



Tuesday, 20 August 2024

KBC Sunrise Market Commentary

Markets

- Last week's directional moves on key markets were extended yesterday** in absence of any guidance coming from eco data or central bankers. **Core bond yields fail to recover from the early August setback** with daily changes in the US ranging between -1.8 bps (30-yr) and +1.6 bps (2-yr). German yields closed almost unchanged. Especially US money markets keep banking on significant Fed rate cuts to come. Apart from the magnitude of the lift-off (25 bps being our preferred scenario), especially the 2025 path will be challenged in the updated September FOMC dot plot. Markets currently discount a 3.25% policy rate by the end of 2025 compared with a median Fed view of 4%-4.25% back in June. **Aggressive rate cut bets keep the dollar in the defensive.** EUR/USD yesterday closed at its best level YTD (1.1085 from 1.1014) with resistance levels lining up: 1.1139 (December top) and 1.1276 (2023 top). A softer dollar remains the way to go. The less restrictive monetary policy where money markets are hoping for should help accommodate the US soft landing and especially rule out the downside recession risk. It's **what helped US stock markets stage an impressive comeback since the August 5 market meltdown**. Key benchmarks yesterday rallied another 0.6% (Dow) to 1.4% (Nasdaq), lifting them to this month's best levels. On commodity markets, gold closed **at an all-time high of \$2548.3/ounce**. **Brent crude remains under selling pressure (\$77/b)** both because of global demand concerns and as the US indicated that Israel accepted a cease-fire proposal in Gaza.
- Asian stock markets join yesterday's positive momentum with China underperforming. Chinese banks kept their benchmark lending rates unchanged (1y: 3.35% & 5y: 3.85%) after cutting them by 10 bps each only a month ago. **ECB governing council member Rehn** said that the recent increase in negative EMU growth risks **reinforced the case for a September policy rate cut (provided that disinflation remains on track)**. He sees no clear signs of a pick-up in the manufacturing sector even though the energy cost drivers seem to have largely faded away. **Today's eco calendar remains extremely thin** with only final July EMU CPI data on tap. The Swedish Riksbank is expected to lower its policy rate for a 2nd time by 25 bps (to 3.5%) with the Turkish central bank forecast to hold rates steady at 50%.

News & Views

- The **NY Fed's SCE labour market survey** showed a **mixed picture**. It recorded **a sharp increase in the proportion of job seekers** compared to a year ago. Among those employed four months ago, 88% were still with the same employer, a low since the start of the series in July 2014 as **the transition rate rose sharply**. Looking forward, the expected likelihood of moving to a new employer increased to 11.6% from 10.6% in July 2023. At the same time, **the average expected likelihood of becoming unemployed rose** to 4.4% from 3.9% also a new high. Satisfaction with wage compensation as well as with nonwage benefits and promotion opportunities all deteriorated. Conditional on expecting an offer, **the average expected annual salary of job offers in the next four months declined** to \$65,272 from \$67,416, though it remains significantly higher than pre-pandemic levels. The **average reservation wage**—the lowest wage respondents would be willing to accept for a new job—**increased** to \$81,147 from \$78,645. The average expected likelihood of working beyond age 62 increased to 48.3% from 47.7. The average expected likelihood of working beyond age 67 increased to 34.2% from 32.
- The **Minutes of the 5-6 August meeting of the Reserve bank of Australia** showed that **the central bank discussed a further rate hike**, but concluded that **the stronger case was for leaving the policy rate unchanged at 4.35%**. Members noted that developments over preceding months supported the view that **inflation would be slow to decline**. Underlying inflation had fallen very little over the prior year in quarterly terms and inflation was still some way above target. Members also saw the gap between aggregate demand and supply being somewhat larger than previously assessed. **Holding the cash rate target steady at its current level for a longer period than currently implied by market pricing may be sufficient to return inflation to target in a reasonable timeframe**. The Board will need to reassess this at future meetings. Still it guided that it was **not possible to either rule in or rule out future changes in the cash rate target**.

