



Wednesday, 18 September 2024

## KBC Sunrise Market Commentary

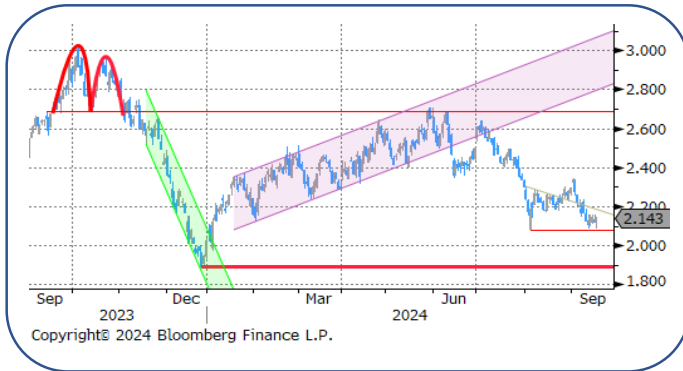
### Markets

- August US retail sales** were supposed to provide final input yesterday as investors concluded their positioning going into today's Fed policy decision. Overall the report was **marginally stronger than expected** (headline sales +0.1% vs -0.2% expected after a strong upwardly revised 1.1% in July, core control group sales 0.3% M/M as expected but July upwardly revised to 0.4%). It is very unlikely that it will have a material impact on the Fed's decision making. Still, **the report provided somewhat of a trigger for some investors to take profit on Fed-easing bets after the recent protracted rally**. US yields rebounded between 5.4 bps (5 2-y) and 2.8 bps (10-y). Markets still see a 60% chance for the Fed to start with a 50 bps step this evening. **German yields** in sympathy followed a similar trajectory (2-y +4.4 bps, 30-y -0.2 bps). **The Dow (-0.04%) and the S&P 500 (+0.03%) touched new intraday record levels early in the session, but gains could not be sustained**. Intraday dynamics in yields (modest rebound) and equities (correcting off the highs) **also kept the dollar away from nearby support levels**. DXY closed at 100.89 (vs key support at 100.51). EUR/USD stalled ahead of the 1.1155 intermediate resistance (close 1.1114). USD/JPY rebounded from 140.6 to 142.4. Oil still tries to develop a bottoming out process of the sharp decline earlier this month (Brent \$73.25 p/b).
- Markets will finally get the Fed verdict today**. We prefer a scenario of Powell and co **starting with a substantial reduction of policy restriction** (50 bps) to avoid an unnecessary weakening of the labour market. Current high policy yield levels allow to do so. It still leaves the Fed the option to make a revaluation on both inflation and growth with the policy rate above neutral (end this year/early next year). In this scenario, an assumed additional cumulative 75 bps of easing signaled in the median **dot plot** for the remainder of the year **might still support recent dynamics of markets staying asymmetrically sensitive to softer than expected activity/labour market data**. The message from the dots for 2025 might be much less aggressive than what markets are currently discounting, but it's probably too early as a driver for markets in the near term. In this context we also stay **cautious on the dollar**.
- This morning's **UK August CPI data also brought tomorrow's BoE policy decision back in the spotlights**. The report was **perfectly in line with expectations**. Headline inflation printed at 0.3% M/M and 2.2% Y/Y (unchanged from July). Core inflation rose 0.5% M/M and 3.6% Y/Y (from 3.3%). Services inflation also stays elevated at 0.4% M/M and 5.6% Y/Y (from 5.2%). Especially the monthly dynamics in core and services inflation indicates that there is **little reason for the BoE already to take another advance on easing inflation after the August 01 in augural rate cut**. Sterling strengthens from EUR/GBP 0.845 to 0.844 in a first reaction after the release.

### News & Views

- Andrius Kubilius**, former prime minister of Lithuania and **the EU's first-ever defense chief**, said that **the EU can't wait until the next 7-yr budget in 2028 to increase its defense spending**. While that's still a national authority, he wants to support the fragmented industrial military base. **He suggested exploring the option of issuing joint bonds to raise an additional €500bn or to tap the bloc's bailout fund or use unspent money from the Recovery and Resilience Facility**. The debate on issuing more mutual (EU) debt is gaining again more and more momentum since Mario Draghi published his report on competitiveness.
- The **Bank of France left its growth forecast for next year unchanged at 1.2% and slightly lowered the 2025 prognosis to 1.5% from 1.6%**. Governor Villeroy said that the French economy is recovering from the acute illness of the last two years: inflation. Now we must treat our **two chronic illnesses of too much debt and not enough growth**, he added. The national bank lowered its average inflation forecast for next year from 1.7% in June to 1.5%, mainly due to weaker electricity prices. Inflation is set to average 2.5% this year.

