Thursday, 20 July 2023

Dear reader,

There will be no KBC Economics-Markets reports on Friday July 21st.
We resume our publications on Monday July 24th

KBC Sunrise Market Commentary

Markets

- **UK markets scaled back Bank of England tightening bets after June CPI numbers.** After four consecutive months of substantial upward surprises, they declined more than forecast. At 7.9% Y/Y for the headline reading and 6.9% Y/Y for the core gauge, the UK central bank's jobs remains far from done though. **We stick to our August 50 bps rate hike call** even as UK money markets reduced the odds to 50/50. The expected policy rate peak is lowered from 6% to 5.75%. UK Gilts in a daily perspective outperformed vs German Bunds and US Treasuries. UK Gilts yields fell by 10 bps (30-yr) to 19 bps (2-yr). EU and US bonds in a Pavlov-reaction joined the Gilt rally, but eventually retraced their steps. German yields rose by 1.6 bps (2-yr) to 5.2 bps (10-yr), even undoing part of the ECB Knot triggered downleg on Tuesday (neutral comments on outcome September ECB meeting coming from a hawkish voice). **From a technical point of view, the German 10-yr yield received support from the 200d moving average which earlier came to the rescue in March, May and June (2x).** The uptrend line connecting April/May/June/July lows remains in place as well. US yields ended 0.2 bps (2-yr) to 5.4 bps (30-yr) lower with disappointing housing data playing a temporary role. **Sterling underperformed** with EUR/GBP temporarily rising towards 0.87 before closing at 0.8657. The King's money remains in the defensive this morning. Cable fell back below 1.30 to close at 1.2940. EUR/USD closed at 1.1201 from an open at 1.1228, further establishing a topping off pattern after a test of 1.1274 resistance earlier this week. Stock markets ended mixed with the US slightly outperforming. Today's eco calendar remains thin with **US weekly jobless claims the main event.** Consensus expects a stabilization around 240k. Prints in the direction of 260k can trigger another dovish market reaction. **Corporate earnings can influence trading via risk sentiment. US equity futures are down following misses by Netflix and by Tesla.**

News & Views

- **Australian employment again grew at a faster than expected pace in June.** The Australian economy **added a net 32.6k jobs,** down from a 76.5k gain in May, but more than the 15k rise expected. The rise was **entirely due to full time job growth.** Part-time jobs declined modestly (-6.7k). **The unemployment rate stays at 3.5%,** near the all-time low (3.4%) reached in October last year. The number of unemployed people declined 11k. The Australian bureau of statistics assessed that *"The rise in employment in June saw the employment-to-population ratio remain at a record high 64.5%, reflecting a tight labour market in which employment has recently increased in line with population growth. In addition to there being over a million more employed people than before the pandemic, a much higher share of the population is employed. In June 2023, 64.5% of people 15 years or older were employed, an increase of 2.1 percentage points since March 2020."* **Tight labour market conditions continue to put pressure on the Reserve bank of Australia to further raise its policy rate at the Aug 1 policy meeting,** after pausing at 4.1% early July. The Australian 2-y yield jumped 11.9 bps to 3.98% after a decline in line with global market developments of late. The Aussie dollar gained from the AUD/USD 0.6770 area before the data release to currently trade near 0.683.

- **The People's Bank of China set its daily fixing for USD/CNY much stronger than expected.** According to a Bloomberg survey, **the deviation/bias was the strongest since November of last year.** The fixing is another sign that the PBOC is **unhappy with recent yuan weakness,** which at the same time is a 'logical consequence' of China keeping a more supportive monetary policy compared to most other major central banks. Aside from the stronger fixing, the PBOC also **changed some rules with respect to capital inflows as it allowed banks to borrow more overseas,** supporting capital inflows. There was also market talk of large lenders selling foreign currency in the domestic FX market to support the yuan. USD/CNY currently trades near 7.1775 compared to a close near 7.223 yesterday.

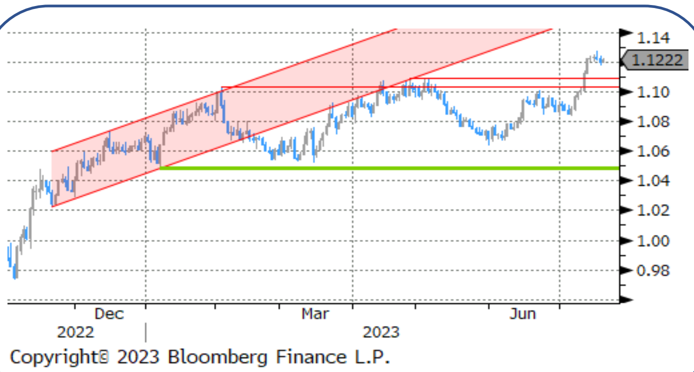
Graphs

GE 10y yield

The ECB adopted a more gradual approach by slowing its tightening pace from 50 to 25 bps in May. It stated that in the base scenario rates will be brought to sufficiently restrictive levels (i.e. more hikes to follow) and will stay there for as long as necessary. **Combined with APP reinvestments fully stopping from 2023H2 on we expect a solid bottom with a potential return to the cycle top, even after recent US-driven bond rally.**

