



Thursday, 24 October 2024

KBC Sunrise Market Commentary

Markets

- German Bunds significantly outperformed US Treasuries yesterday, especially at the front end of the curve.** The German 2-yr yield lost 7.2 bps compared with a 4.7 bps increase for the US 2-yr yield. **EUR/USD as a result tested 1.0778 support a first time (close: 1.0782).** **ECB governors kept all options open for the December policy meeting** in comments on the sidelines of the IMF's World Economic Outlook in Washington. In brief: downside growth risks could accelerate an already faster-than-expected disinflation process and eventually result in an undershoot of the 2% inflation target. ECB Lagarde underlined that the direction of travel is clear and that the pace will be determined on the basis of backward- and forward-looking elements using the three criteria (inflation outlook, dynamics of underlying inflation and the strength of monetary transmission) and applying judgment. EMU money markets currently attach a near 50% probability to the ECB scaling rate cuts up to 50 bps in December. October PMI surveys are the first piece of the data puzzle today. **Over the past months, we've seen a divergence between very weak EMU sentiment data and more modest (but often ignored and labelled outdated) hard data.** Next week's Q3 EMU GDP numbers can therefore deliver a (much) better outcome than the 0.0% GDP growth as suggested by the PMI-based model. **Consensus doesn't expect much improvement in today's (October) PMI's** compared to upwardly revised (but also ignored) September figures. **They could be the straw to brake EUR/USD's back.** EUR/GBP yesterday bounced off 0.83-support in the run-up to **BoE Bailey's** speech in Washington. He stressed that disinflation is happening faster than expected though services inflation remains higher than is consistent with target. This suggests that he'll still **push for a 25 bps rate cut at the November BoE meeting.** UK & US PMI's and US weekly jobless claims are up for release as well today, **offering an interesting and likely volatile mix in an era of extremely data-dependence.** Genuine dollar strength and rising US rates propelled USD/JPY from 140 mid-September to 153 yesterday, **prompting a first verbal intervention by Japanese Finance Minister Kato** against one-sided rapid moves in FX markets.

News & Views

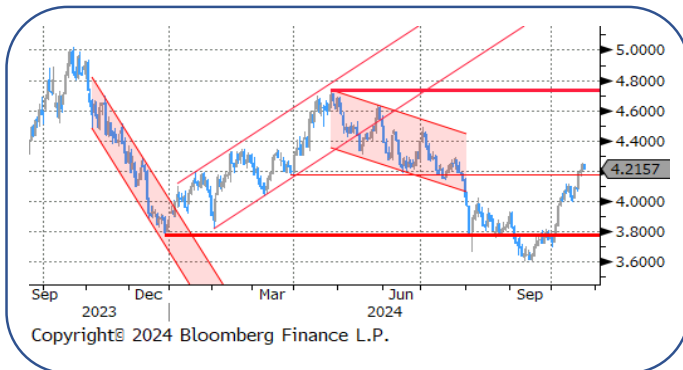
- The Bank of Canada upped the pace in its easing cycle yesterday and lowered the policy rate by 50 bps to 3.75%.** This came after **inflation eased sharply from 2.7% to 1.6%.** Aside from declining oil prices, the BoC sees notoriously sticky shelter costs have begun to ease. **Excess supply elsewhere in the economy** has reduced inflation in the prices of many other goods and services, it said, adding that **its preferred measures of core inflation are now below 2.5%.** With inflation now back around the 2% mid-point target and a lacklustre economy, the central bank put governor Macklem's words in September – when he offered the possibility of easing faster – to practice. **Canadian GDP is expected to strengthen gradually over 2024-2025-2026 (1.2%-2.1%-2.3%)** amid lower rates supporting consumption, residential & business investment. Exports should benefit from robust demand from the **US. Inflation saw some small downward revisions in the first two years of the policy horizon to be at 2.5%-2.2%-2.0%.** The BoC **commits to further cuts** if the economy evolves as expected but the **timing and pace is guided by incoming data.** With yesterday's move largely priced in **the Canadian dollar only lost limited ground** to USD/CAD 1.3836. The Loonie had been dropping significantly in the run-up since end-September amid the growing divergence between the US and Canada.
- The European Commission has cleared payment of some €800 million of post-pandemic recovery funds it withheld from Slovakia** over concerns with the rule of law in the country. The EC formally unblocked the funds already back in July after the Fico government **reinstated sentencing for fraud with EU resources.** But it stopped short from transferring until after parliament had approved changes to its criminal code which reduced sentences for crimes ranging from petty theft to fraud. The Fico's government in the meantime reassured Brussels that the amendments do not eliminate the prosecution of crimes related to EU Funds. The EC responded that some of its concerns have been alleviated though adding that **talks are ongoing to "clarify the pending issues"**.

