



Friday, 25 October 2024

KBC Sunrise Market Commentary

Markets

- EUR/USD 1.0778 lives to fight another day.** The technical support level **survived October PMI surveys**. Disappointing French numbers forced a test early on European dealings, but a better German reading and a close to consensus EMU gauge (2nd consecutive month below neutral 50-level though) balanced things out. Investors took it as a first sign to stop adding to ECB policy rate cut bets for now. The market implied probability of an acceleration to a 50 bps rate cut in December stands at 33% with the deposit rate expected to dip below the 2% neutral level in H2 2025. We continue to find this path **too aggressive**. The **ECB's monthly consumer survey** offers a second piece of information today via inflation expectations (1y & 3y forward). Both remain stuck above the central bank's 2% inflation target, respectively at 2.7% and 2.3%, but are gradually grinding lower. We doubt they'll be gamechangers though. Next week will be more interesting with **Q3 GDP data and October inflation figures**. Over summer, there's been a **discrepancy between very bad EMU sentiment data and less bad hard numbers**. The PMI-based nowcast hints at flat GDP growth in Q3, but the actual number could reach 0.2% Q/Q or even 0.3% Q/Q. Such reality check could also **slow or even partly reverse trends set in motion in the wake of last week's policy rate cut**. Inflation is equally set to undo September's dip below the 2% inflation target as base effects will push CPI higher going into year-end. When the spotlight turns away from euro weakness, **it will take dollar strength to pull EUR/USD below 1.0778**. The greenback had a stellar run since the start of the month, both driven by US data outperformance and by Trump's solid polling going into presidential elections. Yesterday's good eco figures (declining jobless claims and solid (services) PMI couldn't inspire dollar bulls though in **a sign that the greenback could shift into lower gear as we approach the combination of payrolls (Nov 1), elections (Nov 5) and Fed meeting (Nov 7)**. US durable goods orders are today's only highlight on the US agenda.

News & Views

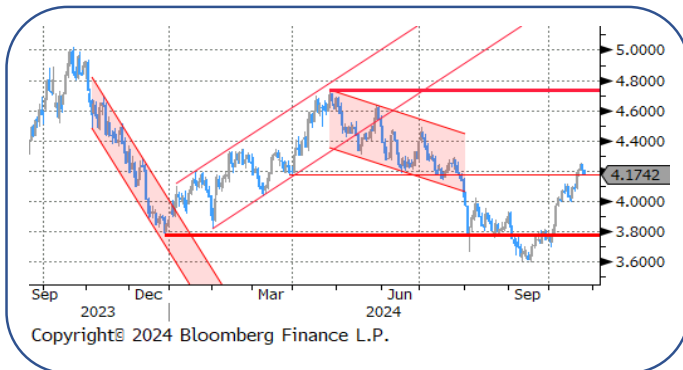
- Inflation in Japan's capital city Tokyo eased from 2.1% to 1.8% in October.** Energy was the main driving force behind the deceleration. **Government subsidies for energy costs shaved about half a percentage point from the overall index**. This also caused a slowdown in the gauge **excluding fresh food from 2% to 1.8%**. An even narrower gauge (ex. fresh food and energy) actually unexpectedly accelerated from 1.6% to 1.8%. The monthly 0.6% pace was the quickest in over a year. **Services inflation edged up from 0.6% to 0.8%**, led by price rises in public services. Price developments in the public sector are seen as more rigid than in the private sector, suggesting **the wage-price spiral** is materializing in that part of the economy too. The Tokyo indicator points at **continued underlying inflationary momentum** and is considered a good indicator of where the national trend is headed. That should trigger further hikes by the Bank of Japan, though not at next week's October 31 meeting. Its governor Ueda in the sidelines of the IMF and World bank annual meetings yesterday said **the central bank has time to consider its next steps**. That makes **December the earliest candidate** for a third rate hike (by 25 bps this time?) this cycle. The Japanese yen trades a tad stronger this morning at USD/JPY 151.6 as it heads into **Japanese general elections on Sunday**. The ruling LDP risks losing its majority for the first time since 2009.
- UK GfK consumer confidence eased to the lows seen earlier this year.** The indicator fell from -20 to -21 in October with households **becoming gloomier on the broader economic outlook** despite seeing **an improvement in their personal finances on dropping inflation**. The back-to-back decline was an extension to last months' steep 7 point drop which GfK attributed to speculation about the tax and spending plans in **the Chancellor's upcoming Budget statement (October 30)**. UK consumers' saving intentions picked up from 23 to 27. The GfK's major purchase gauge improved slightly but remains at a relatively low level nonetheless.

