



Tuesday, 29 October 2024

## KBC Sunrise Market Commentary

### Markets

- Last week's waiting game extended into the first trading day of the new and jampacked one. **Oil prices crashed** more than 6% to \$71.4/b (Brent) after Israel spared Iranian oil facilities in retaliatory strikes over the weekend. Markets elsewhere were much more contained. Core bonds diverged with US Treasuries underperforming German Bunds. **A double US auction added to the move.** Both the \$69 2-yr and the \$70 5-yr one tailed, potentially spelling some difficulties for **tonight's 7-yr one** and ahead of the 3-yr, 10-yr and 30-yr auctions next week. These take place against the background of huge event risk: over the next 9 days, markets are served a big economic update, a new president & Congress and a Fed policy meeting. That **Treasury marginally trimmed its borrowing estimate** (see below) for the Oct-Dec quarter won't alleviate concerns for the big wall of supply. US yields finished higher on Monday, gains varying between 3 (30-yr) to 5.3 bps (5-yr). German rates undid a higher open to ease up to 1.6 bps at the front. The Japanese yen underperformed global currency peers in the wake of Sunday's elections which stripped PM Ishiba's Liberal Democratic Party of an absolute majority. USD/JPY rose to 153.29. Japanese finance minister Kato already took note of the "significant weakening" of the yen. More verbal warnings are likely to follow in coming days. EUR/USD whipsawed and closed around 1.08, DXY did something similar north of 104.
- The economic calendar features the first of many releases today. **US job openings** (September JOLTS) are expected to come in at 8 mln, slightly down from the 8.04 mln in August but still above the pre-pandemic highs of 7.6 mln. **Consumer confidence** (Conference Board) may pick up slightly in October to 99.5 but that wouldn't change the confidence stalemate of the past months. The headline indicator has been oscillating around 100 since February of this year. Given the data avalanche that's still ahead, we don't expect today's to leave a significant mark on markets. Instead we keep a close look at some technical resistance areas popping up in the likes of the US 10-yr. The latter tested 4.3% (62% recovery on the Q2-Q3 decline) yesterday and we continue to see the long end as the most vulnerable part of the curve, at least going into the elections. The front/2-yr confirmed last week's break above 4.09%. Unless economic data this week deliver some blowout upside surprises, markets may feel most comfortable aligning more or less with the Fed dot plot (50 bps of additional cuts vs 43 bps priced in now). First dollar resistance is situated at EUR/USD 1.076 (October low). Sterling is biding its time in a narrow EUR/GBP 0.83-0.835 trading range ahead of tomorrow's Budget. UK gilts yesterday underperformed in a possible sign of market nervousness.

### News & Views

- The US Treasury said in a statement yesterday that it borrowed \$762bn** in privately-held net marketable debt **during Q3 2024 compared with an estimated borrowing of \$740bn.** Borrowing was \$22bn higher largely because of a \$36bn higher ending cash balance (\$886bn vs \$850bn) partially offset by higher net cash flows. **The Treasury expects to borrow \$546bn in the final quarter of the year** assuming an (unchanged) end-of-year cash balance of \$700bn. That's \$19bn less than projected in July (\$565bn). On Wednesday, the department will release its **quarterly refunding announcement in which it unveils specific plans for long-term debt issuance.** During Q1 2025, Treasury expects to borrow \$823bn, assuming an end-of-March cash buffer of \$850bn.
- UK shop prices rose by 0.1% M/M in October according to a metric of the British Retail Consortium.** The small gain was **driven by non-food prices** with food prices flat on the month. In Y/Y-terms, overall prices fell by 0.8% from -0.6% Y/Y in September and the weakest since August 2021. Food price inflation slowed from 2.3% Y/Y to 1.9% Y/Y with non-food price deflation unchanged at -2.1% Y/Y (falling on annual basis since April). BRC chief executive Dickinson said that **the downward trajectory is vulnerable to ongoing geopolitical tensions, the impact of climate change on food supplies, and costs from planned and trailed government regulation.** Wednesday's budget by Chancellor Reeves is also causing some unease among employers