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. **Strong US September payrolls suggest the economy doesn't need more aggressive Fed support for now (25 bps steps will do)**, but the debate might resurface as the economic cycle develops. 3.60% acted as strong support before a rebound (and resumption of fiscal-related steepening trend) kicked in.



EUR/USD

Solid early October US data started an impressive USD comeback as money markets reduced Fed rate cut bets. **The opposite happened in Europe** with markets doubling down on an aggressive ECB. **Relative yield dynamics pulled EUR/USD below 1.1002 to currently testing 1.0778.** US elections and the risk of a new Trump term, including hawkish trade policy, **add another layer to by default USD strength.**



EUR/GBP

The BoE delivered a **hawkish cut** in August. Policy restrictiveness will further unwind gradually, starting November 7. 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 is testing the 0.83 support zone ahead of the first Labour budget due October 30.

Calendar & Table

Thursday, 24 October		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Sep)	0.50	0.12
14:30	Initial Jobless Claims	242k	241k
14:30	Continuing Claims	1875k	1867k
15:45	S&P Global US Manufacturing PMI (Oct P)	47.5	47.3
15:45	S&P Global US Services PMI (Oct P)	55.0	55.2
15:45	S&P Global US Composite PMI (Oct P)	53.8	54
16:00	New Home Sales Total/MoM (Sep)	720k/-0.60%	716k/-4.70%
17:00	Kansas City Fed Manf. Activity (Oct)	-7	-8
Japan			
02:30	Jibun Bank Japan PMI Composite (Oct P)	49.4A	52
02:30	Jibun Bank Japan PMI Mfg (Oct P)	49.0A	49.7
02:30	Jibun Bank Japan PMI Services (Oct P)	49.3A	53.1
UK			
10:30	S&P Global UK Manufacturing PMI (Oct P)	51.5	51.5
10:30	S&P Global UK Services PMI (Oct P)	52.4	52.4
10:30	S&P Global UK Composite PMI (Oct P)	52.5	52.6
12:00	CBI Trends Total Orders (Oct)	-28	-35
12:00	CBI Trends Selling Prices (Oct)	9	8
12:00	CBI Business Optimism (Oct)	-5	-9
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Oct P)	45.1	45
10:00	HCOB Eurozone Services PMI (Oct P)	51.5	51.4
10:00	HCOB Eurozone Composite PMI (Oct P)	49.7	49.6
Germany			
09:30	HCOB Germany Manufacturing PMI (Oct P)	40.8	40.6
09:30	HCOB Germany Services PMI (Oct P)	50.6	50.6
09:30	HCOB Germany Composite PMI (Oct P)	47.6	47.5
France			
09:15	HCOB France Manufacturing PMI (Oct P)	45.0	44.6
09:15	HCOB France Services PMI (Oct P)	49.9	49.6
09:15	HCOB France Composite PMI (Oct P)	48.9	48.6
Norway			
08:00	Unemployment Rate Trend (Sep)	--	4.00%
Events			
Q3 earnings	UPS (12:00), Northrop Grumman (bef-mkt) ...		
15:00	ECB's Kazaks Speaks in Washington		
15:00	BOE's Mann Speaks		
19:00	ECB's Lane Speaks		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.25	0.04		US	4.08	0.05	DOW	42514.95	-409.94
DE	2.30	-0.01		DE	2.10	-0.07	NASDAQ	18276.65	-296.48
BE	2.89	-0.02		BE	2.27	-0.07	NIKKEI	38196.94	92.08
UK	4.20	0.03		UK	4.09	0.02	DAX	19377.62	-44.29
JP	0.96	-0.02		JP	0.45	0.00	DJ euro-50	4922.55	-16.76
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.27	3.79	3.87	€STR	3.1660	-0.2500			
5y	2.31	3.74	3.79	Euribor-1	3.1050	-0.0260	SOFR-1	4.7414	0.0010
10y	2.45	3.77	3.82	Euribor-3	3.0860	-0.0120	SOFR-3	4.6288	-0.0008
				Euribor-6	2.9720	0.0180	SOFR-6	4.4642	0.0084
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0782	-0.0017		EUR/JPY	164.69	1.52	CRB	283.44	-0.80
USD/JPY	152.76	1.68		EUR/GBP	0.8344	0.0027	Gold	2729.40	-30.40
GBP/USD	1.2921	-0.0063		EUR/CHF	0.9341	-0.0005	Brent	74.96	-1.08
AUD/USD	0.6634	-0.0048		EUR/SEK	11.4218	0.0350			
USD/CAD	1.3836	0.0018		EUR/NOK	11.8523	0.0624			

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