



Friday, 31 May 2024

KBC Sunrise Market Commentary

Markets

- The bond market sell-off/curve steepener from earlier this week yesterday ran into resistance. Data were not really high-profile but at least didn't push a continuation of the ascent in yields. Going into today's EMU Flash CPI, Spanish May inflation (headline HICP 3.8%, core 3.0%) was close to expectations. **US Q1 GDP** was slightly downwardly revised, both for the activity components (overall growth 1.3% Q/Qa from 1.6%, consumption 2.0% from 2.5%) and for the price indices (core PCE deflator 3.6% from 3.7%). Admittedly, this is a bit of old news. Nevertheless, after recent upleg in yields it helped to support a correction. US yields eased between 4.8 bps (2-y) and 6.5 bps (5 & 10-y). **Bunds still underperformed with yields declining between 2.3 bps (2-y) and 3.8 bps (10-y)**. Fed Williams as usual kept a balanced assessment. He sees current policy as restrictive enough to continue a gradual disinflation process. Contrary to some other governors he currently sees no compelling evidence of a higher neutral policy rate. Dallas Fed President Lorie Logan has a different bias as she stated that policy might be less restrictive than policymakers anticipated. **Lower yields this time only had a mixed impact on equities**. The EuroStoxx 50 rebounded modestly (+0.38%), but US indices stayed in red (Nasdaq -1.08%). Still the dollar reversed most of Wednesday's jump higher. DXY dropped from the 105.15 resistance area to close near 104.72. USD/JPY also eased from the 157+ levels as markets pondered the chances/risks of renewed yen interventions (close 156.82). EUR/USD rose from sub 1.08 levels but gains were modest (close 1.0832).
- **This morning, risk sentiment on most Asian markets turns positive**. US yields are little changed after yesterday's setback as is the dollar. **Later today, the focus for global trading is on the EMU and US inflation data series**. EMU headline inflation is expected to slow from 0.6% M/M to 0.2% M/M. However, due to unfavourable base effects, the Y/Y measure likely reaccelerated to 2.5% from 2.4%. Core inflation is expected unchanged at 2.7%. In the US, the report on the April personal income and spending also contains the (core) PCE deflators. The core measure is expected to slow to 0.2% M/M from 0.3% (Y/Y unchanged at 2.8%). **Considering yesterday's price moves, probably an upside surprise is needed for yields to go higher from current levels**. The short-term momentum on the dollar turned fairly neutral. Still EUR/USD is captured in a gradual downside pattern. A break below 1.08 could reinforce some further return action lower in the 1.09/1.0724 ST trading range.

News & Views

- **Inflation in Tokyo accelerated in May with the headline figure picking up from 1.8% to 2.2%**. The measure excluding fresh food prices moved higher from 1.6% to 1.9%. Filtering additionally for energy, however, prices rose at a slightly slower pace of 1.7%. This reveals the impact of the government's renewable energy surcharge introduced this month, jolting electricity prices by 13% y/y. Other government policy is making a proper assessment of actual price pressures even more difficult. It is phasing out previous energy subsidies but has education subsidies in the capital in place. The latter are depressing services inflation to 0.7% y/y, down from 0.8% last month. Other data published this morning showed **industrial production unexpectedly declining in April but retail sales jumping 1.2% m/m after a similar sharp contraction the month before**. The Japanese yen doesn't pick a clear direction on the mixed batch of data. USD/JPY retreated yesterday to 156.8 amid global core bond yields easing and is staying there this morning.
- **Chinese official (government) PMIs slightly missed expectations in May**. The **composite gauge eased from 51.7 to 51, mainly on an unexpected setback in manufacturing**. The sector dropped back in contraction territory (49.5) after two months of minor expansion. Output grew at a slower pace (50.8) but new (export) orders (<50) suggest a more difficult period ahead. Employment continues to struggle. The non-manufacturing gauge held more or less steady at 51.1 but activity also looks vulnerable near-term with new orders still deep in contraction area (46.9). **Expectations for the future are less bright than before**. Input prices rose to the highest in months in manufacturing (commodities) but eased in services. China's yuan slid on the release, giving back some of the USD-induced gains yesterday. USD/CNY rises from 7.23 in yesterday's close to 7.24 currently.

Graphs



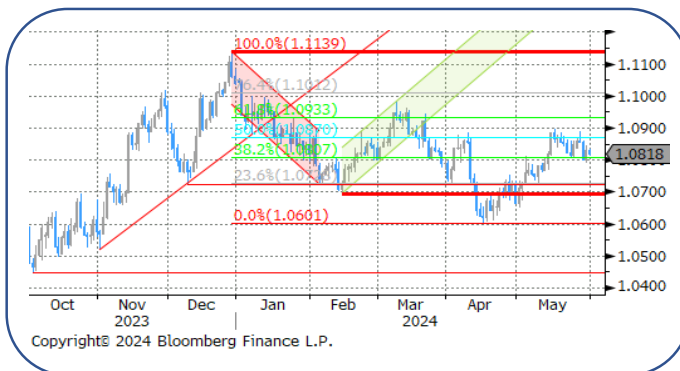
GE 10y yield

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. A more bumpy inflation path in H2 2024, the EMU economy gradually regaining traction and the Fed's higher for longer US strategy make follow-up moves difficult. Markets are coming to terms with that. The 10-y is setting a new YtD top.



