



Friday, 28 June 2024

KBC Sunrise Market Commentary

Markets

- The US Treasury sell-off from Tuesday and especially Wednesday, ended with the early US eco data yesterday.** Disappointing and weak durable goods orders (especially the series used for GDP calculations) and a significant downward revision for personal consumption (1.5% Q/Qa instead of 2%) in the final release of Q1 GDP directed a bid into Treasuries. The final US debt sale of the week (\$44bn 7-yr note auction) was strong and offered no way back for US T's. Overnight, they showed some marginal signs of weakness again during the Biden/Trump debate. **The onus wasn't on atmospheric fiscal trajectories (as warned by the IMF as well; see below), but on Biden's (physical) performance.** It seems that the president was thrown under the bus. A dismal performance in the next election poll could pave the way for eventually putting someone else's name on the Democratic ticket.
- US May PCE deflators** today kick-off a string of important US eco numbers. Following earlier released CPI data, we can expect a benign outcome. Headline and core CPI respectively were flat and 0.2% higher on the month, coming in below consensus and significantly slowing the paces recorded in the first four months of the year. **Personal income and spending data** are also worth watching. Especially spending given recent weakness in retail sales. **Data might thus be supportive for US Treasuries and core bonds in general. Some final end-of-quarter repositioning and a preference to err on the safe side going into this weekend's first round of French parliamentary elections also support that view.** The combination of both suggests that **USD losses in case of weaker figures could be balanced by both euro caution and a tricky risk sentiment.** After today's PCE deflators, ISM surveys, ADP employment change and US payrolls are lining up next week. Following some labour market warnings by top Fed officials this week (Daly, Cook), **risks turn asymmetric for the labour figures** with any signs of weakness likely resulting in markets pushing harder for a September rate cut and a faster path downward in 2025. National EMU CPI data (France, Italy, Spain) will set the tone for EMU figures out Tuesday.

News & Views

- The Czech National Bank yesterday cut its policy rate by 50 bps, bringing the two-week repo rate at 4.75%** with 5 members supporting the decision while two MPC members preferred a 25 bps reduction. Analyst expectations in the run-up to the meeting also split between continuing with a 50 bps or downscaling to a 25 bps cut. The CNB indicated that **the fight against inflation isn't over even as it started lowering rates.** Policy must remain tight to keep inflation close to the target in the long term. After yesterday's decision, **real yields remain significantly positive**, dampening inflation. Czech inflation returned to 2% in February and since moved back up in the upper half of the 1% tolerance band around the 2% target. **As rates gradually approach neutral levels, the CNB will likely slow the pace of moderation of policy restriction at the meetings ahead or keep rates unchanged for some time if necessary.** The MPC will base its decisions on an assessment of newly available data and their implications for the inflation outlook. Markets interpreted the decision as **tilting to the dovish side.** The Czech 2-y swap yield declined 6 bps. The Czech koruna weakened from near EUR/CZK 24.91 to close the session at 25.06.
- In a regular review under an article IV consultation, **the IMF assessed that the US economy has proven to be robust, dynamic and adaptable to changing global conditions.** Activity and employment continue to exceed expectations and the disinflation process has been considerably less costly than many had feared. At the same time, the Fund concludes that **the fiscal deficit is too large, creating a sustained upward trajectory for the public debt-GDP ratio.** Specifically, under current policies, **the general government debt is expected to rise steadily and exceed 140% of GDP by 2032.** To put debt-to-GDP on a clear downward trajectory, a frontloaded fiscal adjustment will be needed that shifts to **a general government primary surplus of around 1% of GDP** (an adjustment of around 4% of GDP relative to the current baseline). In order to reach this, policies will need to go beyond finding efficiencies in discretionary, non-defense federal spending. Policymakers will need to carefully consider raising indirect taxes, progressively increasing income taxes eliminating a range of tax expenditures, and reforming entitlement programs, the Fund assesses.

