



Monday, 02 September 2024

KBC Sunrise Market Commentary

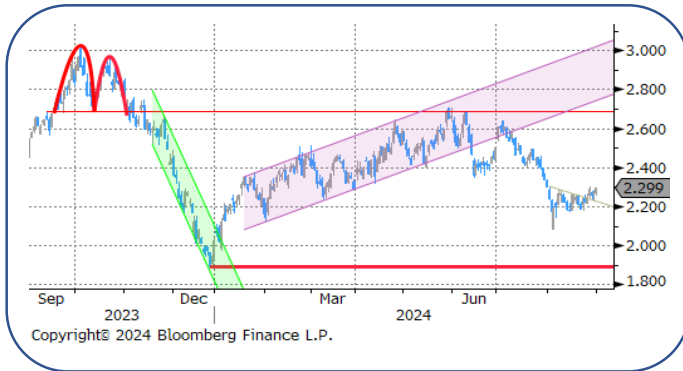
Markets

- European inflation figures and US PCE, spending & income data basically played second fiddle on Friday, triggering barely more than some intraday volatility in yields. Technical elements were at least as much of a driver. Support around the August lows was tested earlier last week. Their survival precluded a countermove higher, be it within the existing ST narrow sideways trading ranges. US yields finished between 2.3 (3-yr) and 5 bps (30-yr) higher. German rates added 2.2-3.4 bps across the curve. It's 10-yr tenor closed at the highest level since end-July. Oil prices abruptly tumbled below \$80 per barrel (Brent) on a report ran by Reuters that **OPEC+ is likely to go ahead with the planned output increases**. Lingering (Chinese) growth concerns had some in the market assuming the oil cartel would have changed tack. The price of oil extends its fall during Asian dealings to \$76.4. While driven by the contract roll as well, it does bring the August dip just north of \$75 back in focus. The sharp oil decline came with consequences for the likes of the Norwegian krone. EUR/NOK rebounded from a two-week low. USD was well bid. The trade-weighted index recovered for a third day straight, further leaving the 100.6 support area behind. DXY closed around 101.7. EUR/USD's three-day losing streak brought it back to the mid 1.10-1.11 area and USD/JPY topped 146. Sterling ended August's wild ride at virtually the same level where it started the month. EUR/GBP tested the 0.84 big figure before finishing slightly north of it.
- News this morning is very scarce and with an empty eco calendar and **US financial markets closed for Labour Day** that's probably not going to change anytime soon today. That suggests limited and rangebound technical trading. Reuters is running a story that **ECB policymakers are increasingly at odds on the outlook for growth and its impact on inflation**. The divide means there's no clear view on what to expect after the central bank will cut rates again in September. But that's for next week. **After a slow open today, the calendar does get a lot more interesting for markets**. The US August ISMs are due tomorrow (manufacturing) and Thursday (services), along with the JOLTS job openings and the Fed's Beige Book (Wednesday) and the payrolls report on Friday. Their releases are particularly critical for the size of this month's Fed cut. With what is currently already priced in further out, any downside surprise would have to be material enough for adding to those bets even more. We're instead especially interested in case of consensus-matching or slightly -beating outcomes.

