



Friday, 19 July 2024

KBC Sunrise Market Commentary

Markets

- The ECB kept its policy rates unchanged yesterday with President Lagarde saying that **the outcome of the September meeting is “wide open”**. The only sure thing is that they’ll **lower the spread between the deposit rate and the main refinancing rate** from currently 50 bps to 15 bps, as announced in March. Apart from that, it is data dependency to the fullest unlike the ECB’s strategy in April-June. A strong precommitment (in April) to cut interest rates a first time in June led to the awkward situation of eventually having to lower interest rates while simultaneously having to upwardly revise the headline and core inflation outlook and growth prospects. **Markets don’t read too much into the ECB’s new tactics and stick to the view that a September policy rate cut is a near done deal. We see some reason for caution though** with the central bank being worried about sticky and even strengthening underlying core and services inflation while the hoped-for wage moderation could take longer to unfold. Bloomberg yesterday evening also ran an article suggesting that **ECB officials are increasingly wondering if they may only be able to cut interest rates once more this year**. ECB Muller is the first official to hit the wires this morning. He said that he needs more confidence that inflation is going to 2% to cut policy rates again. He doesn’t pre-commit to a September move and doesn’t want to put a figure on the total amount of rate cuts we’ll get this year.
- **The ECB meeting was a non-event from a market point of view**. Yesterday’s moves mainly occurred during US dealings. Both stocks and bonds were sold, giving a lifeline to the dollar who’s testing key support levels. **On a trade-weighted basis, we look out whether the 104 neckline of a double top formation survives in the weekly close**. A continuation of the **risk-off/sell-all market setting** could help the greenback further. Today’s eco calendar is empty apart from central bank speeches. **Disappointing UK retail sales** (-1.2% M/M & -0.2% Y/Y) add to lingering uncertainty on whether or not the BoE will be in a position to cut policy rates at its August 1st policy meeting. EUR/GBP moves somewhat further away from the 0.84 support area, changing hands at 0.8420.

News & Views

- **Japan’s consumer prices excluding volatile fresh food prices rose by 0.4% M/M, raising the Y/Y measure from 2.5% in May to 2.6% in June**. It now trades at or above the BoJ’s 2% target since April 2022. Amongst others, the rise in Y/Y inflation was driven by the government **reducing subsidies for energy/utility bills**. Also important from a BoJ point of view, **services inflation accelerated (0.2% M/M and 1.7% Y/Y)**. This might be an indication that **higher wages** are gradually filtering through into the overall price level. **Headline inflation was unchanged at 2.8%**. Still, both measures printed slightly below expectations. The core measure excluding fresh food and energy rose from 2.1% to 2.2%. Markets remain divided whether this gradual rise in inflation combined with mediocre growth will be enough for the BoJ to raise rates further already at the July 31 policy meeting (about 50% chance of a 0.1% rate hike). **The Japanese government today lowered its growth forecast for the fiscal year ending April 2025 to 0.9% from 1.3% in January**. Rising prices for imported consumer goods weigh on consumption. The government still expects the economy to grow 1.2% in the fiscal year 2025. After rebounding on broad USD-weakness and suspected yen-interventions last week and early this week, the yen now again trades in the defensive with USD/JPY at 157.65.
- In its July monthly Bulletin, **the Reserve Bank of India** made an **update of its estimate for the (real) natural interest rate**. The new estimate was **raised to a range of 1.4-1.9%** and compares to a previous estimate of 0.8%/1% during the pandemic (estimate for Q4 2021). It is driven by **a further increase in the potential growth rate of the economy**. The RBI assesses that *“when the policy rate is set below the natural rate, the stance is regarded as accommodative, and the converse signifies a restrictive stance. The policy stance is neutral when the real policy rate is at the level of the natural rate”*. June inflation printed at 5.08% Y/Y and the RBI policy rate currently stands at 6.5%. The RBI has an inflation target of 4%. In a separate article, the RBI indicated that it is **prudent to stay on the straight and narrow path of aligning inflation to 4% rather than supporting economic growth via an easing of policy short-term**.

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

Friday, 19 July		Consensus	Previous
Japan			
01:30	Natl CPI YoY (Jun)	A: 2.80%	2.80%
01:30	Natl CPI Ex Fresh Food YoY (Jun)	A: 2.60%	2.50%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Jun)	A: 2.20%	2.10%
UK			
01:01	GfK Consumer Confidence (Jul)	A: -13	-14
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Jun)	-0.60%/0.20%	2.90%/1.30%
08:00	Retail Sales Ex Auto Fuel MoM/YoY (Jun)	-0.50%/0.20%	2.90%/1.20%
08:00	PSNB ex Banking Groups (Jun)	11.2b	15.0b
EMU			
10:00	ECB Current Account SA (May)	--	38.6b
Germany			
08:00	PPI MoM/YoY (Jun)	0.10%/-1.60%	0.00%/-2.20%
Events			
19JUL	Halliburton (bef-mkt), American Express (13:00), Schlumberger (13:00) ...		
00:05	Fed's Daly Participates in Fireside Chat		
01:45	Fed's Bowman Gives Keynote Address		
10:00	ECB Survey of Professional Forecasters		
16:40	Fed's Williams Speaks on Panel on Monetary Policy		
19:00	Fed's Bostic Gives Closing Remarks		

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