Wednesday, 26 June 2024

KBC Sunrise Market Commentary

Markets

- **Washington-based Fed governor Cook** in a speech for the Economic Club of NY **joined SF Fed Daly** (voter) **in warning that the US labour market could change very quickly and that official stand ready to respond.** She also referred to the fact that **payrolls job gains were overstated last year and may continue to be this year.** A first big revision by the Bureau of Labour Statistics is due by the end of August and **could be a gamechanger** in deciding the outcome of the September FOMC meeting. For now, the labour market is *"tight, but not overheated"* in Cook's view. Unlike hawkish Fed Bowman earlier on the day, Cook is solely looking in the direction of a rate cut as next move, but the timing remains unclear. **She hails progress made on the inflation front and expects three- and six-month inflation rates to continue to move lower on a bumpy path** with more favorable monthly inflation readings for the rest of the year (more similar to H2 2023 instead of Jan-Apr this year). She expects a sharper decline next year as the past slowing on new leases starts impacting housing-services inflation. Slightly negative core goods inflation and easing supercore inflation should also help. **Cook's comments didn't impact yesterday's intraday market dynamics which were mostly sentiment-driven and technical by nature. US yields eventually added 1-2 bps across the curve but are stuck near recent correction lows.** The dollar was again better bid, closing at EUR/USD 1.0714. Alarm bells in USD/JPY (159.80) keep ringing. US consumer confidence held up somewhat better in June (100.4 vs 100 consensus) though coming from a downward revision in May (101.3 from 102). Details showed a bigger deterioration in the expectations component with both future income and business conditions weakening. The US Treasury's $69bn 2-yr Note auction met with good demand after last month's little scare. US stock markets (mainly Nasdaq; +1.26%) rebounded, driven by Nvidia.
- Today's eco calendar is extremely thin, paving the way for more rangebound action. **ECB Rehn this morning labelled bets for two more ECB rate cuts this year as reasonable and believes that the current market view of a 2.25%-2.50% terminal rate is also fair.** He doesn't see disorderly market move in France or a debt crisis in the making, suggesting that the ECB won't have to use its "Transmission Protection Instrument", a back-up tool allowing the ECB to buy bonds from countries experiencing a deterioration in financing conditions mot warranted by fundamentals. EUR/USD is a tad softer near 1.07.

News & Views

- **Australian CPI rose to 4% Y/Y from 3.6% in April (vs 3.8% consensus). On a monthly basis inflation eased 0.1%,** but this came on the back of a monthly rise of 0.7% in April. The most significant contributors to the annual rise were housing (+5.2%), food and non-alcoholic beverages (+3.3%), transport (+4.9%), and alcohol and tobacco (+6.7%). **Inflation excluding volatile items (fruit and vegetables, holiday travel and automotive fuels) eased slightly from 4.1% to 4%** but also stays well above the 2-3% RBA inflation target. **The trimmed mean measure of core inflation also climbed from 4.1% to 4.4%,** the highest level in six months. The next RBA meeting takes place on August 6, a week after the publication of more important quarterly price data (July 31). At its June meeting, **the RBA already indicated that felt uncomfortable with inflation easing more slowly than expected, not ruling out further rate hikes.** Markets attach a 50% probability to the RBA effectively increasing its policy rate in autumn. The 3-y government bond yields adds 18 bps this morning (to 4.11%). AUD/USD gains from 0.6647 to 0.6685, but holds in the tight range between 0.6575 and 0.6715.
- **Reserve Bank of India Governor Das said that India needs to keep its focus on bringing inflation back to 4% as this is key to maintain stable growth rates.** Indian inflation eased to 4.75% in May, down from 4.83% in April. However, the RBI governor indicated one severe weather-related shock via higher food prices could push headline inflation back to 5%. This risk together with **ongoing strong growth** should keep the RBI's focus on inflation. With respect to Indian growth, the RBI governor is confident that the country **meets the 7.2% growth projection** for current fiscal year. He even sees the country being at the threshold of a structural shift in its growth trajectory that might put it at achieving 8% growth on a sustained basis. The RBI policy rate is unchanged at 6.5% since February of last year.

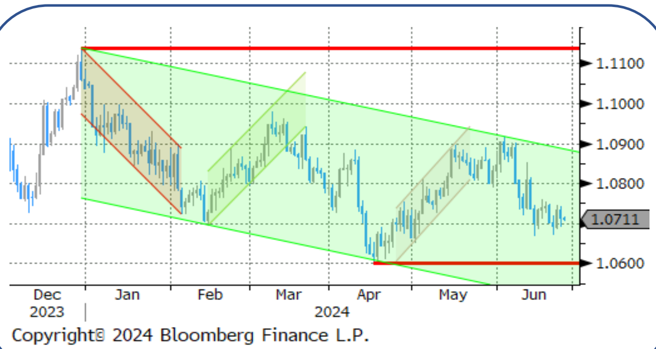
Graphs

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

Wednesday, 26 June		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	0.90%
16:00	New Home Sales Total/MoM (May)	633k/-0.20%	634k/-4.70%
UK			
12:00	CBI Total Dist. Reported Sales (Jun)	--	7
12:00	CBI Retailing Reported Sales (Jun)	0	8
Germany			
08:00	GfK Consumer Confidence (Jul)	-19.5	-20.9
France			
08:45	Consumer Confidence (Jun)	89	90
Events			
11:30	ECB's Rehn Speaks		
12:00	ECB's Panetta Speaks		
12:40	**ECB's Lane Speaks**		
13:45	ECB's Kazaks, Denmark's Krogstrup on Panel in Helsinki		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	Close	-1d		**2-year**	Close	-1d	**Stocks**	Close	-1d
US	4.25	0.02		**US**	4.74	0.02	**DOW**	39112.16	-299.05
DE	2.41	-0.01		**DE**	2.81	0.00	**NASDAQ**	17717.65	220.83
BE	3.05	-0.01		**BE**	3.01	-0.01	**NIKKEI**	39703.68	530.53
UK	4.08	0.00		**UK**	4.21	0.02	**DAX**	18177.62	-147.96
JP	1.02	0.02		**JP**	0.31	0.00	**DJ euro-50**	4935.97	-15.01
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	2.99	4.28	4.22	**€STR**	3.6630	0.0000			
5y	2.82	4.00	3.92	**Euribor-1**	3.6420	0.0200	**SOFR-1**	5.3448	0.0008
10y	2.76	3.84	3.78	**Euribor-3**	3.6980	0.0160	**SOFR-3**	5.3369	-0.0022
				Euribor-6	3.6710	0.0100	**SOFR-6**	5.2653	-0.0010
Currencies	Close	-1d		**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1.0714	-0.0019		**EUR/JPY**	171.1	-0.25	**CRB**	292.06	-2.72
USD/JPY	159.7	0.08		**EUR/GBP**	0.8446	-0.0015	**Gold**	2330.80	-13.60
GBP/USD	1.2686	0.0000		**EUR/CHF**	0.9586	0.0001	**Brent**	85.01	-1.00
AUD/USD	0.6647	-0.0010		**EUR/SEK**	11.2593	0.0132			
USD/CAD	1.3658	0.0001		**EUR/NOK**	11.3712	0.0582			

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