



Monday, 21 October 2024

## KBC Sunrise Market Commentary

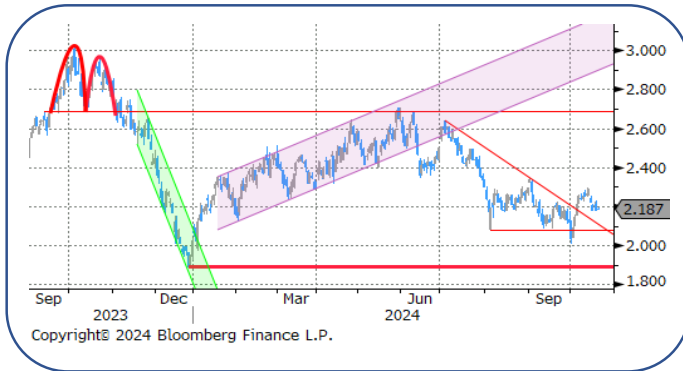
### Markets

- European yields Friday continued a gradual bull steepening in the aftermath of the ECB policy decision. **In first post-meeting comments**, policymakers evidently held to a data dependent approach. **However, the analysis on inflation is turning softer**. Several members including Bank de France governor Villeroy showed growing confidence that inflation, after a technical uptick in the coming months, might return target maybe already early next year. Markets consider a next back-to-back ECB rate cut in December as a done deal. Money markets even see a growing change of a 50 bps step (40%). **German yields declined further** between 3.8 bps (2-y) and 2.3 bps (30-y). In a session with only second tier eco data, US yields changed between -2.4 bps (2-y) and +0.4 bps. Contrary to a clear downtrend for European yields, **US yields for now found a new short-term equilibrium holding a very tight sideways range at all tenors**. Equity investors show confidence going in the key phase of the earnings season (Dow at record close). Despite a favourable economic and interest background, **the dollar on Friday fell prey to profit taking on an almost uninterrupted ascent since end September**. DXY closed near 103.5 (from 103.8). EUR/USD rebounded from 1.0831 to 1.0867. As such the 1.0835 support (62% retracement April-Sept rise) survived. Sterling initially was well bid after the release of **better than expected UK retail sales** even as this probably won't prevent the BoE from scaling back policy restriction at the November meeting. EUR/GBP tested the 0.83 big figure, but rebounded later to close almost unchanged at 0.8327. Even so, the downside in this cross rate still looks vulnerable.
- This morning, Asian equities are trading mixed to slightly higher. Chinese banks reduced lending rates after the PBOC recently took several measures to support growth. **Today's calendar in the US and EMU is thin**. This week, the IMF and World Bank will hold its annual meeting in Washington. Regarding data, the **October preliminary PMI's** (on Thursday) will be key to shape market expectations on the pace of further ECB easing. Tomorrow, **the Hungarian central bank (MNB)** will decide on its policy. Financial uncertainty (weak forint) recently caused vice governor Virag to call for a sustained period of interest rate stability. At Wednesday's **Bank of Canada** meeting the odds are quite different. Analysts see a growing change of the BoC stepping up the pace of rate cuts from 25 bps to 50 bps.

### News & Views

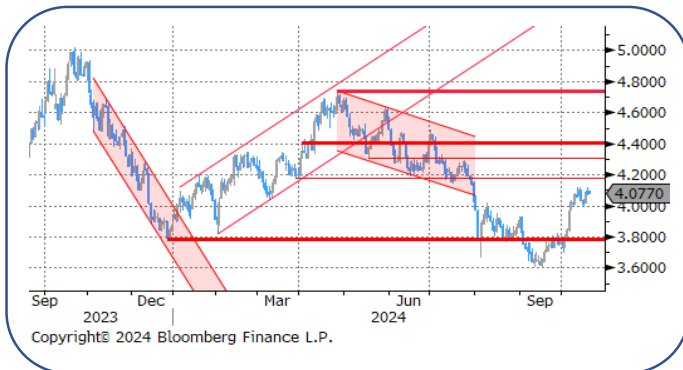
- **ESMA chair Verena Ross** in an interview with the Financial Times **called for more expanded powers to oversee major stock exchanges, clearing houses and settlement systems**. Launched in 2011 in a bid to harmonize scattered national rules, ESMA currently supervises only relatively few entities while leaving most of the oversight to national authorities. Former ECB president **Draghi in his report on European competitiveness** said such a single **common regulator (rather than the coordinator it is today) for all EU security markets is a "key pillar"** for the integration of capital markets. Ross said there is a clear political appetite in the newly appointed European Commission. To allay concerns of mostly smaller countries wary of transferring some of their sovereignty, Ross proposed a step-by-step approach in areas "where it makes most sense at this point". The idea of closer EU financial integration gained momentum in recent months but an attempt by France, backed by the Netherlands, Italy, Poland and Spain met with fierce opposition from a majority of the 27 member states. The latter country earlier this month proposed to move ahead with smaller coalitions of the willing where three or more EU countries could test ideas for co-operation.
- **Rating agency Fitch affirmed Italy's rating at BBB – the lowest within the investment grade spectrum - but raised the outlook from stable to positive in its review last Friday**. The decision reflects a stronger fiscal performance and commitment to EU fiscal rules, reducing risks stemming from Italy's exceptionally high debt levels. A credible fiscal plan should **narrow fiscal deficits from 3.7% this year to 3.2% and 2.7% in 2025 and 2026**. The Superbonus tax credit legacy will push **debt levels to 136.3% of GDP in 2026 before it starts to decline**. Being more than twice the BBB-median (55%), debt remains Italy's Achilles heel. But the country's ongoing fiscal consolidation effort is being supported by a more stable political context and growth being above the Eurozone average (0.7% in 2024, 1.1% in 2025) and signs of increased potential. Fitch forecasts **a widening of the current account surplus to 2.0% of GDP in 2025**, on an improved energy balance and further strengthening demand for exports.

