KBC Economics – Markets, Havenlaan 2, 1080 Brussel

Thursday, 13 June 2024

KBC Sunrise Market Commentary

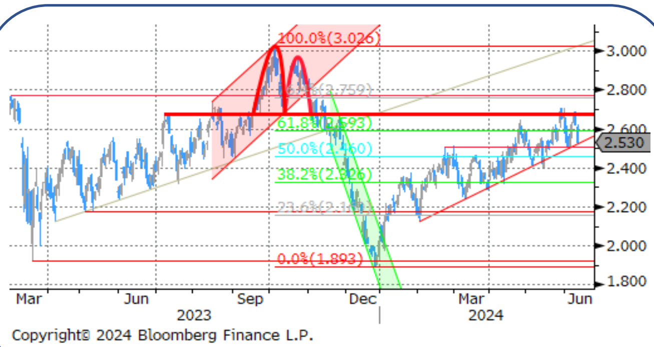
Markets

- The Fed kept the policy rate unchanged at 5.25-5.5% yesterday. The expected decision was accompanied by a statement that mentioned **"modest" further progress towards the 2% inflation** objective instead of the "lack" of it in the May edition. It's the only change and feels like a post-CPI addition. The dot plot entailed bigger changes though and moved from three cuts to just one this year – be it narrowly. The 2025 median forecast shifted from three to four (to 4-4.25%) with the 2026 prediction at an unchanged 3-3.25%. **The neutral rate shifted further north from 2.56% to 2.75%. It takes just one more participant to adjust his/her view to 3% to tilt the general balance towards this level.** That would surely have drawn more market attention than yesterday's upgrade did. Inflation forecasts were revised higher for 2024 (2.6% headline, 2.8% core) and 2025 (both 2.3%), reflecting in part the negative surprises from Q1. Chair Powell during the presser referred to the predictions as being **conservative.** They changed little to nothing to growth and unemployment forecasts. Based on the dots and Powell's comments, the first rate cut and follow-ups are more than anything else just a matter of timing. Demand is cooling and the labour market has moved back towards a pre-Covid state. But the chair said the inaugural move is a **consequential one** and before deciding on it they want to gain more confidence first. US yields jumped in the wake of the Fed but that had more to do with the low starting point, caused by slower-than-expected CPI numbers (0.0% m/m headline, 0.2% core) hours earlier. Net daily changes eventually amounted to losses of -6.2 (30-yr) to -10.2 bps (5-yr). Given current market pricing for 2024 & 2025 and with few important economic data in the next two weeks or so, we think US rates are likely to trade sideways for the time being. Yesterday's intraday lows (front end and back end) mark a solid bottom. The dollar pared some of the sharp losses in the wake of the Fed. EUR/USD returned from a high around 1.085 to 1.081, still up from the 1.074 at the open. DXY opened at 105.27, found support at 104.26 and finished at 104.64 from an 105.27. Today's **PPI's and weekly jobless claims** in the US may trigger some volatility but are unlikely to move the needle permanently. The **30-yr USD 22bn bond auction** tonight follows Tuesday's strong 10-yr one. The dust seems to have settled a bit in Europe after the elections and Macron's political gamble. But uncertainty will continue to linger in coming weeks. We continue to keep a close eye on peripheral and (semi-) core swap spreads which continued to increase slightly in the case of France yesterday. The euro's upside is capped short term, allowing for some correction lower within the 1.06-1.09 trading range. EUR/GBP is trying to recoup some of the heavy losses incurred over the previous days. Technically, though, the picture remains challenging.

