



Tuesday, 01 October 2024

KBC Sunrise Market Commentary

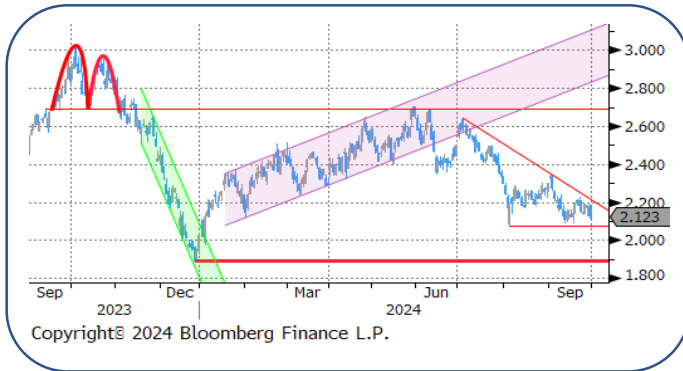
Markets

- Fed Chair Powell implicitly defended the base case as set out in the updated September dot plot.** This year's median suggested an additional 50 bps of cumulative Fed rate cuts, being 25 bps in November and 25 bps in December with the Fed taking its time after the bumper liftoff. **Powell indicated that the economy is in a solid shape.** If it performs as expected that would mean two more (25 bps) cuts this year. The committee **isn't in a hurry to cut rates quickly.** With two economic updates and one inflation print between now and the next, November 7, policy meeting, Powell nevertheless **kept his options open.** *"Ultimately we will be guided by the incoming data. And if the economy slows more than we expect, then we can cut faster. If it slows less than we expect, we can cut slower."* The market implied probability of a 50 bps November step dropped from 50% to 37% in the wake of the comments (EUR/USD bumped again into 1.12 resistance), but **we expect more and wilder swings to come.** Starting this week, but likely lasting throughout the month as we fear that **the debate won't be settled any time soon.** We stick to our 50 bps rate cut call. The September Chicago PMI kicked off this week's flurry of eco data with a near consensus print (46.6 from 46.1 vs 46 expected). Things become more interesting today with **JOLTS job openings and the manufacturing ISM.** The first is on a steady decline since hitting peak levels in Q1 2022. A continuation could bring JOLTS for the first time below the pre-pandemic peak (7.6mn) and raise more questions about the shape of the labour market. The second is mired in recession territory since Q4 2022 with no signs of revival expected. **The combination of the both can immediately contrast with Powell's baseline scenario as set out yesterday.** The start of the first East and Gulf port strikes since 1977 as dockworkers contracts' expired without new deal are **a wildcard for trading.** The longer the shutdown takes, the bigger the negative impact on the economy but also the higher the impact on prices. Port employers raised their offer from a 40% to 50% increase over six years, but unions stand by their demands for a 77% pay bump as condition to restart negotiations.
- Today's **EMU September CPI** print is especially interesting for **core CPI and services CPI metrics** as ECB President Lagarde yesterday suggested that she also sees a downward trend (in core) with services inflation beginning to abate. She will take increased disinflation confidence into stride at the October policy meeting while the suppressed level of some survey indicators suggests that the recovery is facing headwinds. **Both boost chances that the ECB could pull the trigger in October.** We keep a close eye on **speeches by individual ECB members** as well to see whether everybody's on the same line as the ECB president.

News & Views

- Japan's Tankan survey signaled a strong business sentiment in Q3, especially in services.** The non-manufacturing gauge polling for current conditions unexpectedly rose to 34, matching the March top which was the highest in 33 years. Its outlook gauge grinded higher to a 33-year high as well, though came in a bit below estimates (28 vs 30, from 27). Manufacturing stabilized at the Q2 levels of 13 (current conditions) and 14 (outlook), defying expectations for a slight decline to 12 of the both. Industries across the spectrum plan to increase investments by 10.6% in the fiscal year ending March 2025. That's slightly less than the 11.1% in Q2 and below a 11.9% consensus estimate. **Businesses expect CPI inflation at 2.2% in five years' time,** the same as in the previous edition and above the Bank of Japan's 2% target. The combination with solid business sentiment effectively **greenlights further monetary policy normalization.** Another rate hike isn't priced in by markets before January of next year though. JPY loses some ground today (USD/JPY 144.3) but that had to do with the release of **relatively dovish BoJ September Minutes.**
- Australian retail sales rose 0.7% in August,** picking up from a near-flat 0.1% in July. Head of business statistics at the Australian Bureau of Statistics Ewing attributed the solid rise to **warmer-than-usual weather.** Retail turnover rose in most industries with department stores in the non-food segment showing the largest rise (+1.6%), followed by clothing, footwear and personal accessory retailing (1.5%) and other retailing (1.3%). The warmer end to the winter months also boosted dining out at cafes and restaurants as well as alcohol consumption at home. The Aussie dollar gains some territory this morning in the wake of the release. AUD/USD is testing recent highs around 0.693.