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

Friday, 28 June		Consensus	Previous
US			
14:30	Personal Income/Spending (May)	0.40%/0.30%	0.30%/0.20%
14:30	Real Personal Spending (May)	0.30%	-0.10%
14:30	PCE Deflator MoM/YoY (May)	0.00%/2.60%	0.30%/2.70%
14:30	PCE Core Deflator MoM/YoY (May)	0.10%/2.60%	0.20%/2.80%
15:45	MNI Chicago PMI (Jun)	40.0	35.4
16:00	U. of Mich. Sentiment (Jun F)	66.0	65.6
17:00	Kansas City Fed Services Activity (Jun)	--	11
Japan			
01:30	Jobless Rate (May)	2.60%	2.60%
01:30	Job-To-Applicant Ratio (May)	1.26	1.26
01:30	Tokyo CPI YoY (Jun)	2.30%	2.20%
01:30	Tokyo CPI Ex-Fresh Food YoY (Jun)	2.00%	1.90%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Jun)	1.60%	1.70%
01:50	Industrial Production MoM/YoY (May P)	2.00%/-0.10%	-0.90%/-1.80%
07:00	Housing Starts YoY (May)	-6.20%	13.90%
UK			
01:01	Lloyds Business Barometer (Jun)	41A	50
01:01	Lloyds Own Price Expectations (Jun)	53A	61
EMU			
10:00	ECB 1 Year CPI Expectations (May)	--	2.90%
10:00	ECB 3 Year CPI Expectations (May)	--	2.40%
Germany			
09:55	Unemployment Change (000's) (Jun)	15.0k	25.0k
09:55	Unemployment Claims Rate SA (Jun)	5.90%	5.90%
France			
08:45	Consumer Spending MoM/YoY (May)	0.20%/-0.20%	-0.80%/0.20%
08:45	CPI EU Harmonized MoM/YoY (Jun P)	0.10%/2.50%	0.10%/2.60%
08:45	CPI MoM/YoY (Jun P)	0.10%/2.20%	0.00%/2.30%
08:45	PPI MoM/YoY (May)	--/--	-3.60%/-6.80%
Italy			
10:00	Industrial Sales MoM/WDA YoY (Apr)	--/--	-2.90%/-5.10%
11:00	CPI EU Harmonized MoM/YoY (Jun P)	0.20%/0.90%	0.20%/0.80%
Norway			
08:00	Retail Sales W/Auto Fuel MoM (May)	0.50%	-0.30%
10:00	Unemployment Rate SA (Jun)	2.00%	2.00%
Poland			
10:00	CPI MoM/YoY (Jun P)	0.20%/2.60%	0.10%/2.50%
Spain			
09:00	CPI EU Harmonised MoM/YoY (Jun P)	0.30%/3.40%	0.20%/3.80%
09:00	CPI MoM/YoY (Jun P)	0.30%/2.50%	0.30%/3.60%
09:00	CPI Core YoY (Jun P)	2.90%	3.00%
Sweden			
08:00	Retail Sales MoM/WDA YoY (May)	--/--	0.30%/0.50%
Events			
12:00	ECB's Villeroy speaks in Paris		
12:00	Fed's Barkin Gives Keynote Speech		
14:40	Fed's Daly on CNBC		
18:00	Fed's Bowman Speaks in Moderated Q&A		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.29	-0.04		US	4.71	-0.04	DOW	39164.06	36.26
DE	2.45	0.00		DE	2.81	-0.02	NASDAQ	17858.68	53.52
BE	3.13	0.02		BE	3.01	-0.02	NIKKEI	39505.26	163.72
UK	4.13	0.00		UK	4.24	0.00	DAX	18210.55	55.31
JP	1.05	-0.03		JP	0.36	0.02	DJ euro-50	4902.6	-13.34
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.01	4.30	4.27	€STR	3.6620	0.0010			
5y	2.85	4.03	3.97	Euribor-1	3.6640	0.0180	SOFR-1	5.3378	-0.0057
10y	2.80	3.88	3.83	Euribor-3	3.6950	-0.0270	SOFR-3	5.3241	-0.0080
				Euribor-6	3.6780	0.0060	SOFR-6	5.2526	-0.0161
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0704	0.0023		EUR/JPY	172.08	0.33	CRB	291.30	0.01
USD/JPY	160.76	-0.05		EUR/GBP	0.8469	0.0007	Gold	2336.60	23.40
GBP/USD	1.2639	0.0017		EUR/CHF	0.9619	0.0035	Brent	86.39	1.14
AUD/USD	0.6647	-0.0001		EUR/SEK	11.3747	0.0796			
USD/CAD	1.3701	-0.0001		EUR/NOK	11.4088	0.0022			

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