News & Views

- The Czech Ministry of Finance on Saturday presented **a 2025 government budget that aims to reduce the budget deficit near 2.0% of GDP**. The proposal includes a reduction of the deficit to CZK 230 bln down from a CZK 252 bln target for this year. In preparing this budget, the government had to strike a balance between delivering on a promise to return to return to fiscal orthodoxy while at the same time committing funds for more investments, meeting the target of 2% spending on defensive and other social spending. In this respect, the budget raises spending by CZK 124.1 bln and income by 146.1 bln. **The government expects growth to reaccelerate to 2.7%** from an expected 1.1% this year. The government will debate the budget before **submitting a final version to Parliament by end-September**. One of the junior coalition partners (Pirates Party) already indicated that it could not accept lower funding to support new housing. The Czech Republic is scheduled to hold parliamentary elections next year.
- Regional elections in Thuringia and Saxony resulted in a big defeat for the parties of the three-party national government coalition** of Chancellor Olaf Scholz. In Thuringia, preliminary results indicate that the far-right Alternative for Germany (AfD) could reach as much as 33.2 % of the votes, with the CDU reaching 23.6%. In Saxony both parties are seen neck and neck with the CDU seen potentially winning 31.9% of the votes while the AfD might reach 30.6%. Also the left-wing populist party Sahra Wagenknecht Alliance (BSW) profited from the decline in support for the ruling parties of the national government, securing 15.8% of the votes in Thuringia and estimated to have gained 11.8% in Saxony. **The outcome of the elections will make it difficult to make coalitions on a regional level, but might also further pressure on the national government** (SPD, Greens, Free Democrats) as Germany is preparing for 2025 parliamentary elections.

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 1.12 was tested but survived. A (technical) dollar comeback then kicked in.



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. Recent better UK activity data and a cautious assessment of BoE's Bailey at Jackson Hole are pushing EUR/GBP lower in the 0.84/0.086 range.

Calendar & Table

Monday, 2 September		Consensus	Previous
Japan			
01:50	Capital Spending YoY (2Q)	7.40%A	6.80%
01:50	Capital Spending Ex Software YoY (2Q)	9.10%A	6.80%
01:50	Company Sales YoY (2Q)	3.50%A	2.30%
01:50	Company Profits YoY (2Q)	13.20%A	15.10%
02:30	Jibun Bank Japan PMI Mfg (Aug F)	49.8A	49.5
UK			
10:30	S&P Global UK Manufacturing PMI (Aug F)	52.5	52.5
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Aug F)	45.6	45.6
Italy			
09:45	HCOB Italy Manufacturing PMI (Aug)	48.5	47.4
10:00	GDP WDA QoQ/YoY (2Q F)	0.20%/0.90%	0.20%/0.90%
11:00	PPI MoM/YoY (Jul)	--/--	1.00%/-3.50%
China			
03:45	Caixin China PMI Mfg (Aug)	50.4A	49.8
Norway			
10:00	DNB/NIMA PMI Manufacturing (Aug)	--	56.9
Spain			
09:15	HCOB Spain Manufacturing PMI (Aug)	51.6	51
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Aug)	50.0	49.2
Events			
02SEP	US financial markets closed for Labor Day		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3.90	0.04	US	3.92	0.02	DOW	41563.08	228.03	
DE	2.30	0.02	DE	2.39	0.03	NASDAQ	17713.63	197.20	
BE	2.89	0.03	BE	2.55	0.04	NIKKEI	38729.56	81.81	
UK	4.02	0.00	UK	4.11	0.00	DAX	18906.92	-5.65	
JP	0.91	0.01	JP	0.37	0.00	DJ euro-50	4957.98	-8.29	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.55	3.52	3.93	€STR	3.6540	-0.0100			
5y	2.49	3.40	3.74	Euribor-1	3.5890	-0.0130	SOFR-1	5.1912	-0.0161
10y	2.54	3.44	3.69	Euribor-3	3.4900	-0.0150	SOFR-3	5.0141	-0.0133
				Euribor-6	3.3600	-0.0160	SOFR-6	4.7100	-0.0079
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1048	-0.0029	EUR/JPY	161.49	0.87	CRB	277.03	-2.85	
USD/JPY	146.17	1.18	EUR/GBP	0.8415	0.0002	Gold	2527.60	-32.70	
GBP/USD	1.3127	-0.0041	EUR/CHF	0.9390	0.0004	Brent	76.93	-1.89	
AUD/USD	0.6765	-0.0033	EUR/SEK	11.3516	0.0245				
USD/CAD	1.3492	0.0007	EUR/NOK	11.7225	0.0880				



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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