



Thursday, 03 October 2024

KBC Sunrise Market Commentary

Markets

- Core bonds reversed the safe-haven triggered gains of Tuesday.** US yields rose by 3.7 bps (2-yr) to 5.8 bps (30-yr) while German yields rose by 1.9 bps (2-yr) to 5.5 bps (30-yr). **The US underperformance at the front end of the curve was linked to a decent ADP employment report** (143k from 103k vs 125k expected) which tilted the odds again somewhat more in favour of a 25 bps Fed November rate cut. EUR/USD slid from the 1.1075 area to currently 1.1025. Comments by ECB Schnabel – **“we cannot ignore the headwinds to growth”** – further bolster the case of a 25 bps rate cut by the ECB in October. **US weekly jobless claims and services ISM are today’s sources of volatility.** **JPY remains in the defensive** following political calls (new PM Ishiba) at the address of the BoJ to keep policy rates stable. The jury is out whether this will have any impact (independent central bank?!) or whether this is more of a window-dressing operation to polish his market-friendly image. USD/JPY moved from 143.50 yesterday morning to currently 146.50. The BoJ meets next on October 31.
- Sterling loses ground this morning** following the release of an interview by **Bank of England governor Bailey** with the Guardian. He said that the **UK economy proved more resilient** than feared over the past two years, so there’s a base there to develop. The BoE governor is also encouraged by the fact that **cost of living pressures had not been as persistent** as thought. If news on inflation (2.2% Y/Y in August) continues to be good, **he argues in favour of becoming a bit more activist in the approach to cutting policy rates.** So far, the BoE only sliced rates once by 25 bps in August (5-4 vote) and kept them stable in September (8-1 vote). UK money markets discount a second 25 bps rate cut at the November meeting, when the BoE publishes its quarterly Monetary Policy Report, but only attach a 50% probability to more action in December. **The bottom of the expected rate path in the UK next year (>3.5%) is also significantly higher still than for example in Europe (1.5%-1.75%) or the US (<3%).** That leaves quite some **room for repositioning** should the BoE effectively start a more aggressive normalization campaign and **makes sterling vulnerable** in the process. EUR/GBP rises in Asian trading from 0.8325 to 0.8370 in a move which we expect to continue. Regaining EUR/GBP 0.84 would turn the short term picture neutral again for the currency pair. GBP/USD failed to move above 1.34 earlier this week as USD profited from some safe haven flows. GBP weakness now takes over with cable losing a big figure from 1.3275 to 1.3175 this morning.

News & Views

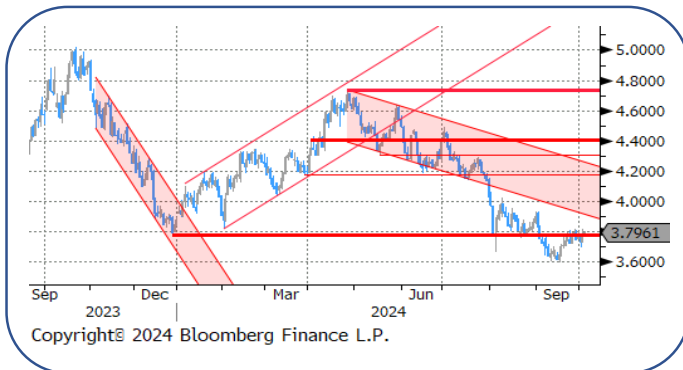
- The **IMF** in concluding its annual (Article IV) review said **Australia’s “last mile” in taming inflation back to target is proving particularly difficult.** Keeping the policy rate at 4.35% even when the rest of the advanced world started easing was therefore appropriate. The IMF said **the central bank may even need to raise them again** if inflation – still almost 4% in Q2 - stopped falling. Washington urged for the government to play their part with **tighter fiscal policy** as well. It welcomed two consecutive federal government surpluses (A\$15.8 in 2023-2024) but Australia’s Treasury back in May forecasted the budget would return to deficit over the forecast horizon out to 2027-2028. This (fiscal) year’s deficit is projected at A\$28.3bn, which the IMF said is delivering a **“positive fiscal impulse” at a time where inflation is still hovering above the central bank’s 2-3% target.** The Reserve Bank of Australia’s next policy meeting is on November 5. Money markets expect virtually nothing though. A first 25 bps cut isn’t fully priced in before February of next year. The Australian dollar meanwhile hovers near YTD highs of AUD/USD 0.69.
- OPEC+ is sticking with plans to gradually scale back oil production curbs.** In yesterday’s meeting, the Saudi led oil cartel reaffirmed its intention to **revive output with 180k barrels a day starting from December.** That was already two months later than originally scheduled due to a steep drop in oil prices in recent weeks/months over global demand concerns. After briefly dropping below \$70 (Brent) for the first time since end 2021 early September, prices have rebounded a bit. Partly in response to the series of Chinese stimulus measures announced over the last two weeks but mostly on fears for a disruption in supply as the conflict in the Middle East escalated. After trading as high as \$76, prices yesterday pulled back intraday after the US unexpectedly posted a weekly inventory build-up. One barrel is currently changing hands for \$74.8.