# Graphs



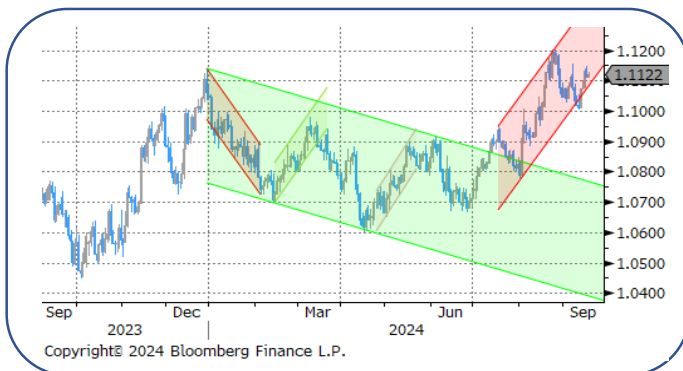
## GE 10y yield

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 economic 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

Wednesday, 18 September		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	1.40%
14:30	Building Permits Total/MoM (Aug)	1410k/1.00%	1396k/-3.30%R
14:30	Housing Starts Total/MoM (Aug)	1318k/6.50%	1238k/-6.80%
<b>20:00</b>	<b>FOMC Rate Decision</b>	<b>5.00%/5.25%</b>	<b>5.25%/5.50%</b>
22:00	Net Long-term TIC Flows (Jul)	--	\$96.1b
<b>Japan</b>			
01:50	Trade Balance Adjusted (Aug)	-¥595.9bA	-¥7677.3bR
01:50	Exports YoY (Aug)	5.60%A	10.20%R
01:50	Imports YoY (Aug)	2.30%A	16.60%
01:50	Core Machine Orders MoM/YoY (Jul)	-0.10%A/8.70%A	2.10%/-1.70%
<b>UK</b>			
<b>08:00</b>	<b>CPI MoM/YoY (Aug)</b>	<b>0.30%/2.20%</b>	<b>-0.20%/2.20%</b>
<b>08:00</b>	<b>CPI Core YoY (Aug)</b>	<b>3.60%</b>	<b>3.30%</b>
08:00	CPI Services YoY (Aug)	5.60%	5.20%
08:00	CPIH YoY (Aug)	3.10%	3.10%
08:00	RPI MoM/YoY (Aug)	0.50%/3.40%	0.10%/3.60%
08:00	RPI Ex Mort Int.Payments (YoY) (Aug)	2.70%	2.70%
08:00	PPI Output NSA MoM/YoY (Aug)	0.00%/0.50%	0.00%/0.80%
08:00	PPI Input NSA MoM/YoY (Aug)	-0.30%/-0.80%	-0.10%/0.40%
10:30	House Price Index YoY (Jul)	--	2.70%
<b>EMU</b>			
11:00	CPI MoM/YoY (Aug F)	0.20%/2.20%	0.20%/2.20%
11:00	CPI Core YoY (Aug F)	2.80%	2.80%
<b>Sweden</b>			
08:00	Unemployment Rate SA (Aug)	--	8.60%
<b>Events</b>			
01:20	RBA's Jones-Speech		
<b>09:00</b>	<b>ECB's Holzmann Speaks at Vienna Conference</b>		
09:15	ECB's Vujcic Speaks at Vienna Conference		
11:30	Germany to Sell Bonds		
<b>13:00</b>	<b>ECB's Nagel Speaks in Frankfurt</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,65	0,03		US	3,60	0,05	DOW	41606,18	-15,90
DE	2,14	0,02		DE	2,23	0,04	NASDAQ	17628,06	35,93
BE	2,74	0,02		BE	2,37	0,04	NIKKEI	36349,62	146,40
UK	3,77	0,01		UK	3,82	0,04	DAX	18726,08	92,97
JP	0,83	0,00		JP	0,38	-0,01	DJ euro-50	4860,78	33,15
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,36	3,25	3,60	€STR	3,6650	0,0030			
5y	2,32	3,15	3,44	Euribor-1	3,4140	0,0020	SOFR-1	4,9626	-0,0026
10y	2,40	3,19	3,43	Euribor-3	3,4800	-0,0080	SOFR-3	4,8226	0,0074
				Euribor-6	3,2680	-0,0170	SOFR-6	4,4578	0,0232
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1114	-0,0019		EUR/JPY	158,27	1,73	CRB	278,66	1,80
USD/JPY	142,41	1,79		EUR/GBP	0,8444	0,0021	Gold	2592,40	-16,50
GBP/USD	1,3161	-0,0055		EUR/CHF	0,9415	0,0011	Brent	73,70	0,95
AUD/USD	0,6756	0,0004		EUR/SEK	11,3253	0,0010			
USD/CAD	1,3598	0,0011		EUR/NOK	11,791	0,0017			

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