

Americas Breakfast Briefing

By Marcus Dewsnap | February 20 2024



US OPEN/EVENTS AHEAD

China cut its 5-year Prime Rate by 25bp. This the rate most applicable to mortgages and therefore the property sector which reports suggest is in need of support. The 1-year rate, associated with business loans, was left on hold. There wasn't a huge market reaction, but that might be because with deflation in situ, real rates remain elevated. Nevertheless, this does highlight an area of potential fragility for markets to consider, namely property. On their return to the fray after Presidents' Day, 10s began the Asia-Pac session cheaper, but that dribbled away to marginal richening, before returning to flat. The 5bp range straddled 4.30%. 30s are currently 1bp cheaper, 2s 3bp richer. There is no defining US data today, with just the February Philly Fed non-manufacturing survey (13.30GMT) and January leading index (15GMT). Nor is there any FedSpeak. Indeed, it may fall to Walmart Q4/FY results and the associated outlook for Q1 to provide a macro lead as the world's largest retailer indicates its thoughts on consumer (goods) spend. Home Depot numbers are also out. We should also note Canada's January CPI (13.30GMT). The headline is seen 10bp lower at 3.3% y/y, the trim also -10bp at 3.6% y/y and the median steady at 3.6% y/y. Keep an eye on m/m annualised trim and median. These have strengthened recently, and shelter is also an important talking point given spring is just around the corner.



Information Classification: General

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EUROPEAN ROUND UP

Gilts outperformed for the entire morning. Until the BoEers spoke in Parliament, the lead was contained to up to 10 ticks, but once Bailey and Co started to talk, the gap extended to around 20 ticks, with UK debt hitting a session high, dragging EGB peers to similar peaks, and 30 ticks higher versus Bunds, but this move didn't elicit a similar move for debt elsewhere. Bailey did note that inflation doesn't need to be at target to start cutting rates and that it is reasonable for the market to price cuts this year (without endorsing the curve). The UK yield curve, which was already falling, went 2-3bp lower still. The ECB's negotiated wage growth indicator revealed a 20bp drop to 4.5% y/y in Q4. Q3 was a record high, so although the direction of travel is a positive for the ECB, the rate remains too high for comfort. There wasn't much in the way of reaction to this. Equity markets were mixed. Dax was lower and a laggard. Cac came within a couple of points of the record high. Brent dropped under \$83 after threatening to challenge last week's high \$83.66 high.



MARKET HEADLINES

- ECB Q4 negotiated wage growth 4.5% y/y from Q3's 4.7% y/y
- EMU negotiated wage growth slows in Q4, still to high
- BoE's Bailey: ... it is not unreasonable for the market to price for rate cuts this year
- BoE's Bailey: we don't need inflation back at target to begin cutting
- Swedish inflation expectations anchored. Floden plus more inflation thoughts
- Riksbank's Floden: Jan inflation inline with November forecast ... momentum has improved
- Riksbank's Breman: Inflation outlook brighter
- China cuts 5-yr rate 25bp (applicable to mortgages), but leaves 1-yr rate steady
- RBA minutes revealed that Board discussed a rate hike at Feb meeting, but plumped for on-hold
- UK sells Gbp 1.75bn of 4% 2063 at 4.518% (-15bp vs prev sale), b/c 2.92 (2.81 prev)
- Germany sells Eur 4.138bn of 2.5% 2026 at 2.79% (+30bp on prev sale), b/c 1.91 (prev 1.8)

DAY AHEAD

GMT	CODE	NAME	PERIOD	CONSENSUS	PREVIOUS
13:30	CA	Consumer Price Index (YoY)	Jan	3.3%	3.4%
13:30	CA	Consumer Price Index - Core (MoM)	Jan		0.1%
13:30	CA	BoC Consumer Price Index Core (YoY)	Jan		2.6%
13:30	CA	BoC Consumer Price Index Core (MoM)	Jan		-0.5%
13:30	CA	Consumer Price Index (MoM)	Jan	0.4%	-0.3%
13:55	US	Redbook Index (YoY)	02-16-2024		2.5%
14:00	NZ	GDT Price Index			4.2%
16:30	US	3-Month Bill Auction			5.23%
16:30	US	6-Month Bill Auction			5.065%
16:30	US	52-Week Bill Auction			4.57%