Wednesday, 16 October 2024

KBC Sunrise Market Commentary

Markets

- Dutch chipmaker ASML sent shockwaves through the broader equity market yesterday. In its earnings report that it accidentally published one day ahead of schedule, **Europe's high-profile tech company cut the outlook for next year amid far less orders than investors expected.** The EuroStoxx50 fell of a cliff after word from the economy-sensitive company got out, eventually tumbling about 2%. US stock markets ate the dust, the chip sector and broader tech in particular. The Nasdaq slipped around 1%. Asian stocks this morning lose territory in most cases but recovered from intraday lows. Chinese shares flirt with the green ahead of tomorrow's news conference by the country's housing minister. Long-term US yields were pressured as **another sharp drop in oil prices** capped the recent rise of inflation expectations. A disappointing NY manufacturing index (-11.9 vs +3.6 expected, from 11.5) and the risk-off resulted in losses of more than 9 bps (30-yr) eventually. The front end barely budged on any of the aforementioned triggers, suggesting markets are comfortable with current Fed pricing as we head into the November 5 US elections. German rates fell 4.7-5.4 bps across the curve. The USD eked out additional technical gains. EUR/USD broke below the 1.10 neckline of the double top formation earlier this month and slipped sub 1.0907 (50% retracement of the 2024 YtD low-high) yesterday. The 1.08 area still looks to be its short-term destination with the journey unhindered by today's empty economic calendar. USD/JPY's rally ran into resistance around the 150 lever. After a strong labour market report yesterday that pushed EUR/GBP back towards the YtD lows, **UK inflation numbers this morning do the exact opposite.** The pair jumps back higher (0.836) after the headline price level stabilized on a monthly basis to be 1.7% higher y/y. **It's the first sub 2% reading since April 2021** and fell short of a 1.9% consensus estimate. Underlying gauges such as core inflation (3.2%, down from 3.6%) and services inflation (4.9%, down from 5.6%) missed the bar for 3.4% and 5.2% respectively. Below-consensus PPIs topped it off. Bank of England governor recently called for a more activist approach in monetary easing, **provided inflation continues to decelerate.** Market importance of today's numbers therefore outweigh that of yesterday's. A 25 bps November cut is priced in.

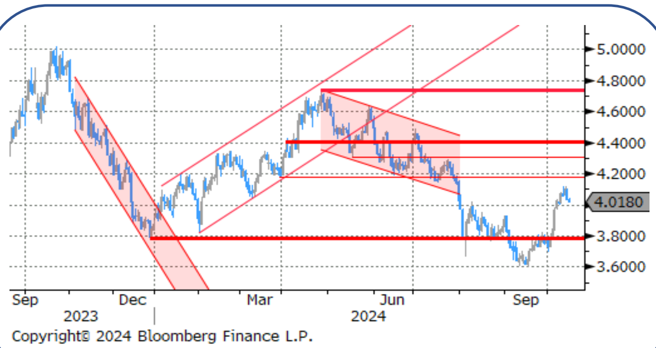
News & Views

- **Inflation in New-Zealand dropped to 2.2% Y/Y in Q3 from 3.3% in Q2.** It was the first time since March 2021 that annual inflation returned within the 1-3% target band of the Reserve Bank of New Zealand. 'Prices are still rising, but not as much as previously recorded', consumer prices manager Nicola Growden of Statistics New Zealand said. **Consumer prices rose 0.6% from the previous quarter** (was 0.4% in Q2), but this was still slightly below the 0.7% consensus estimate. Higher rent prices were the biggest contributor to annual inflation, up 4.5%. Price for local authority rates and payments increased by 12.2%. They were responsible for half of the quarterly 0.6% increase. Pharmaceutical prices increased 17% Q/Q. **Tradables goods' prices declined -0.2% Q/Q and -1.6% Y/Y. Non-tradeables rose 1.3% Q/Q and 4.9% Y/Y.** RBNZ expected inflation at 2.3% in its August monetary policy statement. Inflation returning to target probably will convince the RBNZ **that it can further reduce policy restrictiveness** in order to support poor growth. Markets discount another 50 bps reduction at the November 27 meeting. Some even see a chance of a 75 bps step (35%). The kiwi dollar continues to trade in the defensive this morning at NZD/USD 0.606.
- **The Federal Reserve Bank of New York yesterday published its survey of consumer expectations.** Consumers' inflation expectations are mixed over the three horizons. **Median inflation expectations remained unchanged at 3.0% at the one-year horizon, increased to 2.7% from 2.5% at the three-year horizon, and rose to 2.9% from 2.8% at the five-year horizon.** Expectations on the labour market improved. The probability of leaving one's job voluntarily in the next twelve months increased to 20.4% from 19.1% percent and the perceived probability of finding a job in the event of job loss increased to 52.7% from 52.3%. Year-ahead household income and spending growth expectations declined by 0.1 percentage point to 3.0% and 4.9% respectively. Perceptions and expectations of credit access improved compared to a year ago. However, the perceived probability of missing a minimum debt payment over the next three months increased to 14.2 % from 13.6%, the highest reading of the series since April 2020.