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

Tuesday, 1 October		Consensus	Previous
US			
	Wards Total Vehicle Sales (Sep)	15.68m	15.13m
15:45	S&P Global US Manufacturing PMI (Sep F)	47.0	47.0
16:00	Construction Spending MoM (Aug)	0.20%	-0.30%
16:00	JOLTS Job Openings (Aug)	7673k	7673k
16:00	ISM Manufacturing (Sep)	47.5	47.2
16:00	ISM Prices Paid (Sep)	53.5	54
16:00	ISM New Orders (Sep)	--	44.6
16:00	ISM Employment (Sep)	--	46
Japan			
01:30	Jobless Rate (Aug)	2.50%A	2.70%
01:30	Job-To-Applicant Ratio (Aug)	1.23A	1.24
01:50	Tankan Large Mfg Index / Outlook (3Q)	13A/14A	13/14
01:50	Tankan Large Non-Mfg Index / Outlook (3Q)	34A/28A	33/27
01:50	Tankan Large All Industry Capex (3Q)	10.60%A	11.10%
01:50	Tankan Small Mfg Index / Outlook (3Q)	0A/0A	-1/0
01:50	Tankan Small Non-Mfg Index / Outlook (3Q)	14A/11A	12/8
UK			
01:01	BRC Shop Price Index YoY (Sep)	-0.60%A	-0.30%
10:30	S&P Global UK Manufacturing PMI (Sep F)	51.5	51.5
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Sep F)	44.8	44.8
11:00	CPI Estimate MoM / YoY (Sep)	0.00%/1.80%	0.10%/2.20%
11:00	CPI Core YoY (Sep P)	2.70%	2.80%
Events			
09:00	ECB's Guindos Speaks in Frankfurt		
09:00	ECB's Nagel Speaks at Bundesbank Conference		
09:30	Riksbank minutes from September meeting published		
10:00	ECB's Rehn Speaks on Monetary Policy at Bank of Finland		
11:30	Germany to sell €4bn 2.5% 2029 Bonds		
16:00	BOE's Huw Pill Speaks		
17:00	Fed's Bostic Gives Opening Remarks		
17:10	Fed's Bostic Moderates Conversation with Lisa Cook		
17:15	SNB's Schlegel Speaks in Bellinzona		
17:30	ECB's Schnabel Chairs Panel in Frankfurt		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.78	0.03		US	3.64	0.08	DOW	42330.15	17.15
DE	2.12	-0.01		DE	2.07	-0.01	NASDAQ	18189.17	69.58
BE	2.75	-0.01		BE	2.21	0.00	NIKKEI	38635.82	716.27
UK	4.00	0.03		UK	3.98	0.04	DAX	19324.93	-148.70
JP	0.86	0.00		JP	0.39	0.00	DJ euro-50	5000.45	-67.00
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.22	3.31	3.75	€STR	3.4100	-0.0050			
5y	2.21	3.25	3.62	Euribor-1	3.3530	-0.0120	SOFR-1	4.8563	0.0102
10y	2.35	3.32	3.62	Euribor-3	3.2790	-0.0470	SOFR-3	4.6284	0.0349
				Euribor-6	3.1050	-0.0470	SOFR-6	4.3130	0.0611
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1135	-0.0027		EUR/JPY	159.94	1.15	CRB	284.94	-1.00
USD/JPY	143.63	1.42		EUR/GBP	0.8325	-0.0022	Gold	2659.40	-8.70
GBP/USD	1.3375	0.0001		EUR/CHF	0.9416	0.0032	Brent	71.70	0.16
AUD/USD	0.6913	0.0010		EUR/SEK	11.313	0.0461			
USD/CAD	1.3525	0.0009		EUR/NOK	11.7446	0.0233			

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