News & Views

- **Solid Australian labour market data for the month May bolster the Reserve Bank of Australia's case for its higher-for-longer strategy.** The economy added 39.7k jobs (vs +37.4k in April). While close to consensus, it's interesting to see that full time occupations accounted for a 41.7k increase, with part-time jobs sliding by 2.1k. Last month it was the other way around. **The unemployment rate ticked lower, from 4.1% to 4%** with a stable (following upward revision to April figures) participation rate of 66.8%. The head of the Australian Bureau of Statistics said that "The employment-to-population ratio and participation rate both continue to be much higher than their pre-pandemic levels. Together with elevated levels of job vacancies, **this suggests the labour market remains relatively tight**, though less than in late 2022 and early 2023". The Aussie dollar failed to profit from the numbers with AUD/USD currently changing hands around 0.6650 after yesterday's volatile session (including test of YTD top near 0.67).
- **The UK RICS's monthly net balance of house prices fell to -17 in May, the lowest level since January**, from a downwardly revised -7 in April. The gauge of new buyer enquiries fell to the lowest since November (-8 from -1). New instructions (16 from 25) and agreed sales (-13 from 4) also recorded steep drops. RICS commented that **the recent recovery across the UK housing market appears to have slipped into reverse of late**, with buyer demand losing momentum slightly on the back of the **upward moves seen in mortgage rates** over the past couple of months. Nevertheless, expectations point to this delaying, rather than derailing, a modest improvement going forward. Sales expectations indeed rose from 0 to 6 with price expectations broadly unchanged at -12.

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 is seeking more evidence than just one slower-than-expected (May) CPI is providing. **Upgraded inflation forecasts and a higher neutral rate** complicate the exact timing of a first cut further. June dots suggest one move in 2024 followed by four more next year. Markets are positioned more aggressively, turning the recent low in yields into a technical support zone. The US 10-y yield remains stuck in the 4.3/4.7% trading range.

EUR/USD

EUR/USD is trapped 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.** The Fed meeting balanced the weaker than expected US CPI outcome. Euro fragility makes a return to the 1.06 downside more likely than not.

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

Thursday, 13 June		Consensus	Previous
US			
14:30	Initial Jobless Claims	225k	229k
14:30	Continuing Claims	1795k	1792k
14:30	PPI Final Demand MoM/YoY (May)	0.10%/2.50%	0.50%/2.20%
14:30	PPI Ex Food and Energy MoM/YoY (May)	0.30%/2.50%	0.50%/2.40%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (May)	0.30%/--	0.40%/3.10%
Japan			
01:50	BSI Large All Industry QoQ (2Q)	0.4A	0
01:50	BSI Large Manufacturing QoQ (2Q)	-1.0A	-6.7
UK			
01:01	RICS House Price Balance (May)	-17%A	-7%R
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Apr)	0.20%/-2.00%	0.60%/-1.00%
Events			
11:00	Italy to Sell Bonds		
18:00	Fed's Williams Interviews Treasury Sec. Yellen		
19:00	U.S. To Sell USD22 Bln 30-Year Bond		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.32	-0.09		US	4.75	-0.08	DOW	38712.21	-35.21
DE	2.53	-0.09		DE	2.95	-0.07	NASDAQ	17608.44	264.89
BE	3.12	-0.10		BE	3.11	-0.09	NIKKEI	38725.17	-151.54
UK	4.13	-0.14		UK	4.22	-0.12	DAX	18630.86	260.92
JP	0.98	-0.01		JP	0.33	-0.02	DJ euro-50	5034.43	69.34
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.09	4.34	4.31	€STR	3.6620	-0.2470			
5y	2.89	4.07	4.00	Euribor-1	3.6300	0.0170	SOFR-1	5.3325	0.0010
10y	2.80	3.94	3.84	Euribor-3	3.7200	-0.0190	SOFR-3	5.3477	0.0026
				Euribor-6	3.7480	-0.0030	SOFR-6	5.2931	-0.0133
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0809	0.0068		EUR/JPY	169.41	0.64	CRB	295.14	2.39
USD/JPY	156.72	-0.41		EUR/GBP	0.8446	0.0015	Gold	2354.80	28.20
GBP/USD	1.2798	0.0058		EUR/CHF	0.9668	0.0026	Brent	82.60	0.68
AUD/USD	0.6664	0.0058		EUR/SEK	11.2179	-0.0439			
USD/CAD	1.3723	-0.0035		EUR/NOK	11.4369	-0.0492			

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