Graphs



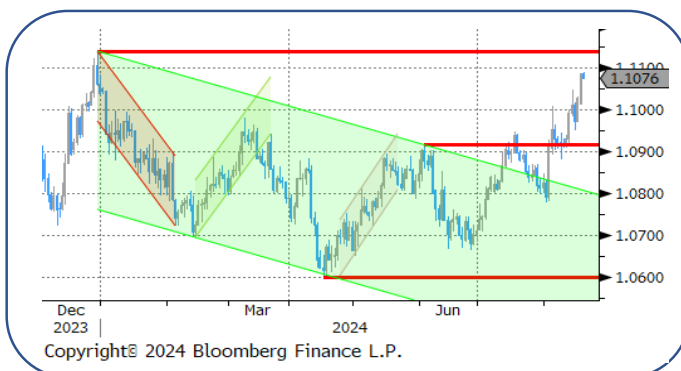
GE 10y yield

The ECB cut policy rates by 25 bps in June. Stubborn inflation (core, services) make follow-up moves less evident. Markets nevertheless price in two to three more cuts for 2024 as disappointing US and unconvincing EMU activity data rolled in, dragging the long end of the curve down. The move accelerated during the early August market meltdown.



US 10y yield

The Fed in its July meeting paved the way for a first cut in September. It turned attentive to risks to the both sides of its dual mandate as the economy is continuing to move better in to balance. Money markets tend to err in favour of a 50 bps lift-off. The pivot weakened the technical picture in US yields with another batch of weak eco data pushing the 10-yr sub 4%.



EUR/USD

EUR/USD moved above the 1.09 resistance area as the dollar lost interest rate support at stealth pace. US recession risks and bets on fast and large (50 bps) rate cuts trumped traditional safe haven flows into USD. EUR/USD 1.1139 (Dec 2023 high) and 1.1276 (2023 top) serve as next technical references.



EUR/GBP

The BoE delivered a hawkish cut in August. Policy restrictiveness will be further unwound gradually on a pace determined by a broad range of data. The strategy similar to the ECB's balances out EUR/GBP in a monetary perspective. Risk-off proved a more important driver of GBP recently, triggering a return from 0.84 towards 0.86.

Calendar & Table

Tuesday, 20 August		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Aug)	--	-19.1
Canada			
14:30	CPI NSA MoM/YoY (Jul)	0.40%/2.50%	-0.10%/2.70%
14:30	CPI Core- Median YoY% (Jul)	2.50%	2.60%
14:30	CPI Core- Trim YoY% (Jul)	2.80%	2.90%
EMU			
10:00	ECB Current Account SA (Jun)	--	36.7b
11:00	Construction Output MoM/YoY (Jun)	--/--	-0.90%/-2.40%
11:00	CPI MoM/YoY (Jul F)	0.00%/2.60%	0.00%/2.60%
11:00	CPI Core YoY (Jul F)	2.90%	2.90%
Germany			
08:00	PPI MoM/YoY (Jul)	0.20%/-0.80%	0.20%/-1.60%
China			
03:00	5-Year Loan Prime Rate	A: 3.85%	3.85%
03:00	1-Year Loan Prime Rate	A: 3.35%	3.35%
Sweden			
09:30	Riksbank Policy Rate	3.50%	3.75%
Events			
03:30	RBA Minutes of Aug. Policy Meeting		
11:00	Germany to Sell 2.3% 2033 & 0% 2050 Bonds		
19:35	Fed's Bostic on Innovating for Inclusion		
20:45	Fed's Barr Speaks on Cybersecurity		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3.87	-0.01	US	4.07	0.02	DOW	40896.53	236.77	
DE	2.25	0.00	DE	2.43	0.00	NASDAQ	17876.77	245.05	
BE	2.84	-0.01	BE	2.59	-0.01	NIKKEI	38164.06	775.44	
UK	3.92	0.00	UK	3.69	0.01	DAX	18421.69	99.29	
JP	0.89	0.00	JP	0.36	-0.01	DJ euro-50	4871.41	30.89	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.59	3.64	3.91	€STR	3.6640	0.0000			
5y	2.49	3.46	3.69	Euribor-1	3.5840	-0.0110	SOFR-1	5.3098	-0.0228
10y	2.50	3.43	3.61	Euribor-3	3.5510	-0.0090	SOFR-3	5.1295	0.0038
				Euribor-6	3.4080	0.0410	SOFR-6	4.8467	0.0117
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1085	0.0058	EUR/JPY	162.5	-0.30	CRB	276.39	0.95	
USD/JPY	146.59	-1.04	EUR/GBP	0.8532	0.0014	Gold	2541.30	3.50	
GBP/USD	1.2991	0.0047	EUR/CHF	0.9564	0.0012	Brent	77.66	-2.02	
AUD/USD	0.6731	0.0062	EUR/SEK	11.429	-0.0871				
USD/CAD	1.3634	-0.0046	EUR/NOK	11.6944	-0.0811				

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