



Wednesday, 17 July 2024

KBC Sunrise Market Commentary

Markets

- Consensus-beating June US retail sales only temporary interfered with reigning market momentum.** Core retail sales rose by 0.8% M/M (& 0.9% M/M for retail sales control group) in what for now remains more of a **catch-up move after weak consumer spending YTD**. Sales were mainly boosted by goods spending with customers lured by price discounts. US Treasuries spiked lower in a first reaction with the dollar profiting, but those moves were **completely undone during US trading hours**. US yields lost 4 bps (2-yr) to 8.6 bps (30-yr), with the long end of the curve overturning the temporary underperformance related to president-candidate Trump's boost in election polls. The US 2-yr yield tested the March low at 4.4% with the US 10-yr yield at risk of giving away first technical support around 4.18%. **Markets are adding to bets that the Fed will have to cut policy rates sooner and faster than indicated in June.** Fed governors don't commit to a specific guidance and stick to the official view that it will be appropriate to lower borrowing costs later this year. **Fed Kugler** yesterday indicated that a weaker labour market driven by layoffs (instead of reducing vacancies) could prompt her to support a rate cut sooner rather than later. If the next inflation reports don't confirm the Q2 easing of inflation pressures, it may be appropriate to hold rates steady a little bit longer. In FX space, the dollar spiked to EUR/USD 1.0870 immediately after June retail sales, but the pair eventually closed around 1.09. **It is still at risk of breaking 1.0916 resistance.** US stock markets rose by 0.2% (Nasdaq) to 1.85% (Dow). YTD it was the best result for the Dow Jones. **The small cap Russell 2000 added 2.9% and is an astonishing 12% higher since last week's benign CPI print.** The interest-rate sensitive small cap index profits from rotation inflows as the market set its eyes on a near term Fed rate cut.
- Today's eco calendar is thin with US housing data and production figures. **A speech by Fed Waller** is a wildcard. He has been the most outspoken en influential Fed member calling to delay interest rate cuts ("What's the rush?", "There's still no rush"). **Any signals that he's moving closer to action will add to current market momentum, pushing (short term) US yields and the dollar down.** Sterling this morning holds just above EUR/GBP 0.84 as near consensus inflation figures (headline 2% Y/Y, core 3.5% Y/Y, services 5.7% Y/Y) suggest a wait-and-see approach by the Bank of England at the August 1 policy meeting.

News & Views

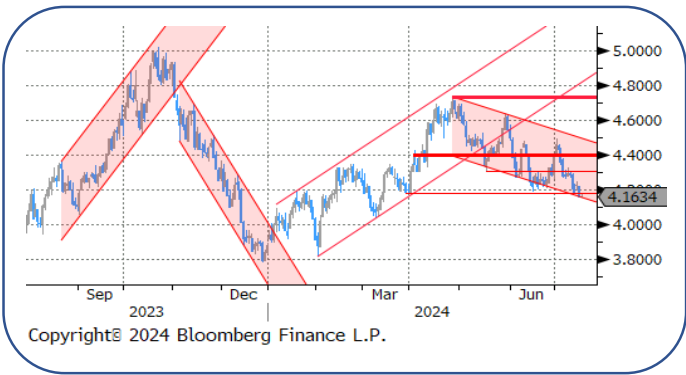
- New Zealand inflation eased slightly more than expected in Q2, to 0.4% Q/Q and 3.3% Y/Y** (from 0.6% Q/Q and 4%). As such, inflation is moving closer to the 1-3% target range of the Reserve Bank of New Zealand. **Housing and household utilities was the largest contributor to the quarterly inflation rate** due to rising prices for rent (+1.2%), construction of new houses (0.9%) and household energy (including electricity and gas) increasing 2.8%. The largest downward contributor was recreation & culture. **Tradeable inflation** (final goods and services that are influenced by foreign markets) **remains very subdued at -0.5% Q/Q and 0.3% Y/Y.** **Non-tradeable inflation**, an indicator of the domestic supply-demand balance, **also eased to 0.9% Q/Q and 5.4% Y/Y, but remains sticky driven mainly by rent, insurance and tobacco.** The latter is a source of concern for the RBNZ, even as the central bank indicated at last week's policy meeting that it **might be coming closer to the point to at least consider some scaling back of the tightening.** The 2-y New-Zealand bond yield adds 3.bps this morning. The market still sees a 50% chance for a rate cut in August. The Kiwi dollar rebounds modestly after the recent setback (NZD/USD 0.6065).
- The National Bank of Poland** published its monthly core inflation figures (June) yesterday. **Core inflation excluding food and energy prices rose by 0.2% M/M and 3.6% Y/Y (from 3.8%).** Other measures of underlying inflation (ex-administered prices +0.1%M/M, ex most volatile prices +0.2% M/M and 15% trimmed average +0.2% M/M) also showed **benign monthly dynamics.** The data probably won't convince the National Bank of Poland to cut rates anytime soon though as the central bank **expects price hikes for energy and strong wage growth to reaccelerate inflation in the second half of this year and early 2025.** NBP governor Glapinski at the July policy meeting excluded a rate cut this year and even indicated that **it might take until 2026** for the NBP to be able to ease policy.

