



Friday, 23 August 2024

KBC Sunrise Market Commentary

Markets

- Yesterday's EMU data releases cement the case for a second 25 bps rate cut by the ECB** when they meet next on September 12. PMI's picked up because of the 2024 Paris Olympics (French services), but that was only the tip of the iceberg. The manufacturing sector remains mired in recession. New orders fell on an aggregate level and input price pressure (unlike output prices) is waning. The latter was also confirmed by the central bank's Q2 wage data which showed negotiated pay rising by 3.6% from a year ago in Q2 (from 4.7% in Q1 and the slowest pace since Q4 2022). Minutes of the July ECB meeting confirmed that the central bank would re-evaluate things in September. **The figures had little market impact** given that a 25 bps September ECB rate cut was already discounted.
- Markets dynamics could be at a short term tipping point.** It was actually already visible in long term bonds on Wednesday following the BLS payrolls revision and the release of soft FOMC Minutes. **They still managed to pull short term US bond yields and the dollar lower, but longer term bond yields hit a floor/support levels.** Short term Treasuries succumbed yesterday with the 2-yr yield adding 6 bps. The dollar got some breathing space (EUR/USD 1.1112) while US stock markets corrected up to 1.5% after their astonishing comeback rally the past fortnight. It points to some cautiousness going into this week's main event, **Fed Chair Powell's speech** at the Kansas City Fed's Jackson Hole symposium. **We expect Powell to give the final go ahead for a September rate cut, but simultaneously stress the need for gradualism. It's been the buzz word throughout Fed speeches this month.** It suggests a traditional 25 bps start to the cutting cycle contrary to the 50 bps some are hoping/betting on. It might mean as well that the updated dot plot won't be as aggressive for this year and especially next as markets are currently positioned for. Apart from straightforward clues on the timing, pace and size of rate cuts, it will be interesting to learn **how much additional weight the Fed chair gives to the maximum employment part of the mandate** compared to the price stability. **Such "gradualism" scenario could trigger a short term exhaustion move in USD and US rates or even an outright buy-the-rumour, sell-the-fact reaction going into the weekend.** We're not enticed to call it the final bottom yet as **easing bets could rapidly return early September in case of disappointing ISM's and/or payrolls.** Apart from Powell's speech, we keep an eye on first public comments by BoE governor Bailey since the August 1 rate cut. Sterling yesterday outperformed on stronger PMI data with **EUR/GBP returning below 0.85 for the first time since the early August market meltdown.**

News & Views

- Japanese national inflation data** were **in line with expectations**, but showed **a slightly mixed picture for monetary policy.** Inflation excluding fresh food rose 2.7% in July from 2.6% in June. Overall headline inflation printed unchanged at 2.8%, well above the BOJ's 2% target. However, **the 'core-core measure' excluding fresh food and energy dropped to 1.9% from 2.2%.** The indicator strips out a sharp rise in utility bills as the government **phased out support to mitigate energy bills.** Services price inflation also eased from 1.7% to 1.4%. Both factors might be a reason **for the BoJ to take a rather gradual approach** as it started the process of policy normalization. The recent rise in the yen also might mitigate imported inflation going forward. In a hearing before Parliament this morning, **BoJ Governor Ueda reiterated that the BoJ intends to further raise the interest rates if inflation stays on course to sustainably hold the 2% target.** At the same time, the BoJ will be **vigilant to market developments/volatility** for the time being. The yen strengthens slightly this morning (USD/JPY 145.6).
- UK consumer confidence as measured by GfK was reported unchanged at -13, the highest level in almost three years.** A slight further improvement to -12 was expected. UK consumers become more optimistic on their personal finances (last 12 months and expected next 12 months). They also turned more positive on the climate for major purchases (-13 from -16). Savings intentions rose (33 from 27) but **consumers turned slightly more cautious on the overall economic situation** (both past and future). After a stronger than expected UK PMI yesterday (composite 53.4 from 52.8) sterling yesterday strengthened below the EUR/GBP 0.85 support.

Graphs



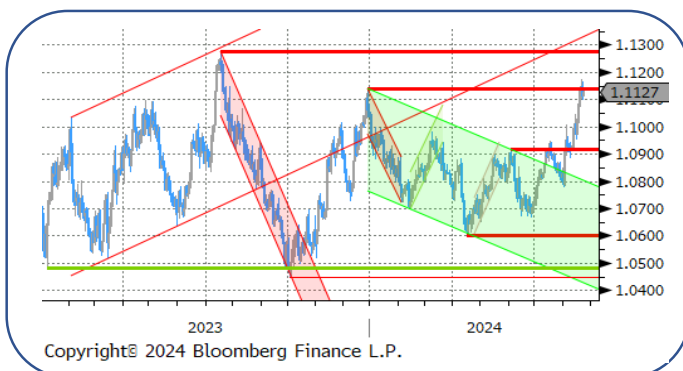
GE 10y yield

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 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 brief return from 0.84 towards 0.86.

Calendar & Table

Friday, 23 August		Consensus	Previous
US			
16:00	New Home Sales (Jul)	623k	617k
16:00	New Home Sales MoM (Jul)	1.0%	-0.60%
Japan			
01:30	Natl CPI YoY (Jul)	A: 2.80%	2.80%
01:30	Natl CPI Ex Fresh Food YoY (Jul)	A: 2.70%	2.60%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Jul)	A: 1.90%	2.20%
UK			
01:01	GfK Consumer Confidence (Aug)	A -13	-13
EMU			
10:00	ECB 1 Year CPI Expectations (Jul)	2.70%	2.80%
10:00	ECB 3 Year CPI Expectations (Jul)	2.30%	2.30%
France			
08:45	Business Confidence (Aug)	96	94
Sweden			
08:00	Unemployment Rate SA (Jul)	8.4%	8.20%
Events			
16:00	Fed's Powell Speaks on Economic Outlook		
17:00	BOE Governor Andrew Bailey speaks in Jackson Hole		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3.85	0.05	US	4.00	0.07	DOW	40712.78	-177.71	
DE	2.24	0.05	DE	2.40	0.04	NASDAQ	17619.35	-299.64	
BE	2.83	0.05	BE	2.54	0.04	NIKKEI	38351.27	140.26	
UK	3.96	0.07	UK	3.72	0.06	DAX	18493.39	44.44	
JP	0.89	0.02	JP	0.37	0.01	DJ euro-50	4885	-0.28	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.57	3.58	3.94	€STR	3.6640	0.0010			
5y	2.48	3.42	3.73	Euribor-1	3.6080	0.0120	SOFR-1	5.2843	-0.0251
10y	2.50	3.41	3.67	Euribor-3	3.5410	-0.0010	SOFR-3	5.0924	0.0158
				Euribor-6	3.4080	-0.0020	SOFR-6	4.7901	0.0324
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1112	-0.0038	EUR/JPY	162.56	0.61	CRB	274.68	-0.73	
USD/JPY	146.29	1.08	EUR/GBP	0.8489	-0.0029	Gold	2516.70	-30.80	
GBP/USD	1.3091	0.0000	EUR/CHF	0.9470	-0.0027	Brent	77.22	1.17	
AUD/USD	0.6705	-0.0039	EUR/SEK	11.3851	0.0292				
USD/CAD	1.3616	0.0021	EUR/NOK	11.778	0.0629				

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