



Wednesday, 03 July 2024

## KBC Sunrise Market Commentary

### Markets

- Markets took it slow yesterday. Neither consensus-matching European CPI (0.2% m/m, 2.5% y/y) nor the policy panel at Sintra featuring ECB president Lagarde and Fed chair Powell really moved the needle. The latter said that disinflation returned in April and May but wants additional evidence before contemplating cuts. He added, however, that risks are very much two-sided – referring to the labour market. Powell said that the US is nearing a place where further declines in job openings traditionally resulted in higher unemployment. May data yesterday showed **JOLTS rising to 8.14 million** though, be it from a downwardly revised level in April (7.92 million). It helped (front-end) yields in the US close off the intraday lows. Net daily changes ranged between -3.3 bps (7-yr) to -1.4 bps (2-yr). German yields were mostly flat on the day with a minor outperformance at the front (2-yr -1.8 bps). Spreads vs. Germany's 10-yr yield eased across the periphery as well as in France. It became clear during the day that **a significant number of third-placed centrist and left-wing candidates would withdraw from the ballot** in order to prevent the RN from securing an absolute majority. Of the initial 300+ three-way run-offs, less than 100 remain going into Sunday's second round. It remains tricky to call what it will mean for the outcome eventually. The euro reversed early losses against the dollar to end more or less unchanged at EUR/USD 1.0745. EUR/GBP 0.85 proved a bridge too far ahead of the UK elections tomorrow. The pair turned south to close at 0.847. The Japanese yen paused its march into the abyss (USD/JPY flat at 161.44).
- **The Sintra conference is headed for its final day.** They saved the best for last with topics ranging from monetary policy cycles over productivity to the driver of (structurally higher?!) neutral rates. The remainder of the eco calendar favours the US. The **ADP job report** (+165k expected) is due ahead of Friday's official payrolls. The **US services ISM** (June) is scheduled for release too. Consensus anticipates a softening to 52.6 after a surprise jump into solid expansionary territory last month (53.8). **The FOMC June meeting minutes** will offer some insights into the debate. The new dot plot penciled in just one cut for 2024 but it was a close call. We're also keen to find out whether the recent increased sensitivity towards the labour market already filtered through in the discussions mid-June. With US markets closed tomorrow for Independence Day and with the payrolls looming we may see (US) markets erring to the side of caution. The US 10-yr yield finds first support around 4.32-4.35%. We expect rangebound and technical trading in EUR/USD and most likely EUR/GBP.

### News & Views

- **China's Caixin services PMI fell from 54 in May to 51.2 in June**, the slowest growth pace in eight months and missing the 53.4 consensus by quiet a margin. Business activity and new orders grow for the 18th month in a row, although at a slower pace. External demand remained strong, driven by **robust tourist spending**. A decline in staff numbers led to increased backlog of work, pushing the gauge into expansionary territory for the first time since January. Costs of raw materials, wages and freight increased by varying degrees and some were passed on to consumers. Both prices paid and charged nevertheless declined from May, indicating limited inflationary pressure. **Market optimism weakened to the lowest level since March 2020 over concerns of a slowing economy.** The weaker services PMI also pulled the composite gauge down (52.8 from 54.1) after the manufacturing index showed a stabilization (51.8 from 51.7) earlier this week. The Chinese yuan extends this year's weakening trend with USD/CNY (4.27) at the highest level since early November 2023.
- **Australian retail sales beat consensus in June, rising by 0.6% M/M** (vs 0.3% expected and up from 0.1% M/M in April). The Bureau of Statistics indicated that retail turnover was boosted by **watchful shoppers taking advantage of early end-of-financial year promotions and sales events**. Retail business continue to rely on that to stimulate discretionary spending following restrained spending in recent months. Compared with last year, retail sales are up 1.7% Y/Y. AUD/USD continues hovering just below 0.67 resistance with the Reserve Bank of Australia contemplating the need for an additional rate hike.

# Graphs



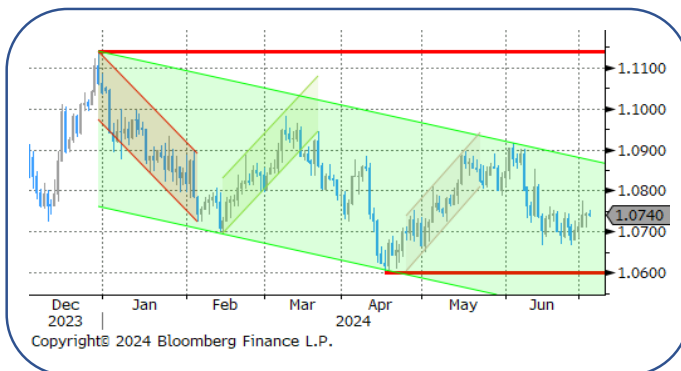
## GE 10y yield

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. Meanwhile, some of the safe haven bids were reversed after the first round in the French elections. The 2.34%-2.4% support zone looks a solid one.



