Monday, 22 July 2024

KBC Sunrise Market Commentary

Markets

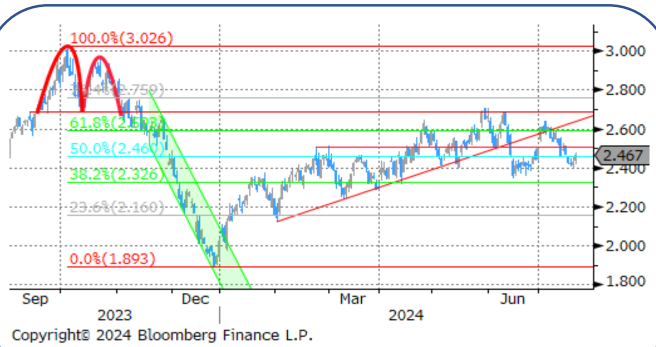
- Markets and several economic sectors Friday morning faced some **jitters due to an IT outage linked to problems with an security update by CrowdStrike.** It added to a risk-off tone at the final session of the week. Major US and EMU equity indices lost slightly less than 1.0% (S&P 500 -0.71%, Eurostoxx 50 -0.88%). **Post Thursday's ECB meeting, several ECB members brought some nuances to the message of Chair Lagarde that the ECB remains in a data-dependent approach and that everything stays open for the September meeting.** The likes of ECB Muller and Rehn held to a strict data-dependent approach with no precommitment on the timing of further easing. Others (Simkus, Villeroy) took the approach of supporting current market pricing of 25 bps steps in September and December. German yields added between 1.9 bps (2-y) and 4.0 bps (30-y). **US yields showed some further bottoming, rising between 4.7 bps (5-y) and 2.5 bps (30-y).** Markets apparently concluded that **enough Fed easing is discounted after recent softer than expected US (inflation) data.** The focus now turns to the July 31 FOMC meeting. The dollar gained further ground after Thursday's rebound. DXY further left the week lows near 103.65 behind to close 104.4, halting the unfolding of a potential double top formation. EUR/USD failed to holds the 1.09 barrier (close 1.0882). **Sterling (close EUR/GBP 0.843) underperformed the dollar and the euro as poor UK retail sales keep the debate open whether or not the BOE will be in a position to already cut interest rates at the August 1 meeting.**

- **US President Biden leaving the US election races dominates the new/market headlines this morning.** Still, markets don't draw any firm conclusions yet. The news as such isn't enough to abruptly close the Trump trade that at some occasions was build out recently (higher LT-yields, a stronger dollar and uncertainty in equity sectors that might be affected by a more protectionist US trade policy). US yields are declining slightly marginally (< 3 bps). The dollar tentatively lost some ground at the open in Asia, but most of this initially reaction is already undone at the time of writing (EUR/USD 1.0885, DXY 104.33). The yen slightly outperforms (USD/JPY 157.15). Today (and tomorrow) the eco calendar in the US and EMU is thin. Later this week, the July PMI's (US and EMU), the first reading of the US Q2 GDP (including price deflators) and the 'real start' of the earnings season have market moving potential. (US) yields bottomed (2-y 4.40% area, 10-y support 4.15%/4.20%). We see further consolidation going into next week Fed meeting. **The dollar also shows signs of bottoming, but the move for now isn't impressive either. EUR/USD 1.0948/81 is first resistance/USD support which we don't expect to be broken easily short-term.**

News & Views

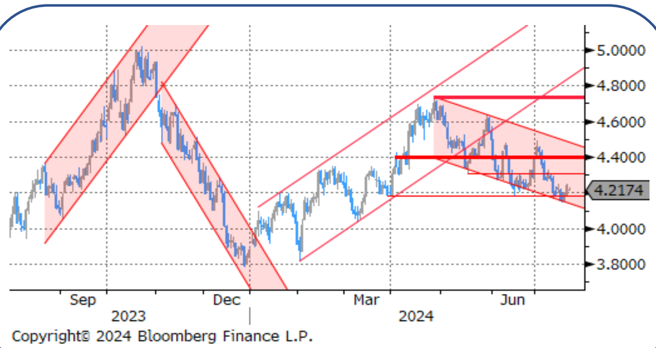
- **The Chinese central bank (PBOC) lowered its seven-day reverse repo rate by 10 bps to 1.7% this morning.** The move was unexpected given that it left the one-year lending facility (MLF) benchmark rate unchanged at 2.5% last week. The PBOC over the previous weeks signaled a shift towards making the seven-day rate the future reference. Today's decision eroding the importance of the MLF rate further seems to back that. **The fundamental impact of a 10 bps cut at a time where interest rates are already at their lowest in decades is likely to be limited.** It does shape expectations for more easing , but the PBOC is walking a tightrope in creating easy monetary conditions to support the economy vs. fueling a stampede towards government bonds and adding to the downward pressure on the CNY, both of which concern the government in terms of **financial stability risks. China's 10-yr yield indeed eased a few bps after the announcement while USD/CNY gapped to the nine-month highs around 7.273 at the open.**
- **UK Treasury ministers from the incoming Labour government are seen as preparing the public opinion for a tough autumn Budget and possible tax increases.** Chancellor Reeves said yesterday she wanted to "level" with the public about the fiscal "mess". Ministers last week handed to Treasury their assessment of the spending commitments they have inherited from the Tories, including the fiscal holes that need to be filled. One of the problems that arose early is how to find the billions to fund a 5.5% pay increase for about 1.9mn public sector workers. Cabinet Office minister Pat McFadden meanwhile similarly told ministers to urgently identify (financial) problems in their departments, adding to the idea the new government is seeking a political and public base for what is undoubtedly going to be a strict Budget..

