



Wednesday, 25 September 2024

## KBC Sunrise Market Commentary

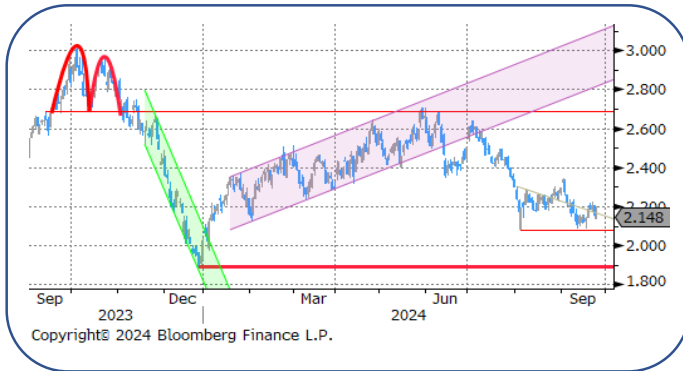
### Markets

- China's stimulus announcement **impacted all corners of the market**. Hopes for a revival of the 2<sup>nd</sup> largest economy lifted commodity prices. Oil & iron prices both added around 2%. Equities rose with Europe's EuroStoxx50 adding 1.1%. Wall Street had to digest an unexpected and sharp drop in the Richmond manufacturing index & US consumer confidence first before ending up with new record highs in both the DJI and S&P500. The Conference Board indicator dropped from 105.6 to 98.7, nearing the 2024 lows again. The current assessment deteriorated significantly, tanking 10 points to the weakest level since 2021. The expectations component eased to 81.7, from 86.3. **The data releases called off the intraday rise of US yields**. Gains of as much as 6 bps (10-yr) made way for net daily losses varying between -0.8 (30-yr) and -4.9 (2-yr) bps with a successful \$69bn 2-yr bond auction additionally weighing on front-end yields. European rates fell in a similar curve shift. Both the swap and German 2-yr rate dropped to new YtD lows. Currency markets moves were guided by risk-on as well. JPY and USD lagged G10 peers. The trade-weighted dollar index finished below the previous YtD closing levels (100.46). EUR/USD shrugged off Monday PMI losses and closed at the highest level since end-August (1.118). AUD, NZD, SEK and NOK all printed decent gains. Sterling caught a breather against the euro after a stellar run on Monday but extended gains against the USD (GBP/USD +1.34).
- The China-sparked Asian bull run continues this morning with the CSI300 adding another 2%. The PBOC lowered the rate of its 1-yr lending facility by the most since 2016 (-30 bps to 2%), kickstarting the implementation of the measures announced on Tuesday. China's yuan gapped higher to USD/CNY 7.016. We doubt whether it'll suffice for European and US markets this time around though. The empty eco calendar won't interrupt today's technically inspired trading session. We're eyeballing the front end of the yield curve in particular. **Money markets ramp up easing bets, especially for the ECB**. While we don't agree with growing market conviction of an October cut (+60%), it'll be difficult to turn the tide for now without influential policymakers such as Lagarde weighing in on the debate. EUR/USD is close to the 1.1202 resistance. A break higher probably requires additional USD weakness and would pave the way for a return to the 2023 high of 1.1276.

