



Tuesday, 08 October 2024

KBC Sunrise Market Commentary

Markets

- Investors yesterday continued to adapt positions in the wake of Friday's impressive payrolls beat.** The Fed recently indicated that inflation has cooled enough to the turn the focus to supporting growth and protecting a strong labour market. However, Friday's payrolls and other US data of late are **raising the question whether/how much support the US economy currently needs.** Probably less than the Fed (and the market) assessed when the Fed started cutting rates with a 50 bps step back in September. After Friday's sharp rise, US yields again added between 7.3 bps (2-y) and 5.5 bps (30-y). For the end of the year, 50 bps Fed cuts is still discounted, but markets see a limited chance of the Fed already being forced to take a pause in November (only 85% discounted). Fed officials, including New York Fed president Williams (FT this morning) indicate that the US economy is well positioned to keep strength in the economy and in the labour market and that it might result in a soft landing scenario. **With respect to the pace of further easing, Williams indicates that last dots plot is a very good base case.** The 50 bps start was a good decision at that time, but is no rule of how the Fed will act in the future. Returning to yesterday, German/EMU yields markets felt some spillover effects from the rise in the US, rising between 4.4 bps (2-y and 30-y) and 5.2 bps (5-y). (US) Equities this time didn't build on the 'no-landing' gains that propelled indices on Friday and fell prey to profit taking. (S&P 500 -0.96%). After breaking several technical levels on Friday, the dollar rally ran into resistance (DXY 102.54, EUR/USD 1.0978).
- Asian markets mostly show a mixed, hesitant picture this morning.** Mainland China shares are gaining as markets reopen after the holiday period (CSI 300 +4.2%), but Hong Kong shares tumble (Hang Seng -7.0%). Markets apparently are not convinced that the recent monetary and fiscal measures will be able to profoundly change fortunes for the Chinese economy. There are few important eco data in the US and in Europe scheduled for release today. The focus remains on the US CPI data scheduled for release on Thursday. This evening we look out for a \$58 bln sale of 3-y US notes. The US 2-y and 10-y yield are nearing the psychological barrier of 4.0% and markets have scaled back expectations on the pace of Fed easing to 25 bps (or even slightly less) for at least the four upcoming Fed meetings. **For now, even after the strong payrolls, we think that enough easing is priced out.** Both markets and the Fed now are **in a genuine data-dependent modus where guidance/and the market assessment might change with every batch of important data.** Today, a mild risk-off also might cap a further rise in yields. In theory, this still should favor the dollar, but the greenback of late often resigned to its safe haven status.

News & Views

- Total UK retail sales rose by 2% Y/Y in September according to data from the British Retail Consortium and KPMG.** It's **the fastest pace since March** and above that 12-month average of 1.1% growth. BRC chief executive Dickinson said that shoppers sought to update their wardrobes with coats, boots and knitwear as autumn rolled out across the UK. The start of the month also saw a last-minute rush for computers and clothing for the new academic year. **Non-food sales fell by 0.3% Y/Y which is the slowest pace of decline YTD. Food sales increased by 3.1% Y/Y, the biggest increase since May. All eyes are now on the Budget** and the impact that it will have on discretionary spending in the final, "Golden", quarter of the year.
- The **head of the Bank of Italy's economics and statistics department, Altimari, warned in parliament that the economy will expand less than previously expected this year.** An accounting revision by Istat means a mechanical downward correction by 0.2 percentage points (0.4% from 0.6%) to the current year's growth estimate. The current government growth forecast of 1% is becoming very unrealistic. The Italian central bank also called for **a prudent approach to public finances**, saying the government should concentrate on lowering the country's mammoth debt, which is currently above 130% of gross domestic product.

Graphs



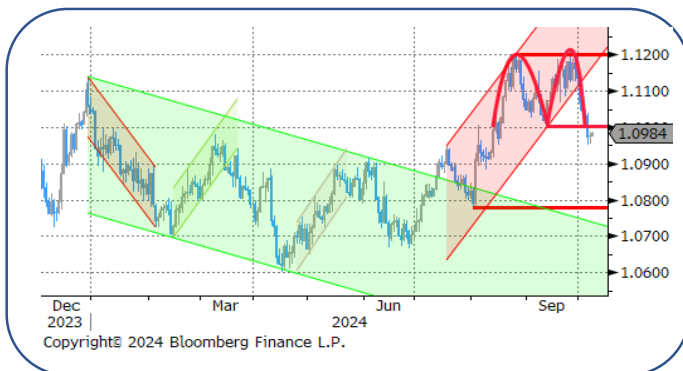
GE 10y yield

The ECB cut policy rates by 25 bps in June and in September. Stubborn inflation (core, services) still is a source of concern, but very weak PMI's and soft comments of Lagarde (and other MPC members) suggest the ECB is likely to step up the pace of easing with an October cut. Spill-overs from strong US data prevented a test of the 2.0% barrier. 2.00-2.35% might serve as a ST consolidation range.



