



Thursday, 22 August 2024

## KBC Sunrise Market Commentary

### Markets

- The **US Bureau of Labour Statistics** kept most of us waiting yesterday. The preliminary benchmark payrolls revision for the year through March 2024 eventually showed the **feared, significant, downward revision**. The actual payroll count was **818k lower or around 68k/month**. That lowers the average monthly net job growth over the reference period from 242k to 174k which nevertheless remains solid. However, **from a momentum and narrative point of view it adds to worries that the Fed could be behind the curve**. With inflation becoming gradually more under control, the Fed has space to focus on the second pillar of its dual mandate: maximum employment. With the labour market tipping, this **argues for a less restrictive monetary policy**. We agree with that view, but still think that US (money) markets are taking it too far when it comes to rate cut bets this year and next. **There's no sense in fighting the strong market trends for now though. Minutes of the July FOMC meeting showed that the outcome (unchanged) was a closer call than expected.** *"Several officials observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 bps at this meeting or that they could have supported such a decision. The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting."* **The US dollar and the front end of the US yield curve drifted further south in the wake of the releases. Interestingly: the very long end of the US curve showed signs of fatigue.** The US 30-yr yield even notched somewhat higher already. Daily changes ranged between -5.4 bps (2-yr) and +1.7 bps (30-yr). EUR/USD closed at 1.1150, above the December 2023 top of 1.1139. Eventually, the greenback also closed above the day's softest levels. Key US equity indices gained up to 0.6% for Nasdaq. Today's US agenda contains July PMI's. **Risks are tilted to the downside of expectations. We still think that US (ST) yields and USD will stick near recent lows as the possibility of a 50 bps lift-off in September won't be off the table ahead of early September data releases (ISM's, payrolls).** In Europe, PMI's and especially Q2 wage data are a wildcard. The latter risk staying more sticky, limiting the ECB's room for action compared with the Fed.

### News & Views

- The Bank of Korea (BoK) left its policy rate unchanged at 3.5%.** Governor Rhee Chang-young indicated that the central bank **might be moving toward a rate cut at the upcoming meetings**. The domestic economy has continued with its divergence between slowing domestic demand activities and vigorously growing exports. The BoK revised the 2024 growth forecast slightly to 2.4% from 2.5% in May. 2025 growth is seen unchanged at 2.1%. It assesses that **inflation maintained its underlying trend of slowing down**. CPI increased to 2.6% Y/Y in July due to higher petrol prices, but the core inflation rate remained steady at 2.2% and the BoK sees inflation slowing further (2.5% from 2.6% this year, 2.1% next year). The BoK statement concludes that the central bank will thoroughly assess the trade-offs among policy variables such as inflation, growth, and financial stability, and **examine the proper timing of rate cuts while maintaining a restrictive monetary policy stance**. Financial stability concerns (real estate prices and household debt) are a source of caution advocating a cautious approach.
- The **rift between the Hungarian central bank (MNB) and the government** on the balance between fighting inflation and supporting (lagging) economic growth flared up yesterday. **Hungarian finance minister Nagy assessed that the MNB is too focused on inflation and believes that inflation near 4% is low enough to start a more growth supportive policy**. With economic growth only expected at a subdued 2% this year, Nagy thinks that the central should take supportive action potentially including **initiatives such as the previous Funding for Growth program**. Comments come as **the central bank recently indicated that room to continue its easing cycle is becoming smaller** (only one or two additional rate cuts of 25 bps this year; policy rate currently at 6.75%). The MNB meets next week. The rift between the MNB and the government often was a negative for the forint, but this time **the HUF continues a gradual rebound on the easing of global financial conditions**. EUR/HUF currently trades near 292.7.

