



Tuesday, 23 July 2024

KBC Sunrise Market Commentary

Markets

- US President Biden stepping out of the presidential election race dominated press/market headlines yesterday. Still, the direct impact on global trading was modest after all. For now, the outcome of an expected contest between Donald Trump and Kamala Harris is too early to call. **It is even more difficult to assess the concrete impact of post-election policy both the economy and a fortiori what it might mean for (global) markets trading. Equities had a good start to the new week** (S&P +1.08%, Nasdaq +1.58%, EuroStoxx 50 +1.45%). However, coming on the back of a rather forceful correction last week and with investors looking forward to the earnings' season, it's unclear how much of this rebound was due to the political developments in the US. **US and European yields extended last week's bottoming out process.** US yields rose marginally between 0.6 bps (2-y) and 2.5 bps (30-y). With an inaugural September 25 bps Fed rate cut almost fully discounted and more than one additional step priced for the end of the year, markets currently see no reason to anticipate an even more aggressive Fed U-turn compared to the June dots (one 25 bps step this year). For that to happen, more soft US data and/or more concrete Fed guidance is probably needed. **Bunds underperformed Treasury** with German yields rising between 4.6 bps (2-y) and 1.5 bps (30-y). **Markets are adapting to the message from last week's ECB press conference that everything is open with respect to an additional ECB rate cut in September.** Despite a (small) loss of relative interest rate support and a risk-on sentiment, the dollar only lost modest ground (DXY 104.30 from 104.39 on Friday, EUR/USD 1.0891 from 1.0882). The yen again marginally outperformed (close USD/JPY 157 area). Sterling showed signs of bottoming after a correction last week supported by tentatively higher UK yields (2-y + 5.9 bps). EUR/GBP closed at 0.842.
- Asian markets (ex-China) this morning show a mild risk-on in the wake of yesterday's WS rebound.** The yen extends its rebound (USD/JPY 156.4). EUR/USD is going nowhere. US yields decline marginally (+/- 1 bp). **Eco data in the US (Richmond Fed manufacturing index, existing home sales) and E(M)U (EC consumer confidence) only are of intraday significance, at best.** ECB's Lane will speak. Equity investors will keep a close eye at **earnings of Alphabet & Tesla.** We assume more technical inspired trading with the preliminary PMI's (tomorrow) and the first estimate of US GDP (including price deflators) on Thursday further shaping market expectations going into next week's Fed, BOJ and BoE policy meetings. For now, we expect recent lows in US and EMU yields to hold. The dollar shows no clear trend. In other countries, the **Central bank of Turkey (CBRT)** and the **National Bank of Hungary (MNB)** will announce policy decisions today. The CBRT is expected to keep the policy rate unchanged at 50% but might take additional measures to reduce excess liquidity. **Comments from MNB vice governor Virag last week suggested that there is still room for some guarded easing as inflation is still cooling** (3.7% in June) and as the forint continues to hold up rather well. We expected an MNB rate cut from 7.0% to 6.75%.

News & Views

- Car manufacturers and dealers in the US are increasingly cutting prices in an attempt to offset demand dented by high interest rates and to clear inventories at pre-pandemic levels.** Auto data provider Motor Intelligence said that incentive packages, which include cash backs, low interest rates and price cuts, rose 53% y/y in June. Their efforts have been showing up in US inflation figures with the cost of new and used vehicles having fallen by 0.2% and 1.5% m/m respectively. The report adds to evidence that the Fed's restrictive monetary policy is increasingly weighing on consumer demand, especially for big-ticket items.
- Top Japanese lawmaker Toshimitsu Motegi is calling upon the Bank of Japan to more clearly reveal its monetary policy normalization intentions.** Motegi is Secretary-General of the ruling Liberal Democratic Party (LDP) and shared growing frustrations among party members that the BoJ's snail pace, even with inflation above target, is hurting the yen and biting in Japanese consumer's purchasing power. Motegi's remarks are closely watched. He's seen as a possible contender with good odds in the September LDP leadership race. The outcome of the race ultimately determines who will be prime minister of Japan. The Bank of Japan is meeting July 31.

Graphs



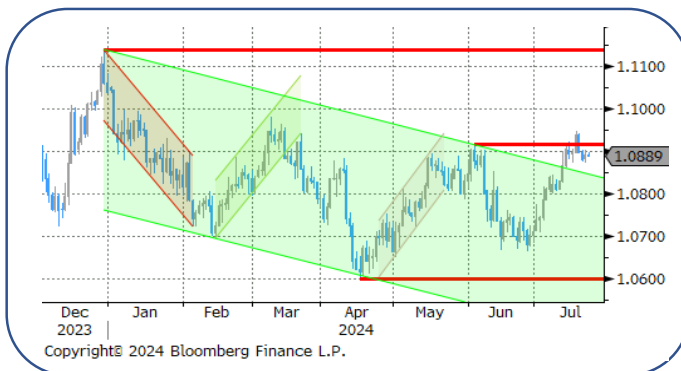
GE 10y yield

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 have increased, 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 support is being tested.

Calendar & Table

Tuesday, 23 July		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Jul)	--	2.9
16:00	Richmond Fed Manufact. Index (Jul)	-6	-10
16:00	Existing Home Sales / MoM (Jun)	3.99m/-3.00%	4.11m/-0.70%
EMU			
16:00	Consumer Confidence (Jul P)	-13.5	-14
Events			
09:00	ECB's Lane Speaks		
	Q2 earnings (Alphabet, GE, GM, Tesla, Texas Instruments,...)		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,25	0,01		US	4,52	0,01	DOW	40415,44	127,91
DE	2,50	0,03		DE	2,83	0,05	NASDAQ	18007,57	280,63
BE	3,04	0,02		BE	2,92	0,03	NIKKEI	39628,16	29,16
UK	4,16	0,04		UK	4,06	0,06	DAX	18407,07	235,14
JP	1,07	0,01		JP	0,36	0,01	DJ euro-50	4897,44	70,20
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2,92	4,08	4,21	€STR	3,6640	0,0010			
5y	2,78	3,88	3,95	Euribor-1	3,6300	0,0040	SOFR-1	5,3475	0,0017
10y	2,75	3,82	3,87	Euribor-3	3,7050	0,0070	SOFR-3	5,2860	0,0022
				Euribor-6	3,6410	0,0080	SOFR-6	5,1484	0,0067
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0891	0,0009		EUR/JPY	171,03	-0,36	CRB	283,09	2,73
USD/JPY	157,04	-0,44		EUR/GBP	0,8421	-0,0005	Gold	2442,10	-4,70
GBP/USD	1,2933	0,0019		EUR/CHF	0,9689	0,0014	Brent	82,40	-0,23
AUD/USD	0,6643	-0,0042		EUR/SEK	11,6766	0,0555			
USD/CAD	1,3757	0,0027		EUR/NOK	11,9336	0,0538			

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			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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