US 10y yield

The Fed skipped a rate rise in June but the dot plot suggests two more to come this year with a first move due in July. A pause allows for more evidence on the pass-through of the previous tightening and on **the regional bank implosion.** The hikes pencilled in signal readiness to act against still elevated inflation and an ongoing tight labour market and economy. **The rebound in yields ran into resistance after softer June payrolls and June CPI**.



EUR/USD

The Fed's awkward pause, even as it is followed by more hikes, marks a stark contrast with the ECB's ongoing decisiveness. EUR/USD overcame several ST resistance levels **and even jumped beyond the 1.1095 YTD top post US CPI.** EUR/USD 1.1274 (76% retracement since early 2021 top to 0.9536 cycle low) is the next reference.

EUR/GBP

The BoE's conditional rate hike approach comes back to haunt them after April and May **CPI delivered a nasty surprise and the labour market remained red hot.** Money markets expect several more rate hikes, pushing sterling to a new YtD high. Short-term momentum in sterling improved, but we stay cautious MLT. Divergency within the BoE about the way forward might still change sentiment further out.

Calendar & Table

Thursday, 20 July		Consensus	Previous
US			
14:30	**Initial Jobless Claims**	**240k**	**237k**
14:30	Continuing Claims	1722k	1729k
14:30	Philadelphia Fed Business Outlook (Jul)	-10	-13.7
16:00	Existing Home Sales Total/MoM (Jun)	4.21m/-2.10%	4.30m/0.20%
Japan			
01:50	Trade Balance Adjusted (Jun)	-¥553.2bA	-¥771.0bR
01:50	Exports/Imports YoY (Jun)	1.50%A/-12.90%A	0.60%/-9.80%R
EMU			
16:00	**Consumer Confidence (Jul P)**	**-15.8**	**-16.1**
Germany			
08:00	PPI MoM/YoY (Jun)	-0.40%/0.00%	-1.40%/1.00%
France			
08:45	Business Confidence (Jul)	100	100
08:45	Production Outlook Indicator (Jul)	-10	-9
China			
03:15	5-Year Loan Prime Rate	4.20%A	4.20%
03:15	1-Year Loan Prime Rate	3.55%A	3.55%
Events			
Q2 earnings	Johnson & Johnson (12:45), SVB (22:05) …		
09:00	ECB's Villeroy speaks in Paris		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.75	-0.04		US	4.77	0.00	DOW	35061.21	109.28
DE	2.44	0.05		DE	3.07	0.02	NASDAQ	14358.02	4.38
BE	3.09	0.06		BE	3.24	0.04	NIKKEI	32498.01	-398.02
UK	4.22	-0.12		UK	4.91	-0.18	DAX	16108.93	-16.56
JP	0.46	0.00		JP	-0.04	0.00	DJ euro-50	4362.28	-7.45
IRS	**EUR**	**USD**	**GBP**	**EUR**	**-1d**	**-2d**	**USD**	**-1d**	**-2d**
3y	3.51	4.21	5.19	Ester	3.4000	0.0010			
5y	3.21	3.77	4.72	Euribor-1	3.4550	-0.0100	SOFR-1	5.2645	0.0085
10y	3.04	3.48	4.16	Euribor-3	3.6460	-0.0590	SOFR-3	5.3358	0.0053
				Euribor-6	3.9370	-0.0250	SOFR-6	5.4055	-0.0008
Currencies	**Close**	**-1d**		**Currencies**	**Close**	**-1d**	**Commodities**	**Close**	**-1d**
EUR/USD	1.1201	-0.0028		EUR/JPY	156.43	0.54	CRB	273.09	1.24
USD/JPY	139.65	0.82		EUR/GBP	0.8657	0.0044	Gold	2019.60	0.00
GBP/USD	1.294	-0.0096		EUR/CHF	0.9617	-0.0013	Brent	79.46	-0.17
AUD/USD	0.6772	-0.0039		EUR/SEK	11.5081	0.0357			
USD/CAD	1.3164	-0.0005		EUR/NOK	11.2451	-0.0479			

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