# Graphs



## E 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) is under test. 1.1276 (2023 top) serves 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

Thursday, 22 August		Consensus	Previous
<b>US</b>			
14:30	Chicago Fed Nat Activity Index (Jul)	0.03	0.05
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>232k</b>	<b>227k</b>
14:30	Continuing Claims	1870k	1864k
15:45	S&P Global US Manufacturing PMI (Aug P)	49.5	49.6
15:45	S&P Global US Services PMI (Aug P)	54	55
<b>15:45</b>	<b>S&amp;P Global US Composite PMI (Aug P)</b>	<b>53.2</b>	<b>54.3</b>
16:00	Existing Home Sales (Jul)	3.94m	3.89m
16:00	Existing Home Sales MoM (Jul)	1.30%	-5.40%
<b>Japan</b>			
02:30	Jibun Bank Japan PMI Composite (Aug P)	A: 53	52.5
02:30	Jibun Bank Japan PMI Mfg (Aug P)	A: 49.5	49.1
02:30	Jibun Bank Japan PMI Services (Aug P)	A: 54	53.7
<b>UK</b>			
10:30	S&P Global UK Manufacturing PMI (Aug P)	52.2	52.1
10:30	S&P Global UK Services PMI (Aug P)	52.8	52.5
<b>10:30</b>	<b>S&amp;P Global UK Composite PMI (Aug P)</b>	<b>53.0</b>	<b>52.8</b>
12:00	CBI Trends Total Orders (Aug)	-25	-32
12:00	CBI Trends Selling Prices (Aug)	5	2
<b>EMU</b>			
10:00	HCOB Eurozone Manufacturing PMI (Aug P)	45.8	45.8
10:00	HCOB Eurozone Services PMI (Aug P)	51.7	51.9
<b>10:00</b>	<b>HCOB Eurozone Composite PMI (Aug P)</b>	<b>50.1</b>	<b>50.2</b>
<b>16:00</b>	<b>Consumer Confidence (Aug P)</b>	<b>-12.6</b>	<b>-13</b>
<b>Germany</b>			
09:30	HCOB Germany Manufacturing PMI (Aug P)	43.3	43.2
09:30	HCOB Germany Services PMI (Aug P)	52.3	52.5
09:30	HCOB Germany Composite PMI (Aug P)	49.2	49.1
<b>France</b>			
	Retail Sales SA YoY (Jul)	--	-0.70%
09:15	HCOB France Manufacturing PMI (Aug P)	44.5	44
09:15	HCOB France Services PMI (Aug P)	50.3	50.1
09:15	HCOB France Composite PMI (Aug P)	49.2	49.1
<b>Belgium</b>			
11:00	Consumer Confidence Index (Aug)	--	-5
<b>Norway</b>			
08:00	GDP Mainland QoQ (2Q)	0.20%	0.20%
<b>Events</b>			
<b>11:00</b>	<b>ECB Publishes Euro Area Negotiated Wages Indicator for Q2 2024</b>		
<b>13:30</b>	<b>ECB Publishes Account of July Rate Decision</b>		
19:00	US to Sell \$8bn 30-yr TIPS Reopening		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.80	-0.01		US	3.93	-0.05	DOW	40890.49	55.52
DE	2.19	-0.02		DE	2.36	-0.05	NASDAQ	17918.99	102.05
BE	2.78	-0.03		BE	2.51	-0.05	NIKKEI	38124.86	173.06
UK	3.89	-0.02		UK	3.66	-0.03	DAX	18448.95	91.43
JP	0.88	0.00		JP	0.36	0.01	DJ euro-50	4885.28	27.70
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.50	3.51	3.87	€STR	3.6630	-0.0010			
5y	2.41	3.37	3.66	Euribor-1	3.5960	0.0090	SOFR-1	5.3094	0.0020
10y	2.44	3.37	3.60	Euribor-3	3.5420	0.0040	SOFR-3	5.0766	-0.0270
				Euribor-6	3.4100	0.0030	SOFR-6	4.7577	-0.0350
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1150	0.0020		EUR/JPY	161.95	0.28	CRB	275.41	-1.01
USD/JPY	145.21	-0.05		EUR/GBP	0.8518	-0.0022	Gold	2547.50	-3.10
GBP/USD	1.3091	0.0057		EUR/CHF	0.9497	-0.0009	Brent	76.05	-1.15
AUD/USD	0.6744	-0.0001		EUR/SEK	11.3559	-0.0049			
USD/CAD	1.3595	-0.0026		EUR/NOK	11.7151	0.0358			

## 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

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

