



Monday, 15 July 2024

KBC Sunrise Market Commentary

Markets

- The US dollar is losing interest rate support at stealth pace.** Since the awful June service ISM (July 3), **the US 2-yr yield fell from 4.75% to 4.45% currently. The US 10-yr yield slid from 4.45% to 4.2%**, testing the downside of the downward trend channel. Decent payrolls failed to save the day while softer CPI and PPI inflation (back-to-back, May/June) added to market belief that **the Fed mistimed their updated policy rate guidance**. At the June meeting, the median indication for this year shifted from a cumulative 75 bps rate cuts in March, to just 25 bps. **US money markets now fully discount a 25 bps rate cut at the September and December meetings and even ponder the possibility of a faster pace towards year-end.** Chicago Fed Goolsbee embraced the “pretty favorable” recent inflation data, but still wants to see more data like those to boost confidence that inflation is sustainably returning to the 2% inflation target. **We keep a close eye on Fed speakers this week, starting with Fed Chair Powell tonight in an interview at the Economic Club of Washington DC (after European close).** Any soft/dovish signals could **extend the market repositioning and add to dollar weakness**. EUR/USD rallied over the same time period (since ISM), from 1.0750 to 1.09. Apart from a soft USD, the euro got rid of the (French) political risk premium. The pair tests the topside of the 1.06-1.09 sideways trading range last Friday with **the probability of break being high**. The Trump shooting for now doesn’t really inspire much flows into USD (boost to his ballot odds). **EUR/USD 1.10 (psycho) and 1.1139 (December 2023 top) are the next technical references.** GBP/USD already moved passed that bar. Cable is inches away from a first 1.30 quote in just under a year after breaking the 1.2894 YTD top last week. EUR/GBP is in the same vein testing the 2-yr low at 0.84 in the run-up to the monthly UK data update. The US side of the equation helps Japanese intervention efforts to keep pressure off USD/JPY (158 currently). Apart from the Powell speech, today’s agenda contains the Empire Manufacturing Survey and some Q2 earnings. **We earmark US retail sales and the ECB’s bank lending survey (tomorrow), UK inflation and a high-level Fed Waller speech (Wednesday), UK labour market data and the ECB meeting (Thursday) and UK retail sales (Friday) as this week’s other key events.**

News & Views

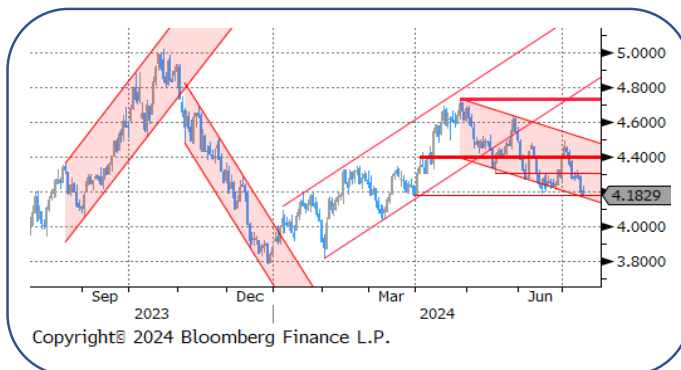
- The Chinese economy grew at a much slower pace than expected in the April-June quarter. Q2 growth slowed to 0.7% Q/Q and 4.7% Y/Y from 1.6% Q/Q and 5.3% Y/Y in Q1.** Cumulative YTD GDP growth slackened from 5.3% to 5%. Monthly data for the month of June indicated that the poor performance was **mainly the result of poor domestic consumer demand**. Retail sales growth in June slowed sharply from 3.7% Y/Y to 2%. Developments in the **property sector continue to weigh both on activity and on sentiment**. Property investment declined 10.1% YTD Y/Y in June. Residential property sales even declined 26.9% YTD Y/Y. House prices continue to decline. New Home prices in June fell 0.67% M/M and -4.88% Y/Y (from -4.3%). Price of existing homes were 0.85% lower M/M and 7.87% Y/Y. **Industrial production held up better compared to the slowdown in domestic demand rising a better-than expected 5.3% Y/Y in June (6.0% YTD).** According to the National Bureau of Statistics **bad weather played a role** in the disappointing Q2 growth performance, but the bureau also mentioned **external and domestic difficulties** to weigh on activity. The poor growth performance **suggests that additional fiscal and monetary stimulus might be put in place** as the Communist Party starts its Third Plenum meeting today. For now, the PBOC left the rate on its 1-yr medium term lending facility unchanged at 2.5%. The Chinese yuan declined modestly to USD/CNY 7.26.
- According to **a survey of the Rightmove property website, UK house prices declined by 0.4% M/M in July.** Compared to the same month last year, **price growth slowed from 0.6% Y/Y to 0.4% Y/Y.** Despite the slowdown, Rightmove sounded **cautiously optimistic on the price development going forward.** *“A first Base Rate cut for over four years, together with the new political certainty, could set the scene for a positive autumn market, with improved affordability and a more confident outlook in the second half of the year,”* Rightmove director of property science Tim Bannister, said.

