



Friday, 18 October 2024

KBC Sunrise Market Commentary

Markets

- Second tier US economic data outgunned yesterday's ECB meeting.** Strong retail sales, lower-than-expected weekly jobless claims and a sharp rebound in the Philly Fed business outlook sparked a test of the 4% barrier by the US 2-yr yield (+3.3 bps in the close) but it'll take more for this psychologically important level to break. US money markets do increasingly begin to question whether the Fed will cut rates at both of the remaining meetings this year. Longer maturities including the 10-yr (+7.7 bps) and the 30-yr (+9.4 bps) underperformed amid ongoing economic resilience (even outright strength). German rates fell 2.4 bps at the front and added 4.4 bps at the back end of the curve. The ECB cut rates for a third time this cycle to 3.25% yesterday. The economic outlook deteriorated and inflation, after the expected reacceleration into the year's end, should hit the 2% target sooner than previously expected. Risks in both cases are tilted to the downside. President Lagarde as usual used data dependency to refrain from any guidance but people familiar with the matter **afterwards said that another cut in December was highly likely.** Not only has that been market's base case for some time now, they are also toying with the idea of a supersized Fed-style cut (50% chance). EUR/USD's awful October month continued yesterday, with especially dollar strength pushing the pair below 1.0835 support. DXY advanced further north towards 104. It hasn't seen that level ever since the poor July payrolls report of early August kicked off a bad spell for the greenback. Sterling seized the opportunity to wipe out Wednesday's CPI losses against the euro. EUR/GBP returned towards the multi-year lows just north of 0.83.

Consensus-beating UK retail sales this morning risk triggering a break lower. That would bring 0.82 on the radar. An article in the Financial Times by IMF head Georgieva grabs our attention this morning. She warned of an "unforgiving" economic backdrop for government finances, referring to a combination of low growth and high & rising debt. A growing share of government revenues was being used to cover interest payments while weak growth makes it difficult to tackle the mountain of debt. The IMF earlier this week estimated **global debt to hit a record \$100tn by the end of the year.** And yet, many governments – most notably those from the US and China – continue to run substantial deficits. The fiscal debate is increasingly drawing attention as we are now in the final stretch towards the US elections. While its outcome is highly uncertain, it is **clear that neither Trump nor Harris is keen to deliver on the budget consolidation the IMF is recommending.**

News & Views

- Chinese Q3 GDP in the third quarter grew 0.9% Q/Q compared to downwardly revised growth of 0.5% in Q2.** Y/Y growth and YTD Y/Y growth printed at 4.6% and 4.8% respectively, close to expectations. Growth thus remains **below the 5.0% full year target for 2024.** Looking at the underlying developments, **industrial production beat expectations** with a rise of 5.4% Y/Y from 4.5%. **Retail sales improved from Q2** rising from 2.1% from 3.2% (YTD Y/Y 3.3%) but nevertheless suggest **lagging domestic demand. The housing market remains deep in negative territory.** Property investment printed at -10.1% YTD Y/Y. Residential property sales were 24% lower compared to the Jan-Sept period of last year. **The surveyed unemployment rate improved though, from 5.3% to 5.1%.** The data confirm the need of more stimulus to prevent a further decline of the domestic property market and to support domestic demand in an attempt to avoid a deflationary spiral. Official comments after the publication showed awareness that a complex international environment might be a factor of uncertainty for growth. The CSI 300 gains 1.6%, supported by a new PBOC funding schemes to support the stock market. The yuan gains modestly (USD/CNY 7.116).
- Japanese inflation figures for September slowed from August, but less so than expected. **CPI ex. fresh food prices but including oil products rose 2.4% Y/Y from 2.8%.** The decline in core inflation was mainly **due to government subsidies** to mitigate gas and electricity prices. Core inflation ex-fresh food an energy even rose marginally from 2.0% to 2.1%. Markets expect the BoJ to stay on hold when deciding on interest rates at October 31 meeting but see a **rising chance of a next rate hike in December or January.** Aside the CPI data, Japanese vice finance minister of economic affairs assessed recent moves in the yen (decline to 150) as slightly one-sided that deserve ongoing monitoring. USD/JPY declines marginally this morning to trade near 149.85 currently.

