



Monday, 08 July 2024

KBC Sunrise Market Commentary

Markets

- The US payrolls added to recent evidence that the US labour market might be cooling. Headline June Job growth still printed at a solid 206k, but with a 111k downward revision for the previous two months. Wage growth (AHE) eased as expected (0.3% M/M and 3.9 % Y/Y from 4.1%). The jobless rate rose from 4.0% to 4.1%. The report didn't signal a dramatic deterioration, but justifies the Fed turning to a more balanced approach when assessing the weight of the two pillars of its mandate: inflation vs maximal employment. **The US yield curve bull steepened with yields easing between 10.2 bps (2-y) and 5.1 bps (30-y)**. The US 2-y yield dropped below the 4.70%/4.66% support area. Markets currently see the chance of a first Fed rate cut in September rising to about 80%. A second step in December is fully discounted. German yields in sympathy eased between 5.9 bps (5-y) and 3.6 bps (30-y). **The dollar already was downwardly oriented going in to the payrolls releases and lost some (albeit modest) further ground afterwards** (DXY close 104.87 from 105.16; EUR/USD 1.0840 from 108.12). Even the yen regained some ground (USD/JPY close at 160.75 compared to a peak of 161.95 mid last week). **The prospect of/hope for a (Fed-supported) soft landing still supported US equities (S&P +0.54%, Nasdaq +0.90%, both closing at a new record)**.
- This morning, the market focus is on the surprise outcome of the French Parliamentary elections.** The left-wing Nouveau Front Populaire won most seats (178) with Macron's centrist Alliance coming out second (expected 156 seats). The far-right Rassemblement National is seen obtaining 143 seats. With a majority of 289 seats necessary, none of the three blocks is close to be able to form a government with full powers. **A collation government will be very difficult to make and a long period of political blockage might be on the cards.** Far-left leaders Mélenchon already indicated that his party seeks a quick implementation of part of its big spending plans. In this context, there is little prospect that France's fiscal deficits/debt will be addressed anytime soon. In the run-up to the election a political stalemate from a market point of view was seen as the 'least worst' option. **Even so, the current outcome probably won't help for France's spreads to undo recent widening.** The outcome **is also mixed bag for the euro.** EUR/USD this morning shows no clear trend. Some consolidation or even a slight EUR/USD setback might be on the cards. **Further EUR/USD gains toward the 1.0916 June top will have to come from USD softness rather than a euro rebound.** In this respect markets look out to Thursday's US June CPI and Fed Powell testimony before Congress tomorrow and on Wednesday.

News & Views

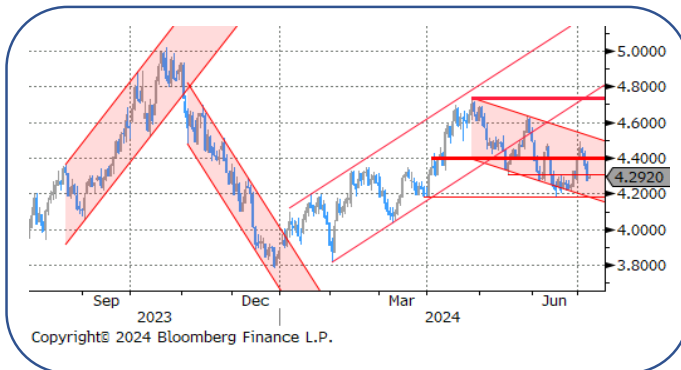
- Japanese base salaries rose by the most in more than 30 years, data from the Ministry of Health, Labour and Welfare showed this morning.** Base pay (ex overtime) increased 2.5% y/y in May (from 1.8% in April). The number outpaces the 1.9% headline figure (total cash earnings) due to a sharp drop in bonus pay (-8.5%). **The fast increases are result of the wage negotiations (shunto) earlier this year as Japan's biggest union umbrella group secured a 5.1% pay increase.** This is expected to continue to filter through in upcoming readings. The data are **a sign for the Bank of Japan that a virtuous wage-price spiral is taking shape.** Whether it'll be enough for the central bank to hike again already at the July meeting is uncertain. **Money markets are fifty-fifty divided on the matter (assuming a 10 bps hike).** The Japanese yen barely budged on the release. USD/JPY trades a tad weaker in the 160.6 area.
- The **British Chambers of Commerce in its quarterly report (Q2) said that fewer firms expect to increase their prices in the next three months** (39% vs 46% in Q1) amid inflation (headline, that is) easing to target in recent months. Of the ones that do, 67% said that labour costs force them to. That's in line with the 68% in Q1. **Overall business conditions (measured by sales and cashflow) improved** with 38% reporting an uptick in domestic sales (+2 ppts). Business confidence has increased with 58% (vs 56%) expecting a turnover rise over the next 12 months. But despite the boost in both conditions and confidence, most firms say **they haven't ramped up investments.** Only 25% reported an increase. The quarterly survey was taken between May 13th and June 10th, before the actual (but widely anticipated) outcome of the Labour landslide victory. SMEs make up about 91% of the surveyed.