Graphs

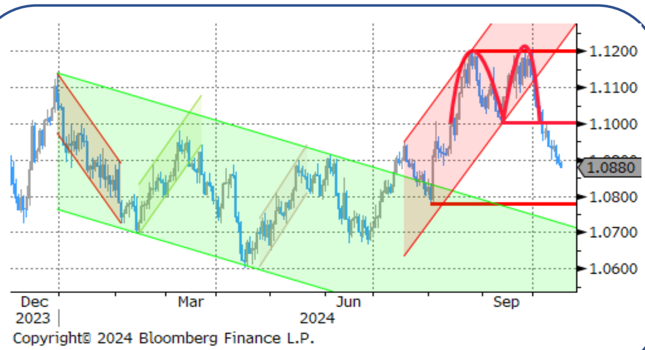
GE 10y yield

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. Turning he **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. 3.60% acted as strong support before a rebound (and resumption of the steepening trend) kicked in.



EUR/USD

EUR/USD 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(pean economy) 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 (temporarily?) diverged **to the benefit of** sterling, **pulling EUR/GBP below 0.84 support**. **Dovish comments by BoE Bailey ended by default GBP-strength.** Uncertainty on the UK budget to be released end this month is becoming an additional headwind for the UK currency.

Calendar & Table

Wed. 16 October		Consensus	Previous
US			
14:30	New York Fed Services Business Activity (Oct)	--	0.5
14:30	Import Price Index MoM / YoY (Sep)	-0.30%/0.00	-0.30%/0.80%
14:30	Import Price Index ex Petroleum MoM (Sep)	0.10%/--	-0.10%
14:30	Export Price Index MoM / YoY (Sep)	-0.40%/--	-0.70%/-0.70%
UK			
08:00	**CPI MoM / YoY (Sep)**	**0.10%/1.90%**	**0.30%/2.20%**
08:00	**CPI Core YoY (Sep)**	**3.40%**	**3.60%**
08:00	**CPI Services YoY (Sep)**	**5.20%**	**5.60%**
08:00	PPI Output NSA MoM / YoY (Sep)	-0.30%/-0.60%	-0.30%/0.20%
08:00	PPI Input NSA MoM / YoY (Sep)	-0.60%/-2.20%	-0.50%/-1.20%
Events			
Q3 earnings	Morgan Stanley (13:30)		
11:00	Greece to Sell Bonds		
11:30	Germany to Sell 0% 2050 & 2.5% 2054 Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.03	-0.07		US	3.95	-0.01	DOW	42740.42	-324.80
DE	2.22	-0.05		DE	2.21	-0.05	NASDAQ	18315.59	-187.10
BE	2.82	-0.06		BE	2.34	-0.04	NIKKEI	39232.42	-678.13
UK	4.16	-0.08		UK	4.13	-0.05	DAX	19486.19	-22.10
JP	0.96	-0.01		JP	0.43	0.00	DJ euro-50	4946.73	-94.28
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.33	3.62	3.91	€STR	3.4130	0.0000			
5y	2.32	3.53	3.79	Euribor-1	3.2350	-0.0230	SOFR-1	4.7793	-0.0085
10y	2.42	3.56	3.78	Euribor-3	3.2150	0.0100	SOFR-3	4.6325	-0.0228
				Euribor-6	3.0570	-0.0050	SOFR-6	4.4345	-0.0199
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0893	-0.0016		EUR/JPY	162.56	-0.81	CRB	282.86	-4.27
USD/JPY	149.2	-0.56		EUR/GBP	0.8331	-0.0022	Gold	2678.90	13.30
GBP/USD	1.3074	0.0015		EUR/CHF	0.9390	-0.0020	Brent	74.25	-3.21
AUD/USD	0.6703	-0.0023		EUR/SEK	11.3454	-0.0260			
USD/CAD	1.3775	-0.0021		EUR/NOK	11.7864	0.0082			

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