Graphs



GE 10y yield

The ECB cut policy rates by 25 bps in June and in September. Stubborn inflation (core, services) make a follow-up move less evident in October, but very weak PMI's and soft Lagarde comments hang in the balance. Disappointing US and unconvincing-to-outright-weak EMU activity data dragged the long end of the curve down with the 2023 low at 1.89% as key support.



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 bumped into 1.12 resistance.



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, pulling EUR/GBP below 0.84 support. Dovish comments by BoE Bailey ended by default GBP-strength.

Calendar & Table

Thursday, 3 October		Consensus	Previous
US			
14:30	Initial Jobless Claims	221k	218k
14:30	Continuing Claims	1830k	1834k
15:45	S&P Global US Services PMI (Sep F)	55.4	55.4
15:45	S&P Global US Composite PMI (Sep F)	54.4	54.4
16:00	Factory Orders (Aug)	0.10%	5.00%
16:00	Factory Orders Ex Trans (Aug)	0.20%	0.40%
16:00	Durable Goods Orders (Aug F)	0.00%	0.00%
16:00	ISM Services Index (Sep)	51.7	51.5
16:00	ISM Services Prices Paid (Sep)	56.0	57.3
16:00	ISM Services Employment (Sep)	50.0	50.2
16:00	ISM Services New Orders (Sep)	52.5	53
UK			
10:30	DMP 3M Output Price Expectations (Sep)	3.40%	3.60%
10:30	DMP 1 Year CPI Expectations (Sep)	2.70%	2.60%
10:30	S&P Global UK Services PMI (Sep F)	52.8	52.8
10:30	S&P Global UK Composite PMI (Sep F)	52.9	52.9
EMU			
10:00	HCOB Eurozone Services PMI (Sep F)	50.5	50.5
10:00	HCOB Eurozone Composite PMI (Sep F)	48.9	48.9
11:00	PPI MoM / YoY (Aug)	0.50%/-2.30%	0.80%/-2.10%
Events			
10:30	Spain to sell bonds		
10:50	France to sell bonds		
16:40	Fed's Kashkari Moderates Chat w/ Bostic on Inclusive Economy		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3.78	0.05	US	3.64	0.04	DOW	42196.52	39.55	
DE	2.09	0.06	DE	2.04	0.02	NASDAQ	17925.12	14.76	
BE	2.71	0.06	BE	2.17	0.01	NIKKEI	38572.72	763.96	
UK	4.03	0.08	UK	4.02	0.06	DAX	19164.75	-48.39	
JP	0.83	0.00	JP	0.37	-0.01	DJ euro-50	4963.29	9.14	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.20	3.31	3.78	€STR	3.4100	-0.0060			
5y	2.21	3.24	3.66	Euribor-1	3.3290	-0.0010	SOFR-1	4.8530	-0.0046
10y	2.33	3.32	3.66	Euribor-3	3.2460	-0.0060	SOFR-3	4.6049	-0.0107
				Euribor-6	3.0920	0.0000	SOFR-6	4.2983	0.0058
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1045	-0.0023	EUR/JPY	161.76	2.86	CRB	287.13	0.76	
USD/JPY	146.47	2.90	EUR/GBP	0.8325	-0.0006	Gold	2669.70	-20.60	
GBP/USD	1.3268	-0.0018	EUR/CHF	0.9385	0.0016	Brent	73.90	0.34	
AUD/USD	0.6885	0.0002	EUR/SEK	11.3369	-0.0255				
USD/CAD	1.3502	0.0012	EUR/NOK	11.6739	-0.0698				

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