# 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

Monday, 21 October		Consensus	Previous
<b>UK</b>			
01:01	Rightmove House Prices MoM/YoY (Oct)	0.30%A/1.00%A	0.80%/1.20%
<b>Germany</b>			
08:00	PPI MoM/YoY (Sep)	-0.20%/-1.10%	0.20%/-0.80%
<b>France</b>			
21OCT	Retail Sales SA YoY (Sep)	--	0.20%
<b>China</b>			
03:00	<b>5-Year Loan Prime Rate</b>	<b>3.60%A</b>	<b>3.85%</b>
03:00	1-Year Loan Prime Rate	3.10%A	3.35%
18OCT-25OCT	1-Yr Medium-Term Lending Facility Rate	2.00%	2.00%
18OCT-25OCT	FDI YTD YoY CNY (Sep)	--	-31.50%
18OCT-25OCT	1-Yr Medium-Term Lending Facilities Volume (Oct 25)	600.0b	300.0b
<b>Events</b>			
21-26OCT	<b>IMF and World Bank annual meetings</b>		
03:00	RBA's Hauser-Fireside Chat		
09:00	ECB's Simkus Speaks in Vilnius		
11:30	EU to Sell Up to EU3 Billion of 3.125% 2030, EU2 Billion of 2.5% 2052 Bonds		
12:00	Belgium to Sell 2.25% 2057 Bonds, 2.85% 2034 Bonds, 2.7% 2029 Bonds		
14:55	Fed's Logan Speaks at SIFMA Annual Meeting		
19:00	Fed's Kashkari Participates in Townhall Event		
23:05	<b>Fed's Schmid Speaks on Economic and Monetary Policy Outlook</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,08	-0,01		US	3,95	-0,02	DOW	43275,91	36,86
DE	2,18	-0,03		DE	2,11	-0,04	NASDAQ	18489,55	115,94
BE	2,76	-0,04		BE	2,24	-0,05	NIKKEI	39008,03	26,28
UK	4,06	-0,03		UK	4,00	-0,03	DAX	19657,37	73,98
JP	0,96	-0,02		JP	0,44	0,00	DJ euro-50	4986,27	38,97
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,23	3,63	3,76	€STR	3,4150	0,0000			
5y	2,24	3,56	3,66	Euribor-1	3,1470	-0,0270	SOFR-1	4,7537	-0,0135
10y	2,36	3,62	3,68	Euribor-3	3,2010	-0,0180	SOFR-3	4,6245	-0,0156
				Euribor-6	3,0280	-0,0080	SOFR-6	4,4338	-0,0212
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0867	0,0036		EUR/JPY	162,48	-0,22	CRB	279,55	-2,16
USD/JPY	149,53	-0,68		EUR/GBP	0,8327	0,0003	Gold	2730,00	22,50
GBP/USD	1,3052	0,0041		EUR/CHF	0,9399	0,0019	Brent	73,06	-1,39
AUD/USD	0,6706	0,0010		EUR/SEK	11,4318	0,0166			
USD/CAD	1,3799	0,0004		EUR/NOK	11,8723	0,0417			

## 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
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague		Bratislava	
Jan Cermak	+420 2 6135 3578		+421 2 5966 8820
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Budapest	
Marek Gabris	+421 2 5966 8809		+36 1 328 99 85
K&H Economics – Markets Budapest			
David Nemeth	+36 1 328 9989		

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)



This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.