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 indicated that it needs more evidence to lower its policy rate. June dots suggested one move in 2024 and four next year. Disappointing ISM and back-to-back downward CPI surprises put the US money market back on (at least) two rate cuts this year (September/December). The US 10-yr yield tests the recent lows and the downside of the downward trend channel in the 4.2% area.



EUR/USD

EUR/USD is testing the topside of the 1.06-1.09 range as the dollar loses interest rate support at stealth pace. Markets consider a September rate cut a done deal and only need confirmation from high-ranked Fed officials. In the meantime, the euro got rid of the (French) political risk premium. Risks of a topside break are high, bringing the psychologic 1.10 and the December 2023 top at 1.1139 on the radar.



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

Calendar & Table

Monday, 15 July		Consensus	Previous
US			
14:30	Empire Manufacturing (Jul)	-8	-6
Canada			
16:30	BoC Business Outlook Future Sales (2Q)	--	1
16:30	BoC Overall Business Outlook Survey (2Q)	--	-2.4
UK			
01:01	Rightmove House Prices MoM/YoY (Jul)	--/--	0.00%/0.60%
EMU			
11:00	Industrial Production SA MoM/WDA YoY (May)	-0.80%/-3.60%	-0.10%/-3.00%
China			
03:20	1-Yr Medium-Term Lending Facility Rate	2.50%A	2.50%
03:20	1-Yr Medium-Term Lending Facilities Volume	100.0bA	182.0b
03:30	New/Used Home Prices MoM (Jun)	0.67%A/-0.85%A	-0.71%/-1.00%
04:00	GDP SA QoQ/YoY (2Q)	0.70%A/4.70%A	1.60%/5.30%
04:00	GDP YTD YoY (2Q)	5.00%A	5.30%
04:00	Industrial Production YoY/YTD YoY (Jun)	5.30%A/6.00%A	5.60%/6.20%
04:00	Retail Sales YoY/YTD YoY (Jun)	2.00%A/3.70%A	3.70%/4.10%
04:00	Fixed Assets Ex Rural YTD YoY (Jun)	3.90%A	4.00%
04:00	Property Investment YTD YoY (Jun)	-10.10%A	-10.10%
04:00	Residential Property Sales YTD YoY (Jun)	-26.90%A	-30.50%
04:00	Surveyed Jobless Rate (Jun)	5.00%A	5.00%
Events			
Q2 earnings	BlackRock (bef-mkt), Goldman Sachs (13:30) ...		
15JUL	Japanese markets closed for Marine Day		
15-18JUL	Republican National Convention		
18:30	Fed's Powell Interviewed by David Rubenstein		
22:35	Fed's Daly Speaks in Q&A on Economy, Tech		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.18	-0.03		US	4.45	-0.06	DOW	40000.9	247.15
DE	2.50	0.03		DE	2.82	0.03	NASDAQ	18398.45	115.04
BE	3.07	0.03		BE	2.93	0.02	NIKKEI	41190.68	0.00
UK	4.11	0.04		UK	4.09	0.02	DAX	18748.18	213.62
JP	1.07	0.00		JP	0.34	0.00	DJ euro-50	5043.02	66.89
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	2.94	4.02	4.16	€STR	3.6610	-0.0010			
5y	2.79	3.81	3.90	Euribor-1	3.6250	0.0140	SOFR-1	5.3319	0.0054
10y	2.76	3.75	3.81	Euribor-3	3.6640	-0.0210	SOFR-3	5.2874	0.0040
				Euribor-6	3.6620	-0.0140	SOFR-6	5.1477	-0.0059
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0907	0.0039		EUR/JPY	172.16	-0.46	CRB	290.44	0.03
USD/JPY	157.83	-1.01		EUR/GBP	0.8397	-0.0018	Gold	2420.70	-1.20
GBP/USD	1.2988	0.0073		EUR/CHF	0.9754	0.0012	Brent	85.03	-0.37
AUD/USD	0.6784	0.0025		EUR/SEK	11.4862	0.0805			
USD/CAD	1.3635	0.0003		EUR/NOK	11.7007	0.0509			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague		Bratislava	
Jan Cermak	+420 2 6135 3578		+421 2 5966 8820
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Budapest	
Marek Gabris	+421 2 5966 8809		+36 1 328 99 85
K&H Economics – Markets Budapest			
David Nemeth	+36 1 328 9989		

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