



Monday, 24 June 2024

KBC Sunrise Market Commentary

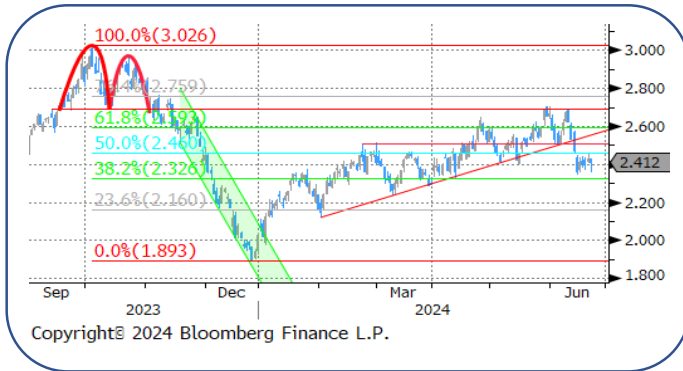
Markets

- The Japanese yen grabs most attention this morning.** Dollar strength pushed USD/JPY last Friday above 159.50 following stronger-than-expected June PMI's and the pair is **still flirting with the 160 mark** this morning (34-yr JPY low). This level prompted **FX interventions to the tune of almost JPY 10tn** by the Japanese Ministry of Finance at the end of April and **alarm bells are ringing** this time around as well. Vice Finance minister Kanda confirmed preparedness to take appropriate action in the event of excessive FX moves based on speculation. Excessive currency fluctuation negatively impact the national economy, he added. Finance Minister Suzuki later added weight by stressing that the government is watching FX moves closely. **Minutes from the June Bank of Japan meeting** fail to help the currency even as they bolster the case for a July rate hike: **"if deemed appropriate, the central bank should raise the policy rate before it's too late"**. A small Japanese interest rate adjustment obviously doesn't suffice against a hawkish leaning Fed keeping policy rates at their peak levels for longer.
- Most recent French election polls continue pointing to a win for Marine Le Pen's Rassemblement National** in the first round of legislative elections next Sunday. They are forecast to get 35.5% of the vote, ahead of alliance of left-wing parties (Nouveau Front Populaire, 29%) and President Macron's alliance (Ensemble, 21%). In the projected seat tally, **they fail to get an outright majority though** (210-250 guestimate in 577-seat parliament). Such **hung parliament** risks putting France in a political deadlock with RN (Bardella) so far ruling out delivering a PM for a minority government. **Political uncertainty could thus remain high after elections with little momentum to put French ailing public finances back on track.** The French 10-yr OAT-swaps spread continues trading near recent multiyear highs (+45 bps) with French bonds unlikely to pull any comeback soon. The German/French 10-yr yield spread hit 80 bps for the first time since 2012. Euro weakness holds EUR/USD (just) below 1.07 this morning. The YTD low at 1.0601 remains the travel direction. Today's eco calendar is thin with only German Ifo business climate which will normally reflect Friday's weakness in PMI's (political uncertainty). Speeches by ECB and Fed governors are a wildcard. This week's eco agenda is **back-loaded** with the Fed's preferred (May) PCE deflators and first national EMU (June) CPI data on Friday.

News & Views

- The IMF in its annual review said that Hungary has come a long way reducing double digit inflation and bringing the current account deficit under control.** It expects average annual inflation of 4.2% this year to ease to the 3% central bank target by 2026. But **significant challenges remain** with the fiscal deficit and debt ratio still well above the pre-pandemic levels. It also said that the windfall taxes introduced in 2022 are increasing market uncertainty and expressed criticism on the country's "excessively high" and competition-hindering state ownership in key sectors. The IMF lashed out at the government's interest rate freeze as well, as it distorts market conditions. The Hungarian government recently extended an interest rate cap on retail loans (introduced in Jan 2022) until the end of 2024. The IMF **urged Hungary to pursue a credible and growth-friendly fiscal consolidation plan** and said the **government should help the central bank's efforts to reduce inflation.** The IMF lastly stressed that **structural and governance reforms are necessary or risk losing access to the remaining locked up European funds**, in turn leading to a higher risk premium, a weaker forint and tighter monetary policy weighing on growth.
- China's fiscal revenue fell 2.8% in the first five months of 2024** compared to the same period last year. It's also an acceleration from the 2.7% drop in the January-April period and **a sign of sluggish demand and the fragile property sector continuing to weigh on the economy.** Expenditures rose 3.4% in the five months to May. The government pledged more fiscal stimulus to support the ailing economy and to reach the (ambitious) 5% growth target for this year. Part of the efforts include the recently kicked-off sale of CNY 1tn long-dated special treasury bonds to help fund mega projects in key sectors.

