



Friday, 13 September 2024

KBC Sunrise Market Commentary

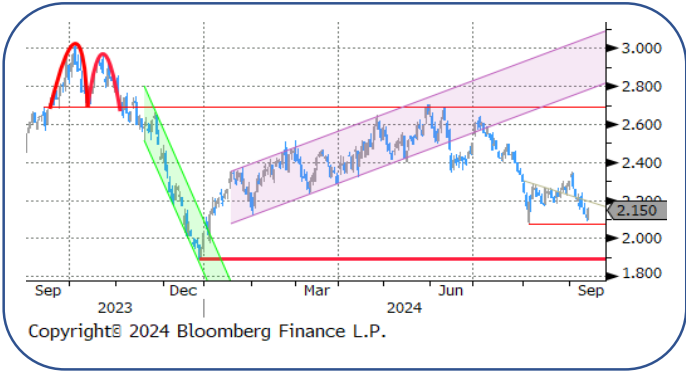
Markets

- The ECB cut its deposit rate by 25 bps to 3.5%** while narrowing the gap between the deposit rate and the main refinancing rate from 50 bps to 15 bps as flagged in March. New growth and inflation forecasts barely changed from June. The ECB plots the same 2.5%-2.2%-1.9% average inflation path for the 2024-2026 period while marginally downwardly revising the now 0.8%-1.3%-1.5% growth trajectory for the same period. ECB Lagarde offered no guidance for the remaining two policy meetings, but **a simple copy-paste from Q3 suggests skipping the October meeting to reduce key rates by 25 bps again when new growth/inflation forecasts are available.** The short, 5-week, intermeeting period to October 17 provides the ECB with only one additional PMI survey and CPI report. The ECB president also acknowledged that inflation dynamics would accelerate going into year-end because of energy-related base effects (huge drops in energy prices in Q4 2023). EMU money markets currently attach a 50 bps probability to an October rate cut which we don't expect to unfold. **German Bunds underperformed US Treasuries** yesterday as the ECB stuck to its very gradual approach. German yields rose by 3 bps (30-yr) to 7.3 bps (2-yr) while US yield changes ranged between -0.1 bp (2-yr) and +2.3 bps (30-yr). **Relative short term interest rate dynamics lifted EUR/USD away from the psychologic 1.10 barrier to a close at 1.1075.**
- US Treasuries rally overnight** with the front end of the curve outperforming. Placed (?) articles on the FT ("Fed wrestles with how aggressively to cut interest rates") and the WSJ ("The Fed's rate-cut dilemma: start big or small?") **reignite the debate which seemed to have been settled** in favour of a 25 bps rate cut after this week's upward core CPI surprise. US money markets are again completely split between 25 bps and 50 bps with US yields slipping 2.5 bps (30-yr) to 6.1 bps (2-yr) this morning. While the content of the articles shows arguments for both cases, it's the timing that matters (in blackout period with markets positioned at 25 bps). **We still favour a 50-50-50 scenario for the September-November-December meetings.** USD loses more ground this morning with the trade-weighted dollar at risk of slipping below 101 and testing important support around 100.50.

News & Views

- The UK's Office for Budget Responsibility (OBR)** yesterday issued its annually updated Fiscal Risks and Sustainability Report. It painted a dire long-term future for the country's public finances, **warning that debt will nearly triple from below 100% (relative to GDP) this year to over 270% in 50 years in a situation of no policy changes.** The OBR said that higher spending on healthcare, pensions, the climate transition and interest costs combined with falling revenue from fuel duties will **drive borrowing substantially higher.** In the first decades of the 50 year forecasts, its especially the ageing population that drives up spending, with spiraling costs causing **a snowball effect on debt interest.** The fiscal watchdog estimates that this would result in a 19 ppt increase in the budget deficit between 2028-29 and 2073-74, with some 8.5 ppts of that rise attributed to higher interest costs. Health and pensioner spending add another 9.9 ppts. **The gloomy report also dived into the matter of productivity growth.** The OBR admitted in November last year that it has consistently been overoptimistic on potential productivity, producing economic and fiscal forecast errors. The baseline scenario assumes 1.5% productivity growth in the long term. But in an alternative scenario debt to GDP could rise to +/- 650% if productivity would only rise by 0.5%, slightly below the post-GFC 2010-2019 average.
- The Indian central bank governor Shaktikanta Das signaled he's in no rush to lower interest rates even as inflation has re-entered the 2-6% target range since September of last year.** Das this morning said while that is the case, their target is 4%. Inflation over the past two months have dipped below that figure. August CPI released yesterday came in at 3.65% but that was largely due to statistical reasons. Das said that the central bank **should not get carried away by these dips in inflation and warned against premature cuts** given worries over food costs, even as last quarter's growth dip to 6.7% raised the pressure somewhat. The RBI has been keeping **rates steady for more than 18 months straight now.** The weak Indian rupee is another reason to be cautious with the easing cycle. While strengthening a tad against the USD (USD/INR 83.93) this morning, the currency still trades just inches away from the record lows.