## US 10y yield

The Fed needs more evidence than just one slower-than-expected (May) CPI is providing. **Upgraded inflation forecasts and a higher neutral rate** complicate the timing of a first cut further. June dots suggest one move in 2024 and four next year. The long end of the curve is supported by increased odds of a Trump presidency after the debate with Biden. The spectre of increased spending (risk premia) pulled the 10-yr away from the 4.2% support area.



## 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.** The Fed meeting balanced the weaker than expected US CPI outcome. The increased probability of a hung French parliament after the first round offered the euro some relief.



## 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. **The euro's vulnerability to political event risk going into the French elections eased for now.** EUR/GBP 0.84 is becoming solid support.

# Calendar & Table

Wednesday, 3 July		Consensus	Previous
<b>US</b>			
13:30	Challenger Job Cuts YoY (Jun)	--	-20.30%
<b>14:15</b>	<b>ADP Employment Change (Jun)</b>	<b>165k</b>	<b>152k</b>
14:30	Trade Balance (May)	-\$76.5b	-\$74.6b
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>235k</b>	<b>233k</b>
14:30	Continuing Claims	1840k	1839k
16:00	Factory Orders (May)	0.20%	0.70%
16:00	Factory Orders Ex Trans (May)	--	0.70%
<b>16:00</b>	<b>ISM Services Index (Jun)</b>	<b>52.6</b>	<b>53.8</b>
16:00	ISM Services Prices Paid (Jun)	56.7	58.1
16:00	ISM Services Employment (Jun)	49.0	47.1
16:00	ISM Services New Orders (Jun)	53.6	54.1
16:00	Cap Goods Ship Nondef Ex Air (May F)	--	-0.50%
<b>20:00</b>	<b>FOMC Meeting Minutes</b>		
<b>Japan</b>			
02:30	Jibun Bank Japan PMI Composite (Jun F)	49.7A	50
02:30	Jibun Bank Japan PMI Services (Jun F)	49.4A	49.8
<b>UK</b>			
10:30	S&P Global UK Services PMI (Jun F)	51.2	51.2
10:30	S&P Global UK Composite PMI (Jun F)	51.7	51.7
<b>EMU</b>			
10:00	HCOB Eurozone Services PMI (Jun F)	52.6	52.6
10:00	HCOB Eurozone Composite PMI (Jun F)	50.8	50.8
11:00	PPI MoM/YoY (May)	-0.10%/-4.10%	-1.00%/-5.70%
<b>Italy</b>			
09:45	HCOB Italy Composite PMI (Jun)	--	52.3
09:45	HCOB Italy Services PMI (Jun)	--	54.2
<b>China</b>			
03:45	Caixin China PMI Composite (Jun)	52.8A	54.1
03:45	Caixin China PMI Services (Jun)	51.2A	54
<b>Poland</b>			
<b>03JUL</b>	<b>Poland Base Rate Announcement</b>	<b>5.75%</b>	<b>5.75%</b>
<b>Spain</b>			
09:15	HCOB Spain Services PMI (Jun)	56.4	56.9
09:15	HCOB Spain Composite PMI (Jun)	56.0	56.6
<b>Events</b>			
10:00	ECB's Guindos Chairs Sintra Panel		
11:00	ECB's Cipollone Chairs Sintra Panel		
11:30	Germany to Sell Bonds		
<b>12:30</b>	<b>ECB's Lane Chairs Sintra Panel</b>		
<b>13:00</b>	<b>Fed's Williams Speaks on Panel at ECB Forum</b>		
15:30	ECB's Knot, SARB's Kganyago Speak in Sintra		
<b>16:15</b>	<b>ECB'S Lagarde Speaks</b>		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.43	-0.03	US	4.74	-0.01	DOW	39331.85	162.33	
DE	2.60	0.00	DE	2.91	-0.02	NASDAQ	18028.76	149.46	
BE	3.19	-0.03	BE	3.03	-0.03	NIKKEI	40639.38	564.69	
UK	4.25	-0.03	UK	4.19	-0.01	DAX	18164.06	-126.60	
JP	1.10	0.01	JP	0.36	-0.01	DJ euro-50	4906.33	-23.66	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.06	4.35	4.30	€STR	3.6620	-0.0030			
5y	2.91	4.12	4.03	Euribor-1	3.6540	-0.0010	SOFR-1	5.3333	-0.0014
10y	2.87	4.01	3.94	Euribor-3	3.7140	0.0050	SOFR-3	5.3163	-0.0063
				Euribor-6	3.6760	-0.0020	SOFR-6	5.2424	-0.0088
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0745	0.0005	EUR/JPY	173.48	0.08	CRB	292.35	0.78	
USD/JPY	161.44	-0.02	EUR/GBP	0.8471	-0.0020	Gold	2333.40	-5.50	
GBP/USD	1.2685	0.0035	EUR/CHF	0.9713	0.0017	Brent	86.24	-0.36	
AUD/USD	0.6667	0.0007	EUR/SEK	11.3681	-0.0321				
USD/CAD	1.3679	-0.0057	EUR/NOK	11.4655	0.0209				

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