



Monday, 10 June 2024

KBC Sunrise Market Commentary

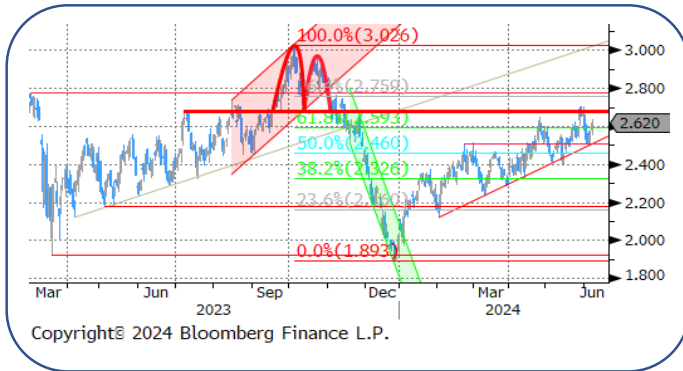
Markets

- The US market needle again points in the direction of a December rather than a September (50% probability from 85%) Fed policy rate cut after Friday's consensus-beating payrolls.** 272k net job growth and accelerating wage growth (0.4% M/M & 4.1% Y/Y) triggered a massive sell-off in US Treasuries. Daily changes on the US yield curve ranged between +12 bps (30-yr) and +16 bps (2-yr). **The US 10-yr yield that way managed to get away from the 4.3% support area.** We don't expect another US Treasury rebound in the run-up to **Wednesday's May CPI inflation figures and Fed meeting.** The consensus bar for headline inflation (0.1% M/M) seems rather low suggesting upside risks for Y/Y inflation (3.4%) also given last year's equally low comparison base (0.1%). The pace of core inflation is expected stable compared to April (0.3% M/M) with base effects (0.4% last year) more in favour of a disinflation narrative (3.5% Y/Y expected). The Fed will keep policy rates unchanged but both the statement and the updated summary of economic projections risk **showing a further hawkish shift.** The updated dot plot will be a very close between a more market-friendly consensus of two rate cuts this year and sell-off triggering one rate cut. The path for 2025 risks being slower as well (current end of year median of 3.75%-4%) The neutral rate is equally vulnerable to a new upward (median) revision from 2.56% in March (2.5% in December). **US yields can revisit this year's highs if this scenario materializes.**
- The dollar rallied following US payrolls to a weekly close of EUR/USD 1.08 and ending the topside test of the 1.09 sideways range. **The pair this morning sinks to the 1.0750 area after French president Macron conceded defeat in EU elections by calling snap elections at the end of this month.** This election risk (strong showing of far right RN) is likely to keep the euro under pressure in the build-up. **We expect to see some widening in sovereign spreads as well this week. EUR/GBP fell below the 0.85 support zone to currently change hands around 0.8450. Those are the weakest levels since August 2022.** If the Bank of England turns out more hawkish than the ECB next this week, it could add to EUR/GBP selling pressure.

