



Friday, 26 July 2024

KBC Sunrise Market Commentary

Markets

- The IT-driven risk-off initially supported a classic safe haven run on core bonds yesterday.** German yields at some point lost another 5-7 bps. However, equities gradually found a bottom going in the opening of US markets, looking forward the US data. **US Q2 GDP growth printed higher than expected at 2.8% Q/Qa** (1.4% in Q1 and 2.0% expected) with still **a solid contribution from private consumption** (+2.3% Q/Qa). Price indicators were mixed (GDP price index lower than expected at 2.3%, but core PCE deflator higher than expected at 2.9%). Jobless claims declined slightly more than expected (235k) and **core durable goods orders also beat expectations**. These data at least don't suggest the Fed should rush into a big (communication) U-turn at next week's policy meeting. On Wednesday, markets still largely ignored a solid US PMI report, but **yesterday's data finally triggered a tentative bottoming out process on the recent sharp decline in yields, especially at the short end of the curve**. The US 2-y yield finished the day little changed at 4.43%. Longer yields also closed off the intraday lows but still declined up to 5.8 bps (30-y). **Similar narrative on European yields** with German yields at the end of the day declining between 2.1 bps (2-y) and 3.2 bps (30-y). Both the S&P (-0.51%) and the Nasdaq (-0.93%) still closed in negative territory, but selling pressure also tentatively eased intraday. **The performance of the dollar again was unconvincing, mixed at best**. DXY closed little changed (104.35). USD/JPY intraday tested the 152 area, but closed the session little changed near 154. EUR/USD, despite recent poor data (including the IFO confidence yesterday) even gained marginally (close 1.0846). EUR/GBP even staged a remarkable rebound off the 0.84 support area (close 0.844).
- Asian equity markets this morning show signs of stabilization but gains, if any remain limited. US yields are holding near yesterday's closing levels. The dollar is losing a few ticks again (DXY 104.27, USD/JPY 153.77, EUR/USD 1.0855). **Later today, the focus will be on the US July spending and income data and on the related price deflators**. Headline PCE inflation is expected to cool to 0.1% M/M and 2.4 Y/Y, the core measure is seen at 0.2% M/M and 2.5% Y/Y (from 2.6%). **We don't expect this report to bring big additional news going into next week Fed meeting**. If the equity sell-off halts (at least temporarily), core yields also might look for a bottom after recent sharp repositioning. We look out whether the US 2-y yield will manage to close above the 4.40% reference. For the EMU 2-y swap the 3.0% barrier is an interesting reference. Recently the dollar performance against the other majors (euro, yen) was unconvincing and we don't see that changing short-term.

News & Views

- Inflation in Japan's capital city Tokyo using the Bank of Japan's preferred gauge (ex. fresh food) accelerated from 2.1% y/y to 2.2% in July.** The uptick was supported by monthly increases in utilities (+2.8%), transport & communication (+0.5%) and entertainment (+1.3%). Fresh food tumbled 2.7% m/m, helping to explain the drop in overall Tokyo CPI from 2.3% to 2.2%. **The core gauge excluding fresh food and energy prices slipped from 1.8% to 1.5%.** In addition with **services price inflation slowing to just 0.5%** (unchanged on a monthly basis) from 0.9% the month before, **today's numbers once again provide no clear signal for the Bank of Japan when it meets next week**. The weak yen has been a headache for policymakers in the country and argued for rate action but the currency over the past couple of days dramatically appreciated against the likes of USD and EUR. This is likely to relieve the BoJ of some pressure too. USD/JPY's sharp decline did shift in lower gear following yesterday's stronger-than-expected US Q2 GDP data though. The pair is currently trading slightly lower around 153.58. This compared to the 161+ levels at the beginning of the month.
- Hungarian minister for economy Nagy said the recovery this year and the next will be weaker than hoped for,** raising the possibility of additional stimulus in the 2025 pre-election year. **The 2024 rebound is seen at 2.2-2.3% instead of the 2.5% estimate in April. Economic growth next year could then "approach" rather than "exceed" 4%** provided that export markets recover and the government uses the 2025 budget to boost the economy, Nagy said, hinting at help for small businesses and families. The cabinet will submit its 2025 budget draft in November. Nagy's comments feel weirdly timed, coming at a time when Hungary is trying to keep its deficits under control. The administration recently announced a fiscal stabilization plan to keep the 2024 deficit under the 4.5% of GDP target.