Graphs



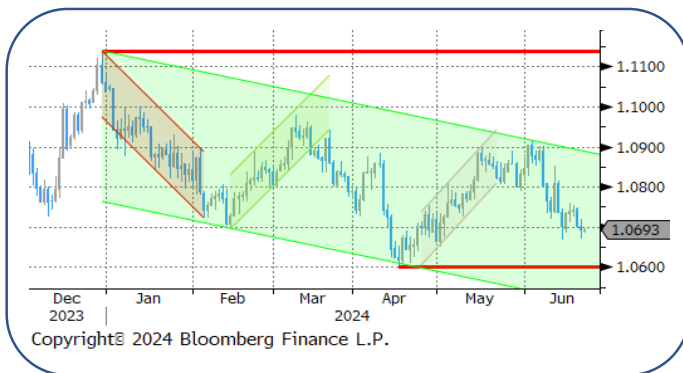
GE 10y yield

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. For the time being, though, the **political narrative (France) dominates**. After hitting a new YtD top at 2.7%, the German 10-yr yield corrected lower on safe haven bids.



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 is testing the downside of the 4.2/4.7% 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**. 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 BOE is **focused at the timing of rate cuts**. May headline inflation returned to 2%, **but core measures weren't in line with inflation sustainably returning to target** any time soon. **Still some BoE members at the June meeting appeared moving closer to a rate cut**. This might cap further sterling gains. At the same time, **the euro remains vulnerable to political event risk going into the French elections**. EUR/GBP 0.84 is becoming solid support.

Calendar & Table

Monday, 24 June		Consensus	Previous
US			
16:30	Dallas Fed Manf. Activity (Jun)	-15.0	-19.4
Japan			
07:30	Nationwide Dept Sales YoY (May)	--	8.90%
UK			
12:00	CBI Trends Total Orders (Jun)	-26	-33
12:00	CBI Trends Selling Prices (Jun)	15	15
Germany			
10:00	IFO Business Climate (Jun)	89.6	89.3
10:00	IFO Current Assessment (Jun)	88.5	88.3
10:00	IFO Expectations (Jun)	90.7	90.4
Belgium			
15:00	Business Confidence (Jun)	-11.3	-11
Events			
09:00	Fed's Waller Gives Opening Remarks		
11:30	EU to Sell Up to EU2.5 Billion of 2.75% 2026 Bonds		
12:10	ECB's Nagel Speaks		
14:30	ECB's Villeroy Speaks		
17:30	ECB's Schnabel Speaks		
20:00	Fed's Daly Gives Remarks on Economy, Policy		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.26	0.00	US	4.73	0.00	DOW	39150.33	15.57	
DE	2.41	-0.02	DE	2.79	-0.04	NASDAQ	17689.36	-32.23	
BE	3.09	-0.01	BE	3.03	-0.04	NIKKEI	38878.57	282.10	
UK	4.08	0.03	UK	4.17	0.01	DAX	18163.52	-90.66	
JP	0.99	0.02	JP	0.30	0.00	DJ euro-50	4907.3	-40.43	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.99	4.27	4.19	€STR	3.6640	0.0010			
5y	2.81	4.00	3.89	Euribor-1	3.6000	0.0020	SOFR-1	5.3448	-0.0002
10y	2.76	3.86	3.77	Euribor-3	3.6860	-0.0140	SOFR-3	5.3420	-0.0035
				Euribor-6	3.6910	0.0020	SOFR-6	5.2692	-0.0089
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0693	-0.0009	EUR/JPY	170.77	0.68	CRB	293.22	-2.16	
USD/JPY	159.8	0.87	EUR/GBP	0.8456	0.0001	Gold	2331.20	-37.80	
GBP/USD	1.2645	-0.0012	EUR/CHF	0.9562	0.0022	Brent	85.24	-0.47	
AUD/USD	0.6641	-0.0015	EUR/SEK	11.2363	-0.0028				
USD/CAD	1.3692	0.0003	EUR/NOK	11.3077	0.0109				

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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