally
- Other factors are at play, like **geopolitics**
- **Oil** - Middle East tensions
- The price response to **Iran's attack** has been muted…
- …but **war premium** of $5-10$ was already baked in
- And, Iran has greatly increased productions lately

- **Silver** is amongst the best commodities since the beginning of the year, outshining gold
- **Copper** on the rise, but we need to wait for a solid recovery in China

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Reporting season

US-Banks 1Q24: strong figures, but gloomy outlook

- The air is getting thinner for U.S. banks: JP Morgan, Citigroup and Wells Fargo expect lower revenues in the future in view of the monetary policy. **Possible interest rate cuts** by the Fed are casting the first shadows over the business of major US banks
- JPM: Despite favorable economic indicators (and results), the **outlook for the full year is cautious**, citing global conflicts, persistent inflationary pressures and central bank policy
- WFC: Facing higher interest rates, customers are taking out fewer new loans, but at the same time are investing more. As a result, the **net interest margin and profit declined** by 7%
- Morgan Stanley: Earnings and revenue (+4%) beat. Strong net new **asset growth** across Wealth and Investment Management
- Goldman Sachs: **also exceeded expectations** in its core businesses and reiterated the **cautious forecasts** of its competitors

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Oil & Gas – Further price upside?

Oil markets tightening in Q2. Brent is now trading above USD90/bbl on the back of various geopolitical tensions, but that is not the only reason:

- **Demand is proving more resilient** than initially feared with 2024 oil demand growth being revised up
- **Geopolitical tensions** likely to worsen short term with an unpredictable outcome for the oil price
- The IEA noted in its March report that **longer trade routes** (due to shipping disruptions through the Red Sea) have tied up
- Saudi Arabia and other OPEC members had previously committed to **extending all the voluntary cuts** until the end of June
- A high oil price going into the US elections helps Trump and could arguably be a handicap for Biden

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China's growth

- On Tuesday, **China** released a number of data
- **GDP +5.5%** y-o-y*
- Analysts had expected 4.6%
- The Statistics Bureau says *the foundation for economic stability is not yet solid*
- **Industrial production** +6.1%
- A **-2.7%** fall in producer prices shows persistent **pressure on manufacturing**
- Construction investment keeps falling
- The data still points to a tepid recovery…
- … which will require further policy support
- Housing weakness, local government deleveraging and **low confidence** hinder any solid recovery

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* *year-on-year*