KBC Economics – Markets, Havenlaan 2, 1080 Brussel

Friday, 27 September 2024

KBC Sunrise Market Commentary

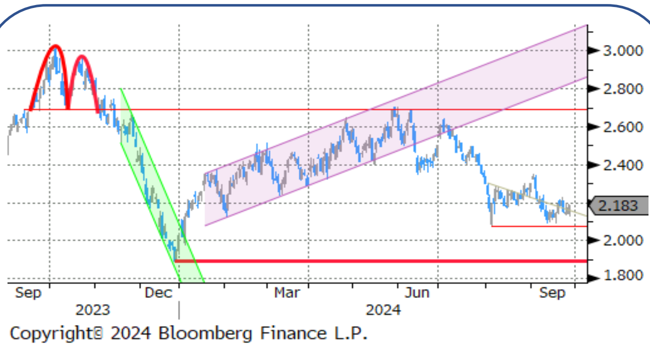
Markets

- A rising tide lifts all boats. Or in this case, **a rising Chinese stock market lifts global risk sentiment.** More fiscal spending, measures to stabilize the property sector, potential capital injections in the largest banks and forceful rate cuts are now also part of the toolkit announced earlier this week. **European stock markets closed up to 2.35% (!) higher for the Eurostoxx50** with main US benchmarks extending their record race (+0.4%-0.6%) though closing off the day's best levels. Most Asian stock markets show signs of some consolidation this morning, apart from **China which adds another 5%-7% to an already record-week.**
- **US eco data** included a minor upward revision in the final Q2 print (3% Q/Qa), but especially consensus-beating durable goods orders (August) and lower weekly jobless claims (218k). Although second tier and coming ahead of PCE deflators (today) and ISM's, ADP employment change and payrolls (next week) they did manage **to swing the November Fed pendulum more into balance between a 25 bps and a 50 bps rate cut.** Changes on the US yield curve ranged between +7 bps (2-yr) and -0.9 bps (30-yr). **Lower oil prices** partly help explain the strong curve shift with Brent crude prices dropping from $75/b to $71/b over the past two days. The move is linked to talk that **Saudi Arabia** is ready to abandon its unofficial $100/b oil price target. The FT reported that they would boost output from December 1st **to regain market share. Bullish risk sentiment and lower oil prices balanced out interest rate support for the dollar.** The greenback was going nowhere for most of the session and even lost some ground in the final stages of US trading. EUR/USD closed at 1.1177 from a start at 1.1133.
- Today's agenda contains **first national European CPI indications** for September (France, Spain, Belgium). Together with already released awful September PMI's, they are the only input for the ECB in the short intermeeting period between September and October. PMI brough the possibility of a 25 bps rate cut back on the radar from a market point of view. We're still in favour of a pause. **When it comes to inflation numbers, ECB Lagarde at the press conference already "hedged" today and next month's numbers** by saying that they could fall somewhat further now before ticking up into year-end as energy-related base effects turn around. We'd be surprised though if markets pick up that nuance today, suggesting that lower inflation numbers could add to short term easing bets. **Any potential euro weakness should remain short-lived going into next week's big US eco week.**

News & Views

- **Tokyo core inflation excluding fresh food printed at 2% Y/Y (from 2.4%) this month,** matching the BoJ target. This move was mainly due to a reinstalment of measures to ease the cost of utilities (gas and electricity). The government measures are estimated to have reduced inflation by about 0.5%. **A more strict core measure, excluding fresh food and energy was unchanged at 1.6%.** Tokyo CPI data are seen as a good pointer for the national figure that will be released later next month. **The October CPI reports are more important for BoJ policy setting** as they might include price adjustments at the start of the fiscal second half of the year and give an indication on the degree that corporates are passing through the cost of higher wages. The Japanese yen didn't respond to the inflation data, but suffered a setback (USD/JPY 146.50 from 145) after **BoJ easing advocate Takaichi made it to the LDP leadership contest runoff (facing Ishiba).**
- **The Bank of Mexico for the second consecutive meeting lowered its policy rate by 25 bps to 10.50%.** Vice governor Jonathan Heath vote for an unchanged decision. The bank was mildly constructive in the inflation outlook going forward. Annual headline inflation decreased from 5.57% in July to 4.66% in the first fortnight of September. Core inflation continued trending downwards(3.95% Y/Y). It estimated that, **although the outlook for inflation still calls for a restrictive monetary policy stance, its evolution implies that it is adequate to reduce the level of monetary restriction.** The forecasts for headline and core inflation were revised slightly downwards for some quarters in the short term. Headline inflation is still expected to converge to the target in the fourth quarter of 2025. The Mexican CB targets 3.0% +/- a 1.0% tolerance band. The Mexican peso which traded in the defensive since April but came off the early September lows recently, closed yesterday's session little changed near USD/MXN 19.63.