Graphs



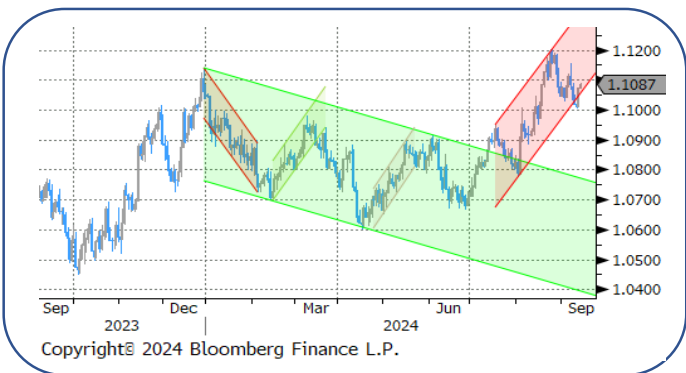
GE 10y yield

The ECB cut policy rates by 25 bps in June and in September. Stubborn inflation (core, services) make follow-up moves less evident. We expect the central bank to stick with the quarterly reduction pace. Disappointing US and unconvincing EMU activity data dragged 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. The pivot weakened the technical picture in US yields. A string of weak eco data and a risk-off market climate pushed and kept the 10-yr sub 4%. We think we could be up to three 50 bps rate cuts this year.



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 rate cuts trumped traditional safe haven flows into USD. EUR/USD 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. 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

Friday, 13 September		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Aug)	-0.20%/0.90%	0.10%/1.60%
14:30	Import Price Index ex Petroleum MoM (Aug)	0.20%	0.20%
14:30	Export Price Index MoM/YoY (Aug)	-0.20%/1.40%	0.70%/1.40%
16:00	U. of Mich. Sentiment (Sep P)	68.5	67.9
16:00	U. of Mich. Current Conditions (Sep P)	61.6	61.3
16:00	U. of Mich. Expectations (Sep P)	72.2	72.1
16:00	U. of Mich. 1 Yr Inflation (Sep P)	2.80%	2.80%
16:00	U. of Mich. 5-10 Yr Inflation (Sep P)	3.00%	3.00%
UK			
10:30	BoE/Ipsos Inflation Next 12 Mths (Aug)	--	2.80%
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Jul)	-0.30%/-2.30%	-0.10%/-3.90%
Events			
10:30	ECB's Rehn Speaks in Helsinki		
11:30	ECB President Christine Lagarde Speaks in Budapest		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3.67	0.02	US	3.64	0.00	DOW	41096.77	235.06	
DE	2.15	0.04	DE	2.23	0.07	NASDAQ	17569.68	174.15	
BE	2.75	0.03	BE	2.38	0.05	NIKKEI	36609.87	-223.40	
UK	3.78	0.02	UK	3.82	0.03	DAX	18518.39	188.12	
JP	0.85	-0.02	JP	0.39	0.00	DJ euro-50	4814.08	50.50	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.37	3.25	3.64	€STR	3.6640	0.0000			
5y	2.34	3.15	3.46	Euribor-1	3.4360	-0.0080	SOFR-1	5.0587	-0.0705
10y	2.41	3.21	3.45	Euribor-3	3.4810	0.0140	SOFR-3	4.9060	-0.0745
				Euribor-6	3.2650	-0.0110	SOFR-6	4.5393	-0.0766
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1074	0.0062	EUR/JPY	157.07	0.29	CRB	272.99	3.63	
USD/JPY	141.82	-0.54	EUR/GBP	0.8438	-0.0006	Gold	2580.60	38.20	
GBP/USD	1.3124	0.0081	EUR/CHF	0.9426	0.0040	Brent	71.97	1.36	
AUD/USD	0.6722	0.0048	EUR/SEK	11.3902	-0.0506				
USD/CAD	1.358	0.0005	EUR/NOK	11.8701	-0.0800				

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