News & Views

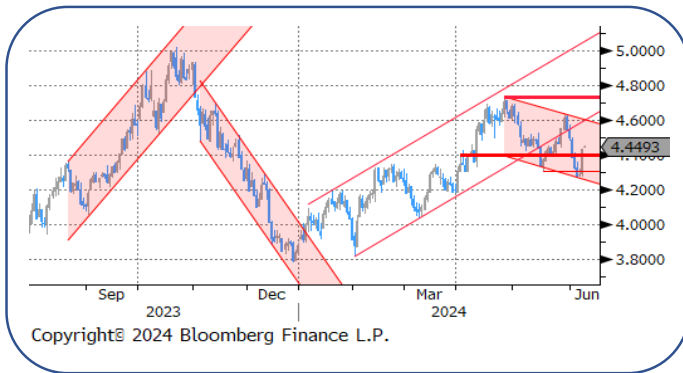
- French President Macron will dissolve parliament after Marine Le Pen's Rassemblement National secured almost 1/3rd of the votes in EU elections compared to less than 15% for Macron's centrist alliance. Snap elections will be held on June 30 and July 07.** Macron sees a need for clarification and a clear majority to act in serenity and harmony. The overall outcome of European elections showed a strong outcome for the center-right EPP, securing 184 seats in the 720 seat EU parliament. Current coalition partners Socialists and Democrats and the pro-European Renew managed 139 and 80 seats respectively. Together, they again have a majority but it's unsure whether this will be enough for outgoing President of the EC (von der Leyen) to secure a second term as several members of parliament of the three groups might not support her candidacy. The EC President also needs a qualified majority of 15 of the 27 EU leaders of countries that together represent 65% of the EU population. The far-right and Euro-sceptic group Identity and Democracy raised its number of seats from 49 to 58 with the German AfD gaining another 15 seats.
- At the same time of the elections for the EU parliament, **Belgium** held elections for the national and its regional parliaments. **On a federal level (150 seats), the center-right Flemish NVA secured 24 seats (-1) and remains the biggest party,** staying ahead of the far-right Vlaams Belang (20 seats; +2). Among the families that are represented with parties in both the French and Flemish speaking part of the country, the liberal family obtained 27 seats (thanks to a strong showing of MR (20 seats) in Wallonia; +1 combined), the social democrats won 29 seats (stable) and Christian democrats 25 seats (+8). The Green group is decimated from a combined 21 seats to only 9 while the far-left group PTB-PVBA collected 15 seats (+3). Even as political fragmentation might complicate the formation of a new government, **the leader of the NVA party is expected to take the lead to form a new center-right government.**

Graphs



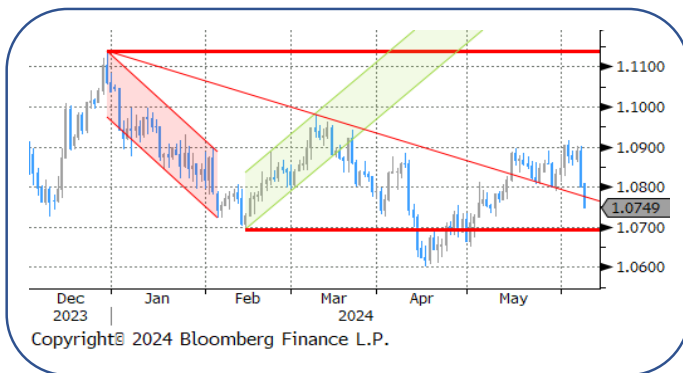
GE 10y yield

The ECB cut its key policy rates by 25 bps at the June policy meeting. 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 German 10y yield set a new Ytd top at 2.7%.**



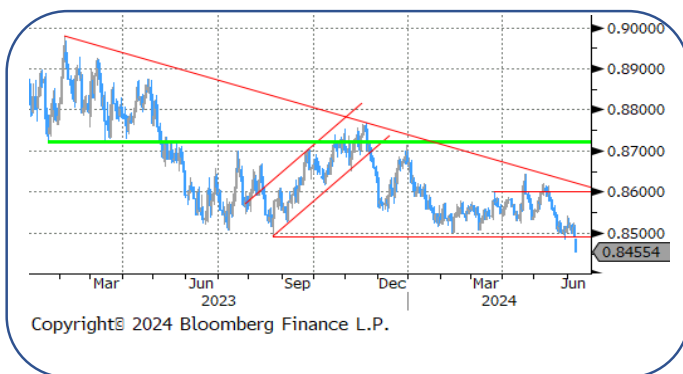
US 10y yield

The Fed in May **acknowledged the lack of progress** towards the 2% inflation objective, but Fed Chair Powell indicated that further tightening was unlikely. However, the FOMC Minutes still showed internal debate on whether policy is restrictive enough. **Sticky inflation suggests any rate cut will be a tough balancing act while several policy makers hint at a higher neutral rate.** The US 10-y yield is stuck in the 4.3/4.7% trading range.