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.



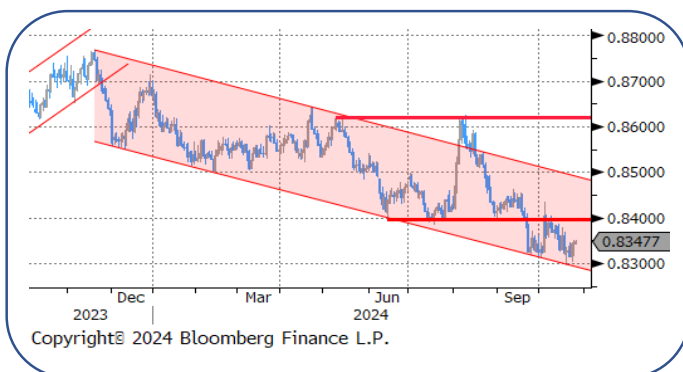
US 10y yield

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

Friday, 25 October		Consensus	Previous
US			
14:30	Durable Goods Orders (Sep P)	-1.00%	0.00%
14:30	Durables Ex Transportation (Sep P)	-0.10%	0.50%
14:30	Cap Goods Orders Nondef Ex Air (Sep P)	0.10%	0.30%
14:30	Cap Goods Ship Nondef Ex Air (Sep P)	0.00%	-0.10%
16:00	U. of Mich. Sentiment (Oct F)	69.1	68.9
17:00	Kansas City Fed Services Activity (Oct)	--	-2
Japan			
01:30	Tokyo CPI YoY (Oct)	1.80%A	2.10%R
01:30	Tokyo CPI Ex-Fresh Food YoY (Oct)	1.80%A	2.00%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Oct)	1.80%A	1.60%
01:50	PPI Services YoY (Sep)	2.60%A	2.70%
UK			
01:01	GfK Consumer Confidence (Oct)	-21A	-20
EMU			
10:00	ECB 1 Year CPI Expectations (Sep)	2.60%	2.70%
10:00	ECB 3 Year CPI Expectations (Sep)	2.20%	2.30%
10:00	M3 Money Supply YoY (Sep)	2.90%	2.90%
Germany			
10:00	IFO Business Climate (Oct)	85.6	85.4
10:00	IFO Current Assessment (Oct)	84.4	84.4
10:00	IFO Expectations (Oct)	86.9	86.3
France			
08:45	Consumer Confidence (Oct)	95	95
Italy			
10:00	Consumer Confidence Index (Oct)	98.5	98.3
10:00	Manufacturing Confidence (Oct)	87.0	86.7
10:00	Economic Sentiment (Oct)	--	95.7
Belgium			
15:00	Business Confidence (Oct)	-12.8	-13.3
Events			
Q3 earnings	New York Community Banking (13:00) ...		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.21	-0.03		US	4.08	0.00	DOW	42374.36	-140.59
DE	2.27	-0.04		DE	2.08	-0.03	NASDAQ	18415.49	138.84
BE	2.85	-0.04		BE	2.25	-0.01	NIKKEI	37839.18	-304.11
UK	4.24	0.04		UK	4.14	0.05	DAX	19443	65.38
JP	0.96	-0.01		JP	0.46	0.00	DJ euro-50	4935.45	12.90
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.24	3.77	3.91	€STR	3.1660	0.0000			
5y	2.27	3.71	3.82	Euribor-1	3.1020	-0.0030	SOFR-1	4.7106	-0.0308
10y	2.40	3.74	3.84	Euribor-3	3.0720	-0.0140	SOFR-3	4.6079	-0.0209
				Euribor-6	2.9200	-0.0520	SOFR-6	4.4357	-0.0285
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0828	0.0046		EUR/JPY	164.4	-0.29	CRB	282.38	-1.06
USD/JPY	151.83	-0.93		EUR/GBP	0.8345	0.0001	Gold	2748.90	19.50
GBP/USD	1.2975	0.0054		EUR/CHF	0.9374	0.0032	Brent	74.38	-0.58
AUD/USD	0.664	0.0006		EUR/SEK	11.4317	0.0099			
USD/CAD	1.3855	0.0019		EUR/NOK	11.8442	-0.0081			

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