



Friday, 11 October 2024

KBC Sunrise Market Commentary

Markets

- US September inflation printed hotter than expected and contained some important hawkish details such as rising food prices and accelerating supercore services inflation (to an annualized 3mMA of around 4%). **Several Fed officials** including NY's Williams, Chicago's Goolsbee and Richmond's Barkin **were not too worried and focused on the broader picture** in which inflation is moving in the right direction. **Bostic was the odd one out.** In an interview with the Wall Street Journal, the Atlanta Fed president said he was comfortable with skipping a meeting if the data say that's appropriate. Coming shortly after a strong ISM, stellar payrolls and yesterday's CPI, Bostic's comments briefly sparked an uptick in yields and the dollar. The former finished lower nonetheless, unable to ignore the sharp jump in weekly jobless claims to the highest in more than a year (256k). North Carolina and Florida alone make more than 12k of the net 33k advance from the week before. Both states were hit by hurricane Helene. Net daily changes in US yields varied between -6.4 bps (2-yr) to +1.8 bps (30-yr). Underperformance of the long end was way more significant before an **excellent 30-yr bond auction** called off an intraday yield sprint of almost 7 bps (30-yr). The German yield curve's shift was similar though much less sizeable (-2.7 bps to +0.6 bps). A fragile risk environment and proper gains in oil (Brent +3.7%) provided a cushion for the dollar. EUR/USD ended slightly lower (1.0934). DXY tested the 103 big figure for the first time since mid-August. Today's economic calendar is a meagre one (Michigan consumer sentiment) and the US has a **long weekend** coming (Columbus Day on Monday). We don't expect markets to move much in such an environment. The October US yield rally lost some steam, especially at the front where the 4% mark serves as a difficult-to-break resistance level. The dollar's recent recovery may therefore ease a little as well. EUR/USD 1.0907 (50% retracement on the April-September EUR/USD rise) serves as first support. **The financial start of the Q3 earnings season** serves as a wildcard. We'd also mention a **highly anticipated stimulus announcement of the Chinese finance minister tomorrow**. It's seen as a second chance after the country's economic planning agency underwhelmed investors on Tuesday. Hopes this time around are for a massive CNY 2tn package.

News & Views

- "The French economy is holding up, but our public debt is colossal. It would be both cynical and fatal not to see it, say it and recognize it."** And so French Finance Minister Armand yesterday evening unveiled a 2025 budget which delivered a **combined €60.6bn in spending cuts (2/3) and tax hikes (1/3) which should reduce the deficit from 6.1% of GDP to 5% next year.** The aim is to get below the 3% deficit threshold by 2029, two years after the official EU goal. The debt ratio is projected to hit 114.7 of GDP from 112.9% this year. The government uses 1.1% growth and 1.8% inflation in its calculations. In the proposal, spending cuts zoom in things like medical costs, unemployment and reducing the number of public servants. Temporary levies on large companies (revenue > €1bn) should raise around €12bn over the next two years. Company stock buybacks would be subject to an exceptional tax when the shares are canceled. A 20% tax rate floor will be introduced for individuals earning €250k annually or couples earning double the amount to counter tax shelter effects. A controversial measure is delaying the indexation of pensions until July 1. **The budget bill will be discussed in parliament starting next week** and needs to be adopted by the end 2024. The government's lack of parliamentary majority makes it extremely vulnerable to obstructions and confidence votes.
- The Bank of Korea lowered its policy rate a first time this morning, from 3.5% to 3.25%,** after keeping it level since January 2023. The central bank expects inflation to stabilize at the 2% target level and growth to moderate further. **Growth uncertainties increased though due to the delayed recovery in domestic demand.** Regarding financial stability, housing prices in the Seoul area and household debt growth are anticipated to gradually slow due to the effects of tightened macroprudential policies. The Board will thoroughly assess the trade-offs among variables such as inflation, growth, and financial stability, and carefully determine the pace of further policy rate cuts. Five members want to keep rates steady over the next three months, with one in favor of keeping the door open for a cut. Governor Rhee's view are not disclosed. The Korean won barely manages to gain ground this morning with USD/KRW holding near recent highs around 1350.