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 psychological 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

Wednesday, 17 July		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-0.20%
14:30	Building Permits MoM/Total (Jun)	0.10%/1400k	-3.80%/1399k
14:30	Housing Starts MoM/Total (Jun)	1.80%/1300k	-5.50%/1277k
15:15	Industrial Production MoM (Jun)	0.30%	0.70%
15:15	Manufacturing (SIC) Production (Jun)	0.10%	0.90%
15:15	Capacity Utilization (Jun)	78.40%	78.20%
UK			
08:00	CPI MoM/YoY (Jun)	0.10%/1.90%	0.30%/2.00%
08:00	CPI Core YoY (Jun)	3.40%	3.50%
08:00	CPI Services YoY (Jun)	5.60%	5.70%
08:00	CPIH YoY (Jun)	2.80%	2.80%
08:00	PPI Output NSA MoM/NSA YoY (Jun)	0.10%/1.80%	-0.10%/1.70%
08:00	PPI Input NSA MoM/YoY (Jun)	0.00%/1.10%	0.00%/-0.10%
10:30	House Price Index YoY (May)	--	1.10%
EMU			
11:00	CPI MoM/YoY (Jun F)	0.20%/2.50%	0.20%/2.50%
11:00	CPI Core YoY (Jun F)	2.90%	2.90%
Events			
Q2 earnings	US Bancorp (bef-mkt), Alcoa (aft-mkt) ...		
15:00	Fed's Barkin Speaks on Economy, Q&A		
15:35	Fed's Waller Speaks on Economic Outlook		
20:00	Federal Reserve Releases Beige Book		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.16	-0.07	US	4.42	-0.04	DOW	40954.48	742.76	
DE	2.43	-0.04	DE	2.76	-0.04	NASDAQ	18509.34	36.77	
BE	3.00	-0.03	BE	2.87	-0.03	NIKKEI	41143.93	-131.15	
UK	4.05	-0.05	UK	3.99	-0.08	DAX	18518.03	-72.86	
JP	1.04	0.01	JP	0.33	0.01	DJ euro-50	4947.83	-35.28	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.86	3.99	4.11	€STR	3.6620	0.0010			
5y	2.71	3.78	3.84	Euribor-1	3.5830	0.0110	SOFR-1	5.3416	0.0015
10y	2.69	3.72	3.75	Euribor-3	3.6740	0.0120	SOFR-3	5.2826	-0.0003
				Euribor-6	3.6340	-0.0010	SOFR-6	5.1244	-0.0044
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0899	0.0005	EUR/JPY	172.59	0.39	CRB	285.79	-2.60	
USD/JPY	158.35	0.29	EUR/GBP	0.8401	0.0000	Gold	2467.80	38.90	
GBP/USD	1.2974	0.0006	EUR/CHF	0.9740	-0.0019	Brent	83.73	-1.12	
AUD/USD	0.6734	-0.0026	EUR/SEK	11.5462	-0.0024				
USD/CAD	1.3673	-0.0010	EUR/NOK	11.7606	-0.0201				

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