Graphs



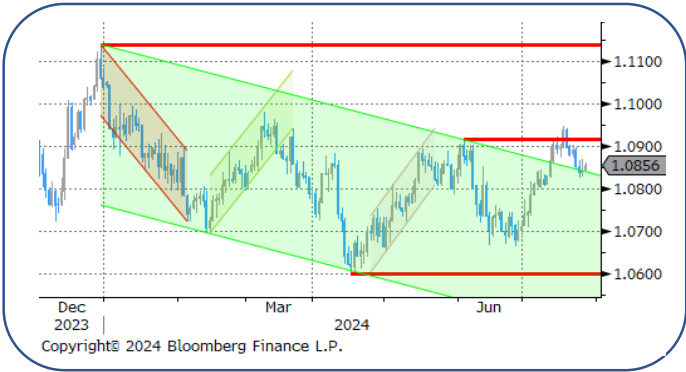
GE 10y yield

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 tested the topside of the 1.06-1.09 range as the dollar lost 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. EUR/USD recently evolved back to a more neutral positioning but is holding up rather well despite ongoing poor EMU data.



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

Friday, 26 July		Consensus	Previous
US			
14:30	Personal Income (Jun)	0.40%	0.50%
14:30	Personal Spending (Jun)	0.30%	0.20%
14:30	Real Personal Spending (Jun)	0.30%	0.30%
14:30	PCE Price Index MoM / YoY (Jun)	0.10%/2.40%	0.00%/2.60%
14:30	Core PCE Price Index MoM / YoY (Jun)	0.20%/2.50%	0.10%/2.60%
16:00	U. of Mich. Sentiment (Jul F)	66.4	66
Japan			
01:30	Tokyo CPI YoY (Jul)	2.20%A	2.30%
01:30	Tokyo CPI Ex-Fresh Food YoY (Jul)	2.20%A	2.10%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Jul)	1.50%A	1.80%
EMU			
10:00	ECB 1 Year CPI Expectations (Jun)	--	2.80%
10:00	ECB 3 Year CPI Expectations (Jun)	--	2.30%
France			
08:45	Consumer Confidence (Jul)	90	89
Italy			
10:00	Consumer Confidence Index (Jul)	98.7	98.3
Sweden			
08:00	Unemployment Rate SA (Jun)	--	8.20%
08:00	Unemployment Rate SA (Jun)	--	8.20%
Events			
	Q2 earnings (3M, ...)		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,24	-0,04	US	4,43	0,00	DOW	39935,07	81,20	
DE	2,42	-0,03	DE	2,63	-0,02	NASDAQ	17181,72	-160,69	
BE	3,00	-0,01	BE	2,78	-0,02	NIKKEI	37743,21	-126,30	
UK	4,13	-0,03	UK	3,95	-0,04	DAX	18298,72	-88,74	
JP	1,07	0,01	JP	0,40	0,01	DJ euro-50	4811,28	-50,59	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,82	4,03	4,13	€STR	3,6650	0,0000			
5y	2,70	3,83	3,89	Euribor-1	3,6040	0,0060	SOFR-1	5,3437	-0,0014
10y	2,71	3,79	3,84	Euribor-3	3,6860	-0,0120	SOFR-3	5,2600	-0,0058
				Euribor-6	3,6190	-0,0330	SOFR-6	5,1031	-0,0137
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0846	0,0006	EUR/JPY	166,95	0,14	CRB	279,69	-0,06	
USD/JPY	153,94	0,05	EUR/GBP	0,8439	0,0041	Gold	2399,90	-64,10	
GBP/USD	1,2851	-0,0056	EUR/CHF	0,9562	-0,0033	Brent	82,37	0,66	
AUD/USD	0,6538	-0,0043	EUR/SEK	11,7491	0,0649				
USD/CAD	1,3825	0,0017	EUR/NOK	11,9718	0,0144				

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
CSOB Economics – Markets Prague		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
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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