Graphs



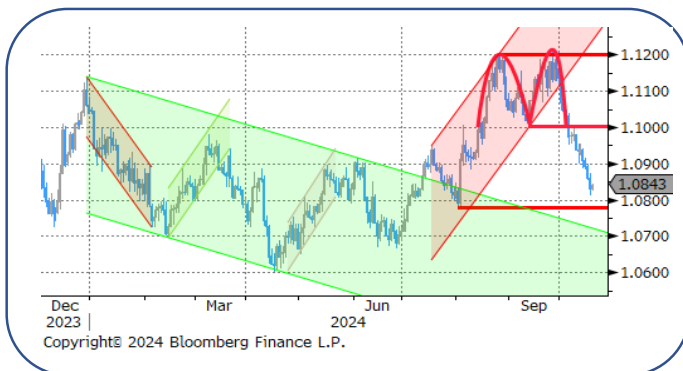
GE 10y yield

The ECB delivered a third rate cut in October as the outlook deteriorated and inflation is expected to reach the target sooner than thought. **Another reduction in December is highly likely** even though Lagarde refrained from official guidance. The path towards neutral (2-2.5%) should eventually aid an ailing economy. Against this background and with a little help from ongoing strong US data, the 2% support in the 10-yr yield looks solid.



US 10y yield

The Fed kicked off its easing cycle with a 50 bps move. 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. 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 diverged **to the benefit of sterling.** **BoE Bailey's call for an activist approach doesn't get backed by the data so far.** EUR/GBP risks losing the 0.83 support zone ahead of the first Labour budget due October 30.

Calendar & Table

Friday, 18 October		Consensus	Previous
US			
14:30	Housing Starts (Sep)	1350k	1356k
14:30	Building Permits (Sep)	1460k	1470kR
14:30	Housing Starts MoM (Sep)	-0.40%	9.60%
14:30	Building Permits MoM (Sep)	-0.70%	4.60%R
Japan			
01:30	Natl CPI YoY (Sep)	2.50%A	3.00%
01:30	Natl CPI Ex Fresh Food YoY (Sep)	2.40%A	2.80%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Sep)	2.10%A	2.00%
UK			
08:00	Retail Sales Inc Auto Fuel MoM / YoY (Sep)	-0.40%/3.20%	1.00%/2.50%
08:00	Retail Sales Ex Auto Fuel MoM / YoY (Sep)	-0.30%/3.10%	1.10%/2.30%
China			
04:00	GDP SA QoQ / YoY (3Q)	10.90%A/4.60%A	0.50%R/4.70%
04:00	GDP YTD YoY (3Q)	4.80%A	5.00%
04:00	Industrial Production YoY (Sep)	5.40%A	4.50%
04:00	Industrial Production YTD YoY (Sep)	5.80%A	5.80%
04:00	Retail Sales YoY (Sep)	3.20%A	2.10%
04:00	Retail Sales YTD YoY (Sep)	3.30%A	3.40%
04:00	Fixed Assets Ex Rural YTD YoY (Sep)	3.40%A	3.40%
04:00	Property Investment YTD YoY (Sep)	-10.10%A	-10.20%
04:00	Residential Property Sales YTD YoY (Sep)	-24.00%A	-25.00%
04:00	Surveyed Jobless Rate (Sep)	5.10%A	5.30%
Sweden			
08:00	Unemployment Rate SA (Sep)	8.40%	8.30%
Events			
10:00	ECB Survey of Professional Forecasters		
16:00	Fed's Kashkari Moderates Panel		
18:10	Fed's Waller Speaks on Decentralized Finance		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.09	0.08	US	3.97	0.03	DOW	43239.05	161.35	
DE	2.21	0.02	DE	2.15	-0.02	NASDAQ	18373.61	6.53	
BE	2.80	0.02	BE	2.29	-0.02	NIKKEI	38999.08	87.89	
UK	4.09	0.03	UK	4.03	0.01	DAX	19583.39	150.58	
JP	0.97	0.01	JP	0.44	0.01	DJ euro-50	4947.3	38.59	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.26	3.65	3.81	€STR	3.4150	0.0010			
5y	2.26	3.57	3.71	Euribor-1	3.1740	-0.0330	SOFR-1	4.7672	-0.0152
10y	2.39	3.62	3.72	Euribor-3	3.2190	0.0110	SOFR-3	4.6401	0.0101
				Euribor-6	3.0360	-0.0110	SOFR-6	4.4550	0.0220
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0831	-0.0031	EUR/JPY	162.7	0.16	CRB	281.71	-0.06	
USD/JPY	150.21	0.57	EUR/GBP	0.8324	-0.0038	Gold	2707.50	16.20	
GBP/USD	1.3011	0.0021	EUR/CHF	0.9380	-0.0020	Brent	74.45	0.23	
AUD/USD	0.6696	0.0029	EUR/SEK	11.4152	0.0066				
USD/CAD	1.3795	0.0044	EUR/NOK	11.8306	-0.0258				

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