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



US 10y yield

The Fed needs more evidence than just one slower-than-expected (May) CPI provided. June dots suggest one move in 2024 and four next year. The long end of the curve was also supported by increased odds of a Trump presidency after the debate with Biden. At the same time, softer US labour market data are fuelling the debate on the September Fed rate cut, steepening the curve.



EUR/USD

EUR/USD is stuck in the 1.06-1.09 range. The desynchronized rate cut cycle with the ECB taking the lead and a swing to the right in European elections pulled the pair to the 1.0665 area. However, the dollar also lost some momentum as the Fed is turning its focus to a potential softening of the labour market, potentially opening the way for policy easing in September.



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. Labour has yet to reveal its policy plans after securing a landslide election victory. EUR/GBP 0.84 is solid support.

Calendar & Table

Monday, 8 July		Consensus	Previous
US			
17:00	NY Fed 1-Yr Inflation Expectations (Jun)	--	3.17%
21:00	Consumer Credit (May)	\$9.000b	\$6.403b
Japan			
01:30	Labor/Real Cash Earnings YoY (May)	1.90%A/-1.40%A	1.60%R/-1.20%R
01:30	Cash Earnings-Same Sample Base YoY (May)	2.30%A	1.80%R
01:30	Scheduled Full-Time Pay-Same Base YoY (May)	2.70%A	2.10%
01:50	Bank Lending Ex-Trusts YoY (Jun)	3.60%A	3.30%R
07:00	Eco Watchers Survey Outlook SA (Jun)	46.1	46.3
07:00	Eco Watchers Survey Current SA (Jun)	46.5	45.7
EMU			
10:30	Sentix Investor Confidence (Jul)	0.3	0.3
Germany			
08:00	Trade Balance SA (May)	20.3b	22.1b
08:00	Exports/Imports SA MoM (May)	-2.80%/-1.00%	1.60%/1.90%R
Events			
01:01	S&P Global, KPMG and REC UK Report on Jobs		
18:15	BOE's Haskel speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,28	-0,08		US	4,60	-0,10	DOW	39375,87	67,87
DE	2,56	-0,05		DE	2,89	-0,05	NASDAQ	18352,76	164,46
BE	3,13	-0,04		BE	2,97	-0,06	NIKKEI	40852,13	-60,24
UK	4,13	-0,07		UK	4,13	-0,06	DAX	18475,45	24,97
JP	1,09	0,01		JP	0,36	0,01	DJ euro-50	4979,39	-8,09
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,02	4,19	4,21	€STR	3,6630	0,0000			
5y	2,86	3,95	3,94	Euribor-1	3,6350	0,0110	SOFR-1	5,3248	-0,0039
10y	2,80	3,86	3,84	Euribor-3	3,7120	0,0040	SOFR-3	5,3027	-0,0048
				Euribor-6	3,6780	-0,0050	SOFR-6	5,2071	-0,0171
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0840	0,0028		EUR/JPY	174,21	-0,16	CRB	293,43	-0,59
USD/JPY	160,75	-0,53		EUR/GBP	0,8458	-0,0016	Gold	2397,70	28,30
GBP/USD	1,2815	0,0055		EUR/CHF	0,9709	-0,0022	Brent	86,54	-0,89
AUD/USD	0,6749	0,0023		EUR/SEK	11,3555	0,0013			
USD/CAD	1,364	0,0026		EUR/NOK	11,4312	0,0072			

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