



Wednesday, 10 July 2024

Dear reader,

There will be no KBC Economics-Markets reports on Thursday, July 11 and Friday, July 12.

We resume our publications on Monday, July 15

KBC Sunrise Market Commentary

Markets

- Fed Chair Powell before Congress yesterday reiterated that **the US economy is coming into better balance**. It made considerable progress toward the Fed's 2% target. The labour market has cooled but remains strong. Even so, data still have to provide the MPC greater confidence that inflation is sustainably moving to target. Recent readings showed some progress but more good data are still needed. However, from now **inflation is not the only risk the Fed is facing**. As the labour market is cooling, **reducing policy restraint too late or too little also can unduly weaken activity and employment**. Even so, the **Fed Chair explicitly said that he didn't intend to give any rate timing signals** as the Fed stays in a data-dependent mode. **This absence of any guidance on timing also prevented any meaningful market reaction**. US yields hardly changed (2-y easing 0.2 bps while the 30-y added 2.3 bps). Even as there was little economic news on this side of the Atlantic, **German yields added between 1.8 bps (2-y) and 4.2 bps (30-y)**. **Intra-EMU spreads** (vs Germany) after a mild easing on Monday, yesterday again widened (France +4 bps) as markets realized that any fiscal improvement in France, but also any many other EMU countries, will be a difficult political process. Risk premia are here to stay. The EuroStoxx 50 declined 1.33%. In the US, the S&P 500 (+ 0.07%) and the Nasdaq (+0.14%) held at record levels. Changes in the major USD cross rates were limited, with the dollar gaining on points (DXY close 105.13, EUR/USD 1.0813, USD/JPY 161.33).
- This morning, Asian equities show no clear trend and mostly are little changed as are US Treasuries**. EUR/USD gains marginally (1.0819). The yen weakens further beyond USD/JPY 161.(5). Today, there are no important data on both sides of the Atlantic. **The market focus will mainly go to tomorrow's US June CPI inflation**. A mild 0.1% M/M & 3.1% Y/Y (headline) and 0.2%/3.4% (core) is expected. After Powell not pre-committing and with markets already discounting 2 cuts this year, **a sub-consensus figure is probably needed for ST US yields to decline further** (US 2-y support at 4.55%/4.59%). In this context, it also won't be that easy for EUR/USD to break to 1.0916 resistance.

News & Views

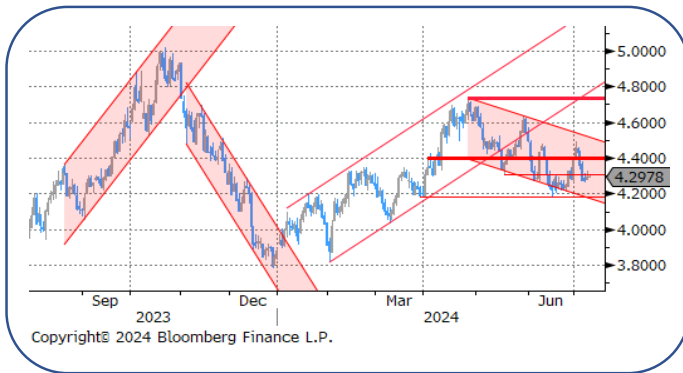
- Chinese June inflation came in at the low end of expectations again**. This happening **despite favorable 2023 base effects** suggests ongoing (very) weak consumer demand. Prices rose 0.2% y/y (-0.2% m/m), only half of the 0.4% expected and a further deceleration from the 0.3% in May. Consumer goods deflated by 0.1% y/y while services CPI eased to 0.7% from 0.8%. The core gauge (excluding food & energy) pared May's 0.6% (-0.1% m/m). **There seems to be little improvement on the way for CPI to pick up anytime soon with factory-gate inflation (PPI) still venturing in negative territory**. The -0.8% y/y outcome was in line with expectations, though, and also meant a further bottoming out from the -1.4% in May and the trough of -5.4% in June 2023. **The Chinese yuan set a new 9-month low in the wake of the release**. USD/CNY trades at 7.275, slowly but steadily nearing the September 2023 16-yr low of 7.35.
- The Reserve Bank of New Zealand kept the policy rate unchanged at 5.5% this morning but dialed back its hawkish tone from the May meeting**. Back then, persistent domestic inflation (amongst others) made policymakers discuss a rate increase before eventually deciding to keep rates high for longer and signaling no cuts before 2025Q3. **There was no mention whatsoever of a potential hike in the statement today**. Instead, the RBNZ expects headline inflation to return to the 1-3% target range in the second half of this year while strong domestically generated price pressures will ease. This follows a fall in capacity pressures, which the recently weaker higher frequency economic indicators suggest is coming. While agreeing that monetary policy needs to be restrictive still, the statement in **another dovish twist** added that "The extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures." New Zealand swap yields tank up to almost 20 bps at the front end of the curve. **The RBNZ pivot triggered a strong shift in markets' rate cut expectations**. They now fully price in a first move in October (vs November yesterday) with a 60% chance discounted for a start at the next meeting in August (vs October). The kiwi dollar loses against all G10 peers this morning, including the US dollar, though losses could have been bigger. NZD/USD slips to 0.609.

