



Monday, 28 October 2024

KBC Sunrise Market Commentary

Markets

- Core bond yields ended the week higher. German bond yields added between 1.2 (30-yr) and 4 bps (2-yr). Bunds initially underperformed US Treasuries before the latter suffered from a late-session swoon. US yields swapped earlier losses for gains varying between 2.6 and 3.2 bps across the curve. The US dollar held the upper hand against all G10 peers. EUR/USD tried but failed to extend Thursday's gains. European PMI's not delivering a September-like disappointment was a weak base to rally on anyway. The couple returned from intraday highs around 1.084 to back below 1.08. The trade-weighted dollar index finished north of 104 after all. A nervous JPY going into the **Sunday elections** prevented USD/JPY from dropping below the 200DMA around 151.45. The yen extends losses this morning after **the ruling LDP and its much smaller coalition party lost their majority in what is considered a bigger blow than expected** to premier Ishiba's party. Ishiba and the LDP will be exploring their options, potentially teaming up with a party that's pursuing expansionary fiscal policies - in coming weeks. Not that it needed one, but the extra layer of political uncertainty is an **additional argument for the Bank of Japan to stand pat** at Thursday's policy meeting. That's just one of the key events featuring the **massive eco calendar** this week though. Today's starts off quiet, **paving the way for a technical extension to the so-called Trump trade** (higher USD, US rates) as the odds increasingly turn into the favour of the former president. The US publishes the first estimate of third-quarter GDP growth as well as quarterly PCE inflation numbers on Wednesday. Estimates are for a solid Q2-matching 3% q/q (annualized). Key US labour market data include JOLTS job numbers on Tuesday and (hurricane-affected) October payrolls on Friday. Spotlights are also on Europe with GDP growth released on Wednesday. The economy may have fared better than the dire Q3 PMI readings suggested (0.2% vs flat). Hard data lately often deviated from soft indicators. October inflation most likely picked up again in the EMU. Base effects will make it clear that the current 2% undershoot is temporary at least through the end of the year. UK Chancellor Reeves will present the Budget to parliament on Wednesday. Investors are on high alert after she altered the definition of "debt" to create additional budgetary headroom. The earnings season meanwhile also gains traction: Apple, Amazon, Intel, Microsoft, Meta Platforms, Alphabet and many others report.

News & Views

- Rating agency S&P affirmed the Belgian AA rating with a stable outlook last Friday after market close.** The stable outlook **balances risks from comparatively large budget deficits and increasing general government debt against the potential for stronger economic growth and improvement in Belgium's already-solid external position.** S&P is on the optimistic side of the aisle in forecasting that the budget deficit will gradually narrow to 3.4% of GDP in 2027 from 4.2% last year. The government debt ratio stays slightly below a high 100% of GDP through 2027 in such scenario. They add the disclaimer that **failure to reduce these larges deficits and debt ratio could prompt a rating downgrade.** Political fragmentation will likely complicate the next government's implementation of economic and budgetary reforms. S&P forecasts Belgium's annual real economic growth to average 1.3% in 2024-2027 on robust consumption and investment activity, and faster European economic growth from 2025. **Earlier this month, rating agency Moody's switched the outlook on the Belgian Aa3 rating from stable to negative.** Fitch is expected to resolve its negative outlook on Belgium's AA- rating (in place since early 2023) at the beginning of next year with a **significant risk of a first ever downgrade from the AA into the A category.**
- The Bulgarian centre-right Gerb party of former PM Borissov remains the biggest in the nations seventh parliamentary election since 2021.** The party gained again around 25% of the vote and needs at least two coalition partners to form a government. **This risks again being complicated** as number two in the polls ran on an anti-corruption platform (anti-Gerb) and number three is the only party Borissov specifically rules out to work together with (pro-Russia, anti-Nato). Borissov was firmly in power in the decade running up to anti-graft protests against him and his party which kickstarted the political stalemate of the past three years resulting in delays to euro-adoption plans and freezing billions of EU aid.

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 Trump-trade driven rebound (and 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

Monday, 28 October		Consensus	Previous
US			
15:30	Dallas Fed Manf. Activity (Oct)	-9.2	-9
UK			
01:01	Lloyds Business Barometer (Oct)	44A	47
01:01	Lloyds Own Price Expectations (Oct)	61A	65
12:00	CBI Total Dist. Reported Sales (Oct)	--	-8
12:00	CBI Retailing Reported Sales (Oct)	-10	4
Spain			
09:00	Retail Sales SA YoY (Sep)	2.10%	2.30%
Events			
Q3 earnings	ON Semiconductor (bef-mkt), Ford Motor (21:05) ...		
10:00	ECB's Wunsch Speaks		
16:30	U.S. To Sell USD69 Bln 2-Year Notes		
18:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.24	0.03		US	4.10	0.03	DOW	42114.4	-259.96
DE	2.29	0.02		DE	2.12	0.04	NASDAQ	18518.61	103.12
BE	2.89	0.05		BE	2.29	0.04	NIKKEI	38605.53	691.61
UK	4.23	0.00		UK	4.17	0.02	DAX	19463.59	20.59
JP	0.98	0.02		JP	0.46	0.01	DJ euro-50	4943.09	7.64
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.26	3.80	3.94	€STR	3.1660	0.0000			
5y	2.29	3.73	3.85	Euribor-1	3.1270	0.0250	SOFR-1	4.6992	-0.0114
10y	2.41	3.76	3.86	Euribor-3	3.0590	-0.0130	SOFR-3	4.5939	-0.0140
				Euribor-6	2.8940	-0.0260	SOFR-6	4.4258	-0.0099
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0796	-0.0032		EUR/JPY	164.43	0.03	CRB	284.68	2.30
USD/JPY	152.31	0.48		EUR/GBP	0.8329	-0.0016	Gold	2754.60	5.70
GBP/USD	1.2962	-0.0013		EUR/CHF	0.9358	-0.0016	Brent	76.05	1.67
AUD/USD	0.6608	-0.0032		EUR/SEK	11.4662	0.0345			
USD/CAD	1.3892	0.0037		EUR/NOK	11.8446	0.0004			

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