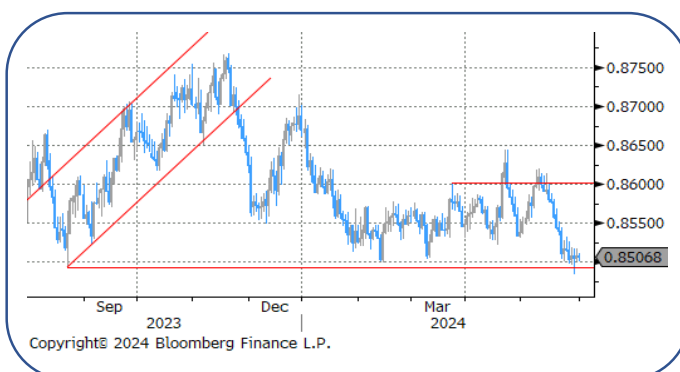
US 10y yield

The Fed in May acknowledged the lack of progress towards the 2% inflation objective, but Fed's Powell indicated that further tightening was unlikely. Soft US early month data triggering a correction off YTD peak levels. However, the Fed minutes still showed internal debate whether policy is restrictive enough. Sticky inflation suggests any rate cut will be a tough balancing act. The US 10-y yield is rebounding in the 4.30/4.70% trading range.



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 area 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 but slower than expected April disinflation and a surprise general election on July 4 complicated matters. A June cut in line with the ECB looks improbable. Sterling extends a recent bull rally. A test of EUR/GBP's 2024 YtD low (0.8489) is possible. We expect this important support level to hold.

Calendar & Table

Friday, 31 May		Consensus	Previous
US			
14:30	Personal Income/Spending (Apr)	0.30%/0.30%	0.50%/0.80%
14:30	Real Personal Spending (Apr)	0.10%	0.50%
14:30	PCE Deflator MoM/YoY (Apr)	0.30%/2.70%	0.30%/2.70%
14:30	PCE Core Deflator MoM/YoY (Apr)	0.20%/2.80%	0.30%/2.80%
15:45	MNI Chicago PMI (May)	41.5	37.9
Canada			
14:30	GDP YoY (Mar)	0.70%	0.80%
14:30	Quarterly GDP Annualized (1Q)	2.20%	1.00%
14:30	GDP MoM (Mar)	0.00%	0.20%
Japan			
01:30	Jobless Rate (Apr)	2.60%A	2.60%
01:30	Job-To-Applicant Ratio (Apr)	1.26A	1.28
01:30	Tokyo CPI YoY (May)	2.20%A	1.80%
01:30	Tokyo CPI Ex-Fresh Food YoY (May)	1.90%A	1.60%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (May)	1.70%A	1.80%
01:50	Industrial Production MoM/YoY (Apr P)	-0.10%A/-1.00%A	4.40%/-6.20%
01:50	Retail Sales MoM/YoY (Apr)	0.20%A/2.40%A	-1.20%/1.10%R
07:00	Housing Starts YoY (Apr)	-0.10%	-12.80%
UK			
08:00	Nationwide House PX MoM/NSA YoY (May)	--/--	-0.40%/0.60%
10:30	Net Consumer Credit (Apr)	--	1.6b
10:30	Mortgage Approvals (Apr)	--	61.3k
10:30	Money Supply M4 MoM/YoY (Apr)	--/--	0.70%/0.50%
EMU			
11:00	CPI MoM/YoY (May)	0.20%/2.50%	0.60%/2.40%
11:00	CPI Core YoY (May P)	2.70%	2.70%
Germany			
08:00	Retail Sales MoM/NSA YoY (Apr)	0.00%/--	2.30%R/-2.20%R
France			
08:45	Consumer Spending MoM/YoY (Apr)	0.20%/1.40%	0.40%/0.50%
08:45	CPI EU Harmonized MoM/YoY (May P)	0.1%/2.60%	0.60%/2.40%
08:45	CPI MoM/YoY (May P)	0.10%/2.40%	0.50%/2.20%
08:45	PPI MoM/YoY (Apr)	--/--	-0.20%/-7.50%
Italy			
11:00	CPI EU Harmonized MoM/YoY (May P)	0.20%/0.70%	0.50%R/0.80%R
China			
03:30	Composite PMI (May)	51.0A	51.7
03:30	Manufacturing PMI (May)	49.5A	50.4
03:30	Non-manufacturing PMI (May)	51.1A	51.2
Events			
08:00	ECB's Vujcic Speaks		
09:30	ECB's Vujcic Speaks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,55	-0,07		US	4,92	-0,05	DOW	38111,48	-330,06
DE	2,65	-0,04		DE	3,08	-0,02	NASDAQ	16737,08	-183,50
BE	3,20	-0,03		BE	3,15	-0,03	NIKKEI	38509,83	455,70
UK	4,35	-0,05		UK	4,47	-0,09	DAX	18496,79	23,50
JP	1,07	0,01		JP	0,41	0,02	DJ euro-50	4982,18	18,98
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	3,19	4,58	4,52	€STR	3,9100	0,0010			
5y	2,99	4,33	4,22	Euribor-1	3,7500	-0,0220	SOFR-1	5,3281	0,0008
10y	2,88	4,18	4,05	Euribor-3	3,7880	-0,0060	SOFR-3	5,3416	-0,0031
				Euribor-6	3,7590	-0,0090	SOFR-6	5,3134	-0,0120
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0832	0,0031		EUR/JPY	169,86	-0,42	CRB	293,00	-4,63
USD/JPY	156,82	-0,82		EUR/GBP	0,8508	0,0003	Gold	2366,50	2,40
GBP/USD	1,2732	0,0031		EUR/CHF	0,9785	-0,0079	Brent	81,86	-1,74
AUD/USD	0,6633	0,0023		EUR/SEK	11,4738	-0,0560			
USD/CAD	1,3681	-0,0037		EUR/NOK	11,4283	-0,0112			

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