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. Powell and Co turning the 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 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) 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 (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

Friday, 11 October		Consensus	Previous
US			
14:30	PPI Final Demand MoM/YoY (Sep)	0.10%/1.60%	0.20%/1.70%
14:30	PPI Ex Food and Energy MoM/YoY (Sep)	0.20%/2.60%	0.30%/2.40%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Sep)	0.20%/--	0.30%/3.30%
16:00	U. of Mich. Sentiment (Oct P)	71.0	70.1
16:00	U. of Mich. Current Conditions (Oct P)	64.0	63.3
16:00	U. of Mich. Expectations (Oct P)	74.8	74.4
16:00	U. of Mich. 1 Yr Inflation (Oct P)	2.70%	2.70%
16:00	U. of Mich. 5-10 Yr Inflation (Oct P)	3.00%	3.10%
Canada			
14:30	Net Change in Employment (Sep)	27.0k	22.1k
14:30	Unemployment Rate (Sep)	6.70%	6.60%
14:30	Participation Rate (Sep)	65.10%	65.10%
14:30	Hourly Wage Rate Permanent Employees YoY (Sep)	4.70%	4.90%
14:30	Full Time Employment Change (Sep)	--	-43.6k
14:30	Part Time Employment Change (Sep)	--	65.7k
16:30	BoC Business Outlook Future Sales (3Q)	--	1
16:30	BoC Overall Business Outlook Survey (3Q)	--	-2.9
Japan			
01:50	Money Stock M3 YoY (Sep)	0.80%A	0.80%R
UK			
08:00	Monthly GDP MoM/3M-3M (Aug)	0.20%/0.30%	0.00%/0.50%
08:00	Monthly GDP (3M/3M) (Aug)	0.30%	0.50%
08:00	Industrial Production MoM/YoY (Aug)	0.20%/-0.50%	-0.80%/-1.20%
08:00	Manufacturing Production MoM/YoY (Aug)	0.30%/-0.40%	-1.00%/-1.30%
08:00	Construction Output MoM/YoY (Aug)	0.50%/-0.20%	-0.40%/-1.60%
08:00	Index of Services MoM/3M-3M (Aug)	0.20%/0.30%	0.10%/0.60%
08:00	Trade Balance GBP/Mn (Aug)	--	-£7514m
Events			
Q3 earnings	Wells Fargo (13:00), JPMorgan Chase (13:00), Blackrock (bef-mkt) ...		
15:45	Fed's Goolsbee Gives Opening Remarks		
16:45	Fed's Logan Participates in Panel Discussion		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.06	-0.01	US	3.96	-0.06	DOW	42454.12	-57.88	
DE	2.26	0.00	DE	2.23	-0.03	NASDAQ	18282.05	-9.57	
BE	2.87	-0.01	BE	2.36	-0.02	NIKKEI	39605.8	224.91	
UK	4.21	0.03	UK	4.19	0.00	DAX	19210.9	-44.03	
JP	0.96	0.00	JP	0.42	0.00	DJ euro-50	4970.34	-12.23	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.38	3.64	3.95	€STR	3.4140	-0.0010			
5y	2.38	3.56	3.84	Euribor-1	3.2550	-0.0010	SOFR-1	4.8033	-0.0219
10y	2.48	3.59	3.85	Euribor-3	3.1840	-0.0390	SOFR-3	4.6555	-0.0200
				Euribor-6	3.0550	0.0080	SOFR-6	4.4468	-0.0359
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0934	-0.0005	EUR/JPY	162.46	-0.85	CRB	290.63	4.49	
USD/JPY	148.57	-0.74	EUR/GBP	0.8374	0.0005	Gold	2639.30	13.30	
GBP/USD	1.3059	-0.0012	EUR/CHF	0.9364	-0.0053	Brent	79.40	2.82	
AUD/USD	0.6739	0.0021	EUR/SEK	11.3635	-0.0125				
USD/CAD	1.3742	0.0031	EUR/NOK	11.7411	-0.0525				

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