

Sunset



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Monday, 29 July 2024

KBC Sunrise Market Commentary

Markets

- Core bonds finished higher last Friday. **US Treasury yields were unable to build on Thursday's Q2 GDP intraday rebound.** The release of some economic data including personal income & spending and June PCE deflators wouldn't call for a net daily yield decline between 3.1 and 5.6 bps but yet that's exactly what happened. It suggests that going into a busy week and even after a sharp correction already, the **downside in yields remained vulnerable.** German yields ended the day marginally lower by less than 2 bps across the curve. Stock markets caught a breather. Technical support areas (5400 zone in S&P500, 4840 zone in EuroStoXX50) lived up to the name. Europe and Wall Street easily ended more than 1% higher. The US dollar traded mixed to slightly weaker. EUR/USD as a result finished a bit higher, into the northern 1.08-1.09 half. After an impressive comeback, Japan's yen traded near the recent highs against the dollar (USD/JPY 153.76) and the euro (166.93). Sterling rebalanced after Thursday's sharp drop lower. EUR/GBP tested 0.845 but eventually closed virtually unchanged around 0.8437. Cable (GBP/USD) snapped a three-day losing streak, eking out a slight gain to 1.2867. UK yields followed the global example south. **The 2-yr yield hit a new Ytd low ahead of the Bank of England meeting later this week.**
- Asian equity markets kick of the week in good spirits, following the US example end last week. Japan outperforms regional peers, rising more than 2%, **unbothered by the Gaza war over the weekend escalating.** Israel blamed Hezbollah for a rocket explosion in the Israeli-occupied Golan Heights that killed several youngsters during a soccer game. Israel retaliated on Sunday but kept the door open for diplomacy. The eco calendar is a meagre one today and **its backloaded nature could keep markets on the sidelines of the trading arena.** Things get interesting from tomorrow on with European Q2 GDP and national (Germany, Spain, Belgium) inflation numbers due ahead of the European figure on Wednesday. Both the Bank of Japan and the Fed have their policy meeting on Wednesday with the Bank of England's knife-edge decision due a day later. Friday is centered around US payrolls.

News & Views

- Seeking to be better prepared for a potential next term, **EU officials are developing a two-step trade strategy to deal with Donald Trump and the Republicans after the November elections.** The former president has already floated the idea of a 10% minimum tariff on all imports, which the **EU estimates could reduce exports to the US by around €150bn annually.** The bloc's negotiators plan to approach Trump and his team before he takes office and will discuss with US products the EU could buy in larger amounts. If that fails, the EC trade department is drawing up a list of imports on which it could smack 50% or more tariffs. The **carrot-and-stick approach** follows after Trump in his first presidency oversaw an import levy on €6.4bn of steel and aluminium, which was then countered by the EU by tariffs of a value of less than €3bn.
- G20 finance chiefs last Friday concluded a two-day meeting with a joint statement expressing increasing hopes for a **soft landing of the global economy.** But there are a number of risks, including wars and escalating conflicts, that could endanger this outlook. It called for more global cooperation instead and to resist protectionism as well as stressed the need to reduce economic inequalities. The communique also first the time ever argued for cooperation to effectively tax the world's largest fortunes though it has not been agreed on how to move further from this. **The G20 chiefs assessed economic risks as broadly balanced** with more economic cooperation, faster-than-expected disinflation and technological innovation including AI offsetting downside risks coming from the latter, as well as economic fragmentation, climate change, excessive debt and higher-for-longer rates.

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. Disappointing US and unconvincing EMU data, however, for now brings yields back to their post-French snap election low. The 2.34%-2.4% support zone looks solid.



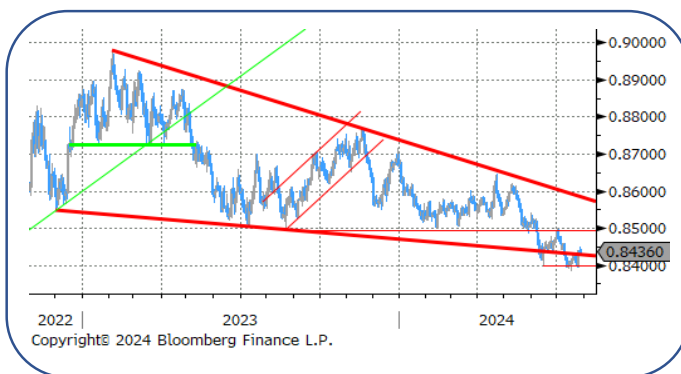
US 10y yield

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 more than 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

Monday, 29 July		Consensus	Previous
UK			
10:30	M4 Money Supply YoY (Jun)	--	0.30%
12:00	CBI Total Dist. Reported Sales (Jul)	--	-9
Belgium			
11:00	GDP SA QoQ/YoY (2Q P)	--/--	0.30%/1.30%
Sweden			
08:00	GDP SA QoQ/YoY (2Q)	--/--	-0.10%/-1.10%
Events			
Q2 earnings (McDonalds, On Semiconductor ...)			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.19	-0.05	US	4.38	-0.05	DOW	40589.34	654.27	
DE	2.41	-0.01	DE	2.62	-0.01	NASDAQ	17357.88	176.16	
BE	2.99	0.00	BE	2.77	-0.01	NIKKEI	38526.48	859.07	
UK	4.10	-0.03	UK	3.92	-0.03	DAX	18417.55	118.83	
JP	1.03	-0.04	JP	0.40	0.00	DJ euro-50	4862.5	51.22	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.79	3.98	4.10	€STR	3.6630	-0.0020			
5y	2.68	3.79	3.86	Euribor-1	3.6210	0.0170	SOFR-1	5.3417	-0.0020
10y	2.69	3.75	3.80	Euribor-3	3.6550	-0.0310	SOFR-3	5.2510	-0.0090
				Euribor-6	3.5910	-0.0280	SOFR-6	5.0869	-0.0162
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0856	0.0010	EUR/JPY	166.93	-0.02	CRB	277.40	-2.29	
USD/JPY	153.76	-0.18	EUR/GBP	0.8437	-0.0002	Gold	2427.90	28.00	
GBP/USD	1.2867	0.0016	EUR/CHF	0.9594	0.0032	Brent	81.13	-1.24	
AUD/USD	0.6548	0.0010	EUR/SEK	11.7463	-0.0028				
USD/CAD	1.3836	0.0011	EUR/NOK	11.9661	-0.0057				

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
CSOB Economics – Markets Prague		Hong Kong	+852 2525 9232
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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