



Wednesday, 28 August 2024

## KBC Sunrise Market Commentary

### Markets

- Core interest rate markets yesterday **tried to further build on a tentative pause/bottoming out process that started on Monday**. With 100 bps Fed cuts discounted for this year and another 125 bps of reduction priced in for next year, markets for now apparently feel themselves as trading in line even with the new Fed guidance of a genuine scaling back of policy restriction. **However, US data were inconclusive and didn't really help to kickstart a real directional countermove. US house price data** were close to expectations. **Consumer confidence** (Conference Board) for the second consecutive month beat market expectations (103.3 from 101.9) with both the current situation assessment and expectations adding to the improvement. At the same time, **Richmond Fed business surveys suggest a further cooling in activity both in manufacturing and services**. With markets still more sensitive to soft rather than strong data, the latter to some extent capped an intraday rebound in yields. Later in the session, (US) bonds were also supported by a strong investor buying interest at a \$69 bln 2-y Treasury auction. US yields at the end of the day finished little changed in a tentative steepening move (2-y 3.7 bps; 30-y +0.8 bp). **German Bunds outperformed** with yields rising between 0.6 bp (2-y) and 5.4 bps (30-y). First August EMU inflation data to be released tomorrow and on Friday might help to clarify whether the ECB might have room to step up the pace of easing beyond an expected 25 bps step in September. **The unconvincing intraday picture in US yields also capped any upside momentum in the dollar**. DXY closed at a YTD low (100.55). EUR/USD finished at 1.1184. **Sterling continued its outperformance, both against the euro and the dollar** despite mixed CBI retail data (cable 1.326, EUR/GBP 0.8434). Equities didn't go anywhere with investors looking forward to the Nvidia results to be published after the close in the US this evening. Oil reversed Monday's jump higher to close near \$ 79.55 p/b (Brent).
- This morning**, Asian equities mostly trade lower, with China underperforming. US yields show no clear trend. The dollar tries to regain some ground (EUR/USD 1.1145; USD/JPY 144.45, DXY 100.85). **The eco data calendar is extremely thin in both side soft the Atlantic**. The **US Treasury will sell \$70 bln 5-year Notes**. Nvidia results (after the close) might help to investors to make up their mind whether there is further upside momentum in equities even as US indices are nearing record levels. For yields and the dollar some further consolidation near/slightly above recent lows might be on the cards today.

### News & Views

- The Financial Times runs an article on China's plans to issue billions of dollars of government bonds before the end of the year**. People close to the central bank warned that they have the potential to burst the bubble in the country's bond market. Official data show that as of July the government had yet to issue about Rmb 2.68tn (\$376bn) from its full-year quota of special local government bonds (Rmb 3.9tn) and ultra-long central government treasuries (Rmb 1tn). Proceeds of the former are used by lower authorities for projects and investments while the latter serve to help stimulate the overall, slowing, economy. **The wall of supply threatens a bullish Chinese bond market which push yields at 10-yr tenors to as low as 2.2%**. Other agencies working close with the PBOC warned earlier this month as well that LT government bond yields have deviated from a reasonable range and show a tendency towards some degree of bubble.
- Czech National Bank governor Michl yesterday indicated that it's better to have a more consistent, but overall more restrictive monetary policy**. The economy should be based on savings, not on debt. If we remain strict, one day we will prevent a repeat of high inflation. His comments came in the wake of his visit to Jackson Hole. He also warned against making rushed, ad-hoc monetary policy steps and experiments. The CNB cut its policy rate by 250 bps in total since December, to 4.5%. They meet next on September 25 where we expect a 25 bps rate cut.

# Graphs



## GE 10y yield

The ECB cut policy rates by 25 bps in June. Stubborn inflation (core, services) warrants a cautious approach on follow-up moves. 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 moving to a better in to balance. 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%. Powell at Jackson Hole didn't challenge markets' positioning.



## 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 reference.



## 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

Wednesday, 28 August		Consensus	Previous
<b>EMU</b>			
10:00	M3 Money Supply YoY (Jul)	2.70%	2.20%
<b>France</b>			
08:45	Consumer Confidence (Aug)	92	91
<b>Events</b>			
Earnings	Nvidia (22:20) ...		
14:15	BoE's Mann Speaks in Frankfurt		
19:00	US to Sell \$70bn 5-yr Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,82	0,01		US	3,90	-0,04	DOW	41250,5	9,98
DE	2,29	0,04		DE	2,40	0,01	NASDAQ	17754,82	29,05
BE	2,89	0,05		BE	2,55	0,01	NIKKEI	38319,64	31,02
UK	4,00	0,09		UK	4,11	0,43	DAX	18681,81	64,79
JP	0,90	0,01		JP	0,38	0,01	DJ euro-50	4898,78	2,09
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,55	3,48	3,92	€STR	3,6650	0,0000			
5y	2,48	3,35	3,73	Euribor-1	3,5840	0,0010	SOFR-1	5,2474	-0,0060
10y	2,53	3,38	3,67	Euribor-3	3,5150	-0,0080	SOFR-3	5,0556	-0,0127
				Euribor-6	3,3850	-0,0160	SOFR-6	4,7309	-0,0238
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1184	0,0023		EUR/JPY	161,02	-0,29	CRB	280,54	-1,43
USD/JPY	143,96	-0,57		EUR/GBP	0,8434	-0,0029	Gold	2552,90	-2,30
GBP/USD	1,3261	0,0073		EUR/CHF	0,9413	-0,0043	Brent	79,55	-1,88
AUD/USD	0,6793	0,0021		EUR/SEK	11,3521	-0,0493			
USD/CAD	1,3444	-0,0043		EUR/NOK	11,6996	-0,0727			

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