# 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

Tuesday, 29 October		Consensus	Previous
<b>US</b>			
13:30	Wholesale Inventories MoM (Sep P)	0.10%	0.10%
13:30	Advance Goods Trade Balance (Sep)	-\$96.0b	-\$94.3b
13:30	Retail Inventories MoM (Sep)	0.50%	0.50%
14:00	FHFA House Price Index MoM (Aug)	0.10%	0.10%
14:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Aug)	0.20%/5.10%	0.27%/5.92%
<b>15:00</b>	<b>JOLTS Job Openings (Sep)</b>	<b>8000k</b>	<b>8040k</b>
<b>15:00</b>	<b>Conf. Board Consumer Confidence (Oct)</b>	<b>99.5</b>	<b>98.7</b>
15:00	Conf. Board Present Situation (Oct)	--	124.3
15:00	Conf. Board Expectations (Oct)	--	81.7
15:30	Dallas Fed Services Activity (Oct)	--	-2.6
<b>Japan</b>			
00:30	Jobless Rate (Sep)	2.40%A	2.50%
00:30	Job-To-Applclicant Ratio (Sep)	1.24A	1.23
<b>UK</b>			
01:01	BRC Shop Price Index YoY (Oct)	-0.80%A	-0.60%
10:30	Net Consumer Credit (Sep)	1.3b	1.3b
10:30	Consumer Credit YoY (Sep)	--	7.60%
10:30	Mortgage Approvals (Sep)	64.4k	64.9k
10:30	Money Supply M4 MoM/YoY (Sep)	--/--	-0.10%/1.70%
<b>Germany</b>			
08:00	GfK Consumer Confidence (Nov)	-20.5	-21.2
<b>Belgium</b>			
<b>11:00</b>	<b>GDP SA QoQ/YoY (3Q P)</b>	<b>--/--</b>	<b>0.20%/1.10%</b>
<b>Sweden</b>			
<b>08:00</b>	<b>GDP Indicator SA QoQ/WDA YoY (3Q)</b>	<b>0.30%/0.50%</b>	<b>-0.80%/0.00%</b>
<b>Events</b>			
Q3 earnings	McDonalds (bef-mkt), Chipotle Mexican Grill (21:10), Snap (aft-mkt), Visa (aft-mkt), Alphabet (aft-mkt) ...		
11:30	Germany to Sell Bonds		
18:00	U.S. To Sell USD44 Bln 7-Year Notes		
<b>19:00</b>	<b>SNB's Schlegel Speaks in Cham</b>		



<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>	<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
US	4.28	0.04		US	4.14	0.03	DOW	42387.57	273.17
DE	2.29	0.00		DE	2.10	-0.02	NASDAQ	18567.19	48.58
BE	2.87	-0.02		BE	2.26	-0.03	NIKKEI	38903.68	298.15
UK	4.25	0.02		UK	4.21	0.04	DAX	19531.62	68.03
JP	0.98	0.00		JP	0.46	0.00	DJ euro-50	4969.83	26.74
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>	<b>USD</b>	<u>-1d</u>	<u>-2d</u>
3y	2.24	3.84	3.94	€STR	3.1640	-0.0020			
5y	2.27	3.77	3.86	Euribor-1	3.1520	0.0250	SOFR-1	4.6926	-0.0066
10y	2.40	3.80	3.87	Euribor-3	3.0520	-0.0070	SOFR-3	4.5933	-0.0006
				Euribor-6	2.9050	0.0110	SOFR-6	4.4317	0.0059
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0812	0.0016		EUR/JPY	165.73	1.30	CRB	277.71	-6.97
USD/JPY	153.29	0.98		EUR/GBP	0.8335	0.0007	Gold	2755.90	1.30
GBP/USD	1.2972	0.0010		EUR/CHF	0.9358	0.0000	Brent	71.42	-4.63
AUD/USD	0.6583	-0.0025		EUR/SEK	11.5158	0.0496			
USD/CAD	1.389	-0.0002		EUR/NOK	11.8914	0.0468			

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