Graphs

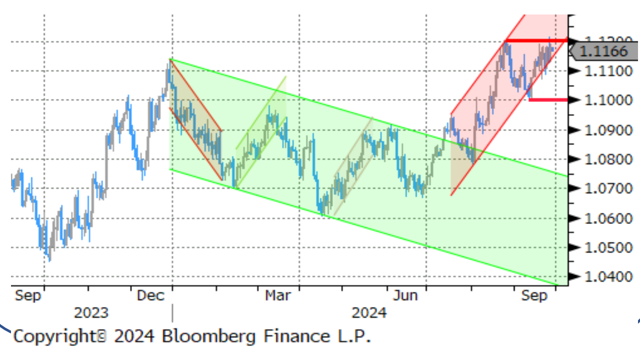


GE 10y yield

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

Friday, 27 September		Consensus	Previous
US			
14:30	Personal Income (Aug)	0.40%	0.30%
14:30	Personal Spending (Aug)	0.30%	0.50%
14:30	Real Personal Spending (Aug)	0.1%	0.40%
14:30	**PCE Price Index MoM/YoY (Aug)**	**0.10%/2.30%**	**0.20%/2.50%**
14:30	Core PCE Price Index MoM/YoY (Aug)	0.20%/2.70%	0.20%/2.60%
16:00	U. of Mich. Sentiment (Sep F)	69.4	69
17:00	Kansas City Fed Services Activity (Sep)	--	5
Japan			
01:30	**Tokyo CPI YoY (Sep)**	**A: 2.20%**	**2.60%**
01:30	Tokyo CPI Ex-Fresh Food YoY (Sep)	A: 2.00%	2.40%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Sep)	A: 1.60%	1.60%
UK			
12:00	CBI Total Dist. Reported Sales (Sep)	--	-20
12:00	CBI Retailing Reported Sales (Sep)	-18	-27
EMU			
10:00	ECB 1 Year CPI Expectations (Aug)	2.70%	2.80%
10:00	ECB 3 Year CPI Expectations (Aug)	2.30%	2.40%
11:00	Consumer Confidence (Sep F)	--	--
11:00	Services Confidence (Sep)	6.1	6.3
11:00	Industrial Confidence (Sep)	-9.9	-9.7
11:00	**Economic Confidence (Sep)**	**96.5**	**96.6**
Germany			
09:55	Unemployment Change (000's) (Sep)	13.5k	2.0k
09:55	Unemployment Claims Rate SA (Sep)	6.00%	6.00%
France			
08:45	Consumer Spending MoM/YoY (Aug)	-0.1%/-0.6%	0.30%/-0.60%
08:45	**CPI EU Harmonized MoM/YoY (Sep P)**	**-0.80%/1.90%**	**0.60%/2.20%**
08:45	CPI MoM/YoY (Sep P)	-0.70%/1.60%	0.50%/1.80%
08:45	PPI MoM/YoY (Aug)	--/--	0.20%/-5.40%
Italy			
10:00	Industrial Sales MoM/WDA YoY (Jul)	--/--	0.10%/-3.70%
11:00	PPI MoM/YoY (Aug)	--/--	2.00%/-1.60%
Belgium			
27SEP	**CPI MoM/YoY (Sep)**	**--/--**	**0.00%/2.86%**
Norway			
08:00	Retail Sales W/Auto Fuel MoM (Aug)	--	1.20%
10:00	Unemployment Rate SA (Sep)	--	2.00%
Spain			
09:00	CPI MoM/YoY (Sep P)	--/--	0.00%/2.30%
09:00	CPI Core YoY (Sep P)	--	2.70%
09:00	**CPI EU Harmonised MoM/YoY (Sep P)**	**--/--**	**0.00%/2.40%**
Events			
09:15	ECB's Rehn Speaks		
10:15	**ECB's Lane Speaks**		
11:40	ECB's Cipollone Speaks on CBDCs in Vienna		
13:15	ECB's Nagel Speaks		
15:30	Fed's Collins, Kugler Travel to Fitchburg, Mass.		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,80	0,01		US	3,63	0,07	DOW	42175,11	260,36
DE	2,18	0,01		DE	2,13	0,01	NASDAQ	18190,29	108,08
BE	2,83	0,01		BE	2,27	0,01	NIKKEI	39625,88	700,25
UK	4,01	0,02		UK	3,96	0,00	DAX	19238,36	319,86
JP	0,81	-0,02		JP	0,32	-0,03	DJ euro-50	5032,59	115,70
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,28	3,31	3,76	€STR	3,4150	-0,0010			
5y	2,29	3,26	3,64	Euribor-1	3,3780	0,0030	SOFR-1	4,8470	-0,0021
10y	2,42	3,33	3,66	Euribor-3	3,3450	-0,0070	SOFR-3	4,6155	-0,0100
				Euribor-6	3,1620	0,0070	SOFR-6	4,2876	0,0107
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1177	0,0044		EUR/JPY	161,86	0,70	CRB	284,63	-1,53
USD/JPY	144,81	0,06		EUR/GBP	0,8332	-0,0024	Gold	2694,90	10,20
GBP/USD	1,3415	0,0091		EUR/CHF	0,9457	-0,0010	Brent	71,60	-1,86
AUD/USD	0,6896	0,0073		EUR/SEK	11,3028	-0,0368			
USD/CAD	1,3465	-0,0020		EUR/NOK	11,7703	0,0003			

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