US 10y yield

The Fed kicked off its easing cycle with a 50 bps move. The Fed shifting focus from inflation to a potential slowdown in growth/employment made markets consider more 50 bps steps. Strong US September payrolls suggest the economy doesn't need aggressive Fed support for now, but the debate might resurface as the economic cycle develops. For the US 10-y, 3.60% serves as strong support. The steepening trend is taking a breather.



EUR/USD

EUR/USD moved above the 1.09 resistance area and twice tested the 1.12 big figure as the dollar lost interest rate support at stealth pace. Bets on fast and large rate cuts trumped traditional safe haven flows into USD. An ailing euro(pan economy) partially offset some of the general USD weakness. After solid early October US data, the dollar regained traction, with EUR/USD breaking the 1.1002 neckline. Targets of this pattern are near 1.08.



EUR/GBP

The BoE delivered a hawkish cut in August. Policy restrictiveness was indicated to be further unwound gradually. The economic picture between the UK and Europe also was 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

Tuesday, 8 October		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Sep)	92.0	91.2
14:30	Trade Balance (Aug)	-\$70.5b	-\$78.8b
Japan			
01:30	Labor/Real Cash Earnings YoY (Aug)	3.00%A/-0.60%A	3.40%R/0.30%R
01:30	Cash Earnings Same Sample Base YoY (Aug)	3.10%A	4.70%R
01:30	Scheduled Full-Time Pay Same Base YoY (Aug)	2.90%A	3.00%
01:30	Household Spending YoY (Aug)	-1.90%A	0.10%
01:50	BoP Current Account Adjusted (Aug)	¥3016.5bA	¥2802.9b
07:00	Eco Watchers Survey Current SA (Sep)	49.2	49
07:00	Eco Watchers Survey Outlook SA (Sep)	50.5	50.3
UK			
01:01	BRC Sales Like-For-Like YoY (Sep)	1.70%A	0.80%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Aug)	0.80%/-3.80%	-2.40%/-5.30%
France			
08:45	Current Account Balance (Aug)	--	-1.2b
08:45	Trade Balance (Aug)	--	-5884m
Sweden			
08:00	CPI MoM/YoY (Sep P)	0.20%/1.60%	-0.60%/1.90%
08:00	CPIF MoM/YoY (Sep P)	0.30%/1.10%	-0.50%/1.20%
08:00	CPIF Excl. Energy YoY (Sep P)	1.90%	2.20%
Events			
00:00	Fed's Bostic Moderates Conversation with Steve Koonin		
00:30	Fed's Musalem Speaks on Economy, Policy		
02:30	RBA Minutes of Sept. Policy Meeting		
03:00	RBA's Hauser-Remarks		
09:00	Fed's Kugler Speaks at ECB Event (Schnabel Chairs Session)		
09:30	Riksbank Deputy Governor Bunge speaks on monetary policy		
11:30	Germany to Sell EU1 Billion of 2.3% 2033 Bonds		
18:45	Fed's Bostic Speaks on the Economic Outlook		
19:00	U.S. To Sell USD58 Bln 3-Year Notes		
22:00	Fed's Collins Speaks at Community Banking Conference		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,03	0,06	US	4,00	0,07	DOW	41954,24	-398,51	
DE	2,26	0,05	DE	2,25	0,04	NASDAQ	17923,9	-213,95	
BE	2,87	0,04	BE	2,36	0,04	NIKKEI	38834,79	-497,95	
UK	4,21	0,08	UK	4,22	0,08	DAX	19104,1	-16,83	
JP	0,93	-0,01	JP	0,41	-0,01	DJ euro-50	4969,71	14,77	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,42	3,66	4,00	€STR	3,4130	-0,0010			
5y	2,41	3,55	3,87	Euribor-1	3,2820	0,0120	SOFR-1	4,8263	-0,0200
10y	2,49	3,56	3,84	Euribor-3	3,2680	0,0180	SOFR-3	4,6788	0,0300
				Euribor-6	3,0480	0,0020	SOFR-6	4,4640	0,0495
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0976	0,0002	EUR/JPY	162,63	-0,63	CRB	293,57	1,92	
USD/JPY	148,18	-0,52	EUR/GBP	0,8389	0,0027	Gold	2666,00	-1,80	
GBP/USD	1,3083	-0,0039	EUR/CHF	0,9377	-0,0041	Brent	80,93	2,88	
AUD/USD	0,6757	-0,0038	EUR/SEK	11,3662	-0,0157				
USD/CAD	1,362	0,0044	EUR/NOK	11,6768	-0,0187				

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
CSOB Economics – Markets Prague		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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