Graphs



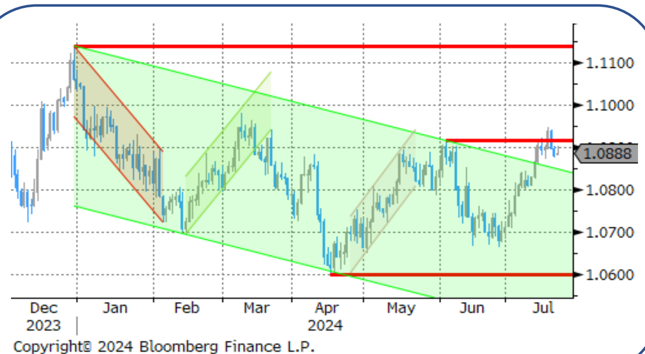
GE 10y yield

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 save haven bids were reversed after the (first round in) the French elections. The 2.34%-2.4% support zone looks solid.



US 10y yield

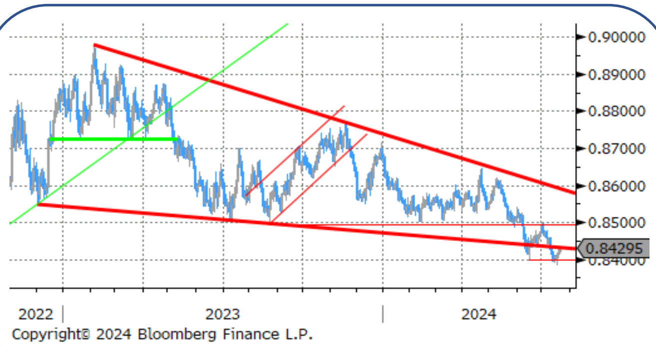
The Fed indicated that it needs **more evidence to lower its policy rate.** June dots suggested one move in 2024 and four next year. Disappointing ISM and back-to-back downward CPI surprises put the US money market back on (at least) two rate cuts this year (September/December). The US 10-yr yield tests 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 support is being tested.

Calendar & Table

Monday, 22 July		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Jun)	-0.06	0.18
Germany			
22JUL-31JUL	Retail Sales MoM / NSA YoY (May)	0.00%/-1.60%	-1.20%/1.80%
Belgium			
11:00	Consumer Confidence Index (Jul)	--	-1
Other			
03:15	5-Year Loan Prime Rate	3.95%	3.95%
03:15	1-Year Loan Prime Rate	3.45%	3.45%
	Q2 earnings (Verizon,...)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,24	0,04		US	4,51	0,04	DOW	40287,53	-377,49
DE	2,47	0,04		DE	2,78	0,02	NASDAQ	17726,94	-144,28
BE	3,03	0,03		BE	2,89	0,01	NIKKEI	39540,09	-523,70
UK	4,12	0,06		UK	4,00	0,02	DAX	18171,93	-182,83
JP	1,05	0,01		JP	0,35	0,00	DJ euro-50	4827,24	-42,88

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,88	4,08	4,14	€STR	3,6630	0,0000			
5y	2,75	3,88	3,90	Euribor-1	3,6260	-0,0070	SOFR-1	5,3458	0,0003
10y	2,73	3,80	3,83	Euribor-3	3,6980	0,0100	SOFR-3	5,2838	-0,0014
				Euribor-6	3,6330	0,0090	SOFR-6	5,1417	0,0005

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0882	-0,0015	EUR/JPY	171,39	-0,10	CRB	280,36	-5,23
USD/JPY	157,48	0,11	EUR/GBP	0,8426	0,0008	Gold	2446,80	-58,60
GBP/USD	1,2914	-0,0030	EUR/CHF	0,9675	0,0002	Brent	82,63	-2,48
AUD/USD	0,6685	-0,0021	EUR/SEK	11,6211	0,0670			
USD/CAD	1,373	0,0024	EUR/NOK	11,8798	0,0970			

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