### News & Views

- In its updated 2024 World Oil Outlook through 2050, OPEC sees an **ongoing need for more energy as economies grow, populations expand and urbanization levels increase**. OPEC states that 'Global energy demand in this year's WOO is set to **expand by 24%** in the period to 2050, driven by significant expansion in the non-OECD region. The Outlook sees the need for an **expansion in all energy sources, with the exception of coal**. For oil alone, we see **demand reaching over 120 million barrels a day by 2050**, with the potential for it to be higher. There is no peak oil demand on the horizon'. OPEC holds a different view compared to many other forecasters like the IEA which see oil demand peaking much earlier. OPEC expects **oil and gas to still make up for over 50% of the energy mix in 2025**. To meet demand OPEC raised the number of needed investments to \$17.4 bn by 2050.
- The National bank of Hungary after a pause last month cut its policy rate again by 25 bps to 6.5%**. Inflation in August (3.4%) declined back in the MNB tolerance band of 3% +/- 1%, even as this was mainly due to lower fuel prices and base effects. **Disinflation in market services was rather slow**. MNB expects inflation to fall further in September, but to rise again to 4.0% by the end of the year. Core inflation might return to 5% end 2024. Disinflation should nonetheless continue in Q1 2025. MNB sees inflation averaging between 3.5% and 3.9% this year, 2.7%-3.5% in 2025 and 2.5%-3.5% in 2026. Growth for this and next year was downwardly revised (1.0%-1.8% & 2.7%-3.7%). 2026 was upwardly revised to 3.5%-4.5%. **Vice governor Virag said the MNB will consider small cuts as well as the option to hold at each of the remaining monthly meetings this year**, which can be seen as a slightly more dovish stance compared to last month (one or two rate cuts this year). The Hungarian 2-y swap yield declined 4.5 bps to 5.52%. The forint whipsawed at the time of the press conference, but in the end closed marginally stronger near EUR/HFU 394.3.

# 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-to-outright-weak 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 kicked off its easing cycle with a 50 bps move. It is headed towards a neutral stance now that inflation and employment risks are in balance. Conservative SEP unemployment forecasts risk being caught up by reality and with it the dot plot (50 bps more cuts in 2024). We hold our call for two more 50 bps cuts this year. Pressure on the front of the curve and weakening eco data keeps the long end in the defensive for now as well.



## 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. An ailing euro(pean economy) only briefly offset some of the general USD weakness. EUR/USD's dollar-driven ascent is nearing resistance around 1.12 again.



## 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. But the economic picture is increasingly diverging to the benefit of sterling. EUR/GBP succumbed to horrible European September PMI's. Support at 0.84 broke and brings the 2022 low (0.8203) on the radar.

# Calendar & Table

Wednesday, 25 September		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	14.20%
16:00	New Home Sales MoM/Total (Aug)	-5.30%/700k	10.60%/739k
<b>Japan</b>			
01:50	PPI Services YoY (Aug)	2.70%A	2.70%R
07:30	Nationwide Dept Sales YoY (Aug)	--	5.50%
<b>France</b>			
08:45	Consumer Confidence (Sep)	92	92
<b>China</b>			
03:20	1-Yr Medium-Term Lending Facility Rate	2.00%A	2.30%
<b>Czech Republic</b>			
14:30	Repurchase Rate	4.25%	4.50%
<b>Sweden</b>			
09:30	Riksbank Policy Rate	3.25%	3.50%
<b>Events</b>			
11:00	OECD Publishes Interim Economic Outlook		
11:30	Germany to Sell EU3 Billion of 2.4% 2030 Bonds		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		
22:00	Fed's Kugler Speaks on Eco Outlook at Harvard Kennedy School		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3.73	-0.02	US	3.54	-0.05	DOW	42208.22	83.57	
DE	2.15	-0.01	DE	2.10	-0.05	NASDAQ	18074.52	100.25	
BE	2.77	-0.01	BE	2.26	-0.05	NIKKEI	37957.49	16.90	
UK	3.94	0.02	UK	3.92	0.00	DAX	18996.63	149.84	
JP	0.82	0.00	JP	0.35	0.00	DJ euro-50	4940.72	55.15	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.25	3.21	3.67	€STR	3.4150	0.0010			
5y	2.26	3.17	3.55	Euribor-1	3.3580	0.0120	SOFR-1	4.8570	-0.0006
10y	2.40	3.27	3.57	Euribor-3	3.4020	-0.0290	SOFR-3	4.6382	-0.0176
				Euribor-6	3.1960	-0.0160	SOFR-6	4.2710	-0.0407
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1180	0.0069	EUR/JPY	160.12	0.55	CRB	287.59	3.46	
USD/JPY	143.23	-0.38	EUR/GBP	0.8335	0.0011	Gold	2677.00	24.50	
GBP/USD	1.3413	0.0066	EUR/CHF	0.9428	0.0011	Brent	75.17	1.27	
AUD/USD	0.6892	0.0054	EUR/SEK	11.2878	-0.0403				
USD/CAD	1.3431	-0.0110	EUR/NOK	11.6305	-0.0259				

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