EUR/USD

EUR/USD is stuck in the 1.06-1.09 range. The desynchronized rate cut cycle with the ECB exceptionally taking the lead, **strong US May payrolls and a swing to the right in European elections pulled the pair away from 1.09 resistance.** Focus turns to the US side of the story with May CPI inflation numbers and a more hawkish Fed looming on the horizon.



EUR/GBP

Debate at the Bank of England **is focused at the timing of rate cuts.** Slower than expected April disinflation and a surprise general election on July 4 suggest that a June cut in line with the ECB looks improbable. Sterling gained momentum with money markets now discounting a Fed-like scenario. EUR/GBP tested the 2023 & 2024 lows near 0.85. **Euro weakness eventually pulled the trick after French president Macron called snap elections following a weak showing in EU elections.**

Calendar & Table

Monday, 10 June		Consensus	Previous
US			
17:00	NY Fed 1-Yr Inflation Expectations (May)	--	3.26%
Japan			
01:50	Bank Lending Ex-Trusts YoY (May)	3.4%	A: 3.50%
07:00	Eco Watchers Survey Current SA (May)	48.6	47.4
07:00	Eco Watchers Survey Outlook SA (May)	49	48.5
EMU			
10:30	Sentix Investor Confidence (Jun)	-1.7	-3.6
Italy			
10:00	Industrial Production MoM/WDA YoY (Apr)	0.2%/-2.1%	-0.50%/-3.50%
Hungary			
08:30	CPI MoM/YoY (May)	0.10%/4.20%	0.70%/3.70%
Norway			
08:00	CPI MoM/YoY (May)	0.1%/3.3%	0.80%/3.60%
08:00	CPI Underlying MoM/YoY (May)	0.5%/3.9%	0.90%/4.40%
08:00	PPI including Oil MoM/YoY (May)	--	3.40%/-4.50%
Sweden			
08:00	GDP Indicator SA MoM/WDA YoY (Apr)	--	-0.30%/-1.10%
08:00	Household Consumption MoM/YoY (Apr)	--	0.50%/1.20%
08:00	Private Sector Production MoM/YoY (Apr)	--	0.60%/0.40%
08:00	Industry Production Value YoY (Apr)	--	2.90%
08:00	Service Production Value YoY (Apr)	--	0.80%
Events			
09JUN	Hungarian-Polish joint central bank conference		
09JUN	Chinese markets closed for Dragon Boat Day		
01:01	S&P Global, KPMG and REC UK Report on Jobs		
13:00	ECB's Holzmann Speaks		
19:00	US To Sell USD58bn 3-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.43	0.15	US	4.89	0.16	DOW	38798.99	-87.18	
DE	2.62	0.07	DE	3.08	0.07	NASDAQ	17133.13	-39.99	
BE	3.17	0.07	BE	3.17	0.06	NIKKEI	39051.22	367.29	
UK	4.26	0.09	UK	4.40	0.06	DAX	18557.27	-95.40	
JP	1.04	0.06	JP	0.38	0.03	DJ euro-50	5051.31	-17.78	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.17	4.49	4.44	€STR	3.9120	0.0010			
5y	2.96	4.22	4.14	Euribor-1	3.6790	-0.0090	SOFR-1	5.3305	0.0035
10y	2.85	4.05	3.97	Euribor-3	3.7590	0.0040	SOFR-3	5.3465	0.0170
				Euribor-6	3.7350	-0.0090	SOFR-6	5.3148	0.0495
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0801	-0.0089	EUR/JPY	169.33	-0.14	CRB	289.86	-2.56	
USD/JPY	156.75	1.14	EUR/GBP	0.8492	-0.0021	Gold	2325.00	-65.90	
GBP/USD	1.2719	-0.0072	EUR/CHF	0.9685	0.0000	Brent	79.62	-0.25	
AUD/USD	0.6582	-0.0084	EUR/SEK	11.3844	0.0664				
USD/CAD	1.3764	0.0094	EUR/NOK	11.5727	0.0779				

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