Graphs



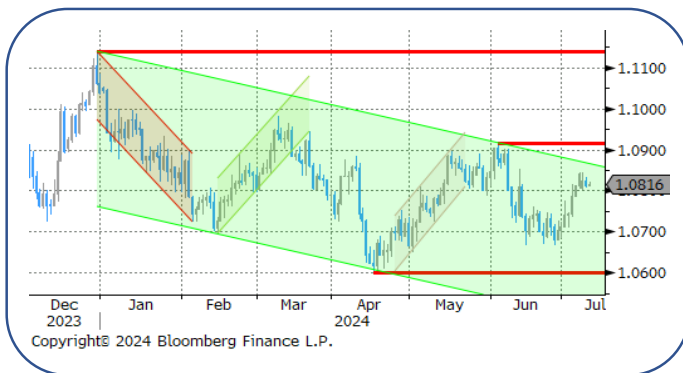
German 10y yield

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

Wednesday, 10 July		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-2.60%
Japan			
01:50	PPI MoM/YoY (Jun)	0.20%/2.90%A	0.70%/2.60%R
Italy			
10:00	Industrial Production MoM/WDA YoY (May)	0.00%/--	-1.00%/-2.90%
China			
03:30	PPI YoY (Jun)	-0.80%A	-1.40%
03:30	CPI YoY (Jun)	0.20%A	0.30%
Czech Republic			
09:00	CPI MoM/YoY (Jun)	0.20%/2.40%	0.00%/2.60%
Norway			
08:00	CPI MoM/YoY (Jun)	0.60%/3.00%	-0.10%/3.00%
08:00	CPI Underlying MoM/YoY (Jun)	0.40%/3.60%	0.50%/4.10%
08:00	PPI including Oil MoM/YoY (Jun)	--/--	-0.90%/3.20%
New Zealand			
04:00	RBNZ Official Cash Rate	5.50%A	5.50%
Events			
04:00	RBNZ Monetary Policy Review		
10:00	ECB's Nagel Speaks		
10:30	Germany to Sell Bonds		
15:30	BOE's Huw Pill speaks		
16:00	Fed's Powell Testifies to House Financial Services		
19:00	U.S. To Sell USD39 Bln 10-Year Notes		
20:30	Fed's Goolsbee, Bowman Give Opening Remarks at Childcare Event		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,30	0,02	US	4,63	0,00	DOW	39291,97	-52,82	
DE	2,58	0,04	DE	2,92	0,02	NASDAQ	18429,29	25,55	
BE	3,16	0,07	BE	3,02	0,04	NIKKEI	41841,04	260,87	
UK	4,16	0,05	UK	4,13	0,00	DAX	18236,19	-235,86	
JP	1,09	-0,01	JP	0,34	-0,02	DJ euro-50	4903,62	-66,21	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,03	4,20	4,22	€STR	3,6620	0,0000			
5y	2,87	3,97	3,95	Euribor-1	3,6150	-0,0130	SOFR-1	5,3282	0,0025
10y	2,82	3,88	3,85	Euribor-3	3,7080	0,0090	SOFR-3	5,3085	0,0033
				Euribor-6	3,6680	-0,0070	SOFR-6	5,2132	0,0006
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0813	-0,0011	EUR/JPY	174,45	0,37	CRB	289,98	-0,93	
USD/JPY	161,33	0,50	EUR/GBP	0,8457	0,0005	Gold	2367,90	4,40	
GBP/USD	1,2786	-0,0021	EUR/CHF	0,9708	-0,0008	Brent	84,66	-1,09	
AUD/USD	0,6741	0,0004	EUR/SEK	11,4116	-0,0439				
USD/CAD	1,3636	0,0001	EUR/NOK	11,4702	-0,0145				

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