



Wednesday, 30 October 2024

KBC Sunrise Market Commentary

Markets

- UK gilts underperformed yesterday. Yields with maturities ranging from the 2-yr (+5.1 bps) to the 10-yr (+6.1 bps) all hit five month and post-election highs. **The spring Budget, due to be presented later today, is a key moment for the new Labour government and for markets.** UK debt sales are expected to rise to the second-highest on record (£300bn) this year, trumped only by the pandemic-stricken years. This time, however, there's no central bank buying bonds en masse, on the contrary. Labour needs to plug a £40bn hole and wants to invest in infrastructure and public services. With taxes already headed to their highest in decades, cutting expenditures (which usually enjoys little political appetite) and borrowing are the remaining options. By broadening the definition of "debt", Chancellor Reeves created some £50bn additional borrowing room for future years without breaching the long-term debt reduction targets. Markets are on edge and rightly so. Expansionary fiscal policy may limit the central bank's ability to cut rates. Sterling welcomes the (front end) interest rate support for now but we doubt whether that's also going to be the case if rising (credit) risk premia take over at the long end of the curve. EUR/GBP tested 0.83 support yesterday; GBP/USD settled back above 1.30. German rates rose a couple of basis points too, from 3.4-5.7 bps. UST's parted ways. Yields whipsawed on weaker JOLTS and stronger US consumer confidence before a **smooth \$44bn 7-yr auction** (contrasting with the 2-yr and 5-yr one) settled the debate. Net daily changes varied between -2.8 bps to -4.3 bps. EUR/USD 1.076-1.0778 support lived to fight another day. Strong after-market results from Alphabet and reports of additional Chinese stimulus – likely to be announced at a top meeting next week – failed to inspire Asian trading this morning. Japan is an outlier with recent JPY weakness (USD/JPY 153.4) being the driver of current stock outperformance (+0.5-1%). Q3 GDP growth and inflation features the agenda today. The amount of data may trigger intraday FI and FX volatility but makes directional calls tricky. We expect in any case to see **ongoing divergence between the US and Europe** with the former growing triple the speed of the latter (2.9% q/q annualized vs 0.2% q/q). The split within the euro area between the ailing core (Germany) and outperforming periphery (Italy, Spain) will most likely deepen. First national CPI prints are due in Germany, Belgium and Spain while the US publishes Q3 PCE deflators. The ADP job report serves as an appetizer for Friday's payrolls. Both are expected to reflect a significant **hurricane-related impact**. More tech giants including Microsoft and Meta Platforms report after market.

News & Views

- Headline Australian inflation rose by 0.2% Q/Q in the July-September quarter, down from a 1% Q/Q pace in Q2 and printing slightly below consensus (0.3%).** Inflation slowed from 3.8% to 2.8% in Y/Y-terms, **moving within the Reserve Bank of Australia's 2-3% inflation target** band for the first time since Q1 2021. While prices continued to rise for most goods and services, these increases were offset by **large falls for electricity** (-17.3%) and automotive fuel prices. (-6.7%). Without rebates (2024-2025 Commonwealth Energy Bill Relief Fund & state-specific discounts) electricity prices would have increased by 0.7% Q/Q. The decline in annual goods inflation from 3.2% Y/Y to 1.4% Y/Y was also down to electricity and gas prices. Annual services inflation rose from 4.5% Y/Y in Q2 to 4.6% Y/Y. Higher prices for rents, insurance and child care were the main contributors. Underlying core measures, like the trimmed mean which filters for the biggest price swings, also point to more stubborn price pressures, keeping the Q2 pace of 0.8% Q/Q in Q3 and only slowing from 3.9% Y/Y to 3.5% Y/Y. Today's numbers **warrant the RBA's current higher-for-longer approach**, suggesting that a first rate cut will effectively only be for Q2 2025. AUD/USD abides by the rules of USD-strength this month, dropping back from 0.69+ end Q3 to 0.6550 currently.
- The EU is walking the tariff talk against Chinese electric vehicles. **Brussels yesterday announced levies that will come into force today and last for five years.** The new duties come on top of an existing 10% tariff on Chinese car imports to the EU. Extra tariffs depend on the manufacturer and range from 7.8% to 35.3%. **Earlier this year, the US raised tariffs on Chinese EV's to more than 100% citing extensive government subsidies.** The EU's decision **risks triggering retaliation** on goods ranging from dairy over pork and brandy to cars with large engines. The latter could be increased from the current 15% to 25%.

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

Wednesday, 30 October		Consensus	Previous
US			
12:00	MBA Mortgage Applications	--	-6.70%
13:15	ADP Employment Change (Oct)	111k	143k
13:30	GDP Annualized QoQ (3Q A)	2.90%	3.00%
13:30	Personal Consumption (3Q A)	3.30%	2.80%
13:30	GDP Price Index (3Q A)	1.90%	2.50%
13:30	Core PCE Price Index QoQ (3Q A)	2.10%	2.80%
15:00	Pending Home Sales MoM/NSA YoY (Sep)	1.90%/-1.10%	0.60%/-4.30%
Japan			
06:00	Consumer Confidence Index (Oct)	36.2A	36.9
EMU			
11:00	Consumer Confidence (Oct F)	--	-12.5
11:00	Services Confidence (Oct)	6.6	6.7
11:00	Industrial Confidence (Oct)	-10.5	-10.9
11:00	Economic Confidence (Oct)	96.3	96.2
11:00	GDP SA QoQ/YoY (3Q A)	0.20%/0.80%	0.20%/0.60%
Germany			
09:55	Unemployment Change (000's) (Oct)	15.0k	17.0k
09:55	Unemployment Claims Rate SA (Oct)	6.10%	6.00%
10:00	GDP SA QoQ/WDA YoY (3Q P)	-0.10%/-0.30%	-0.10%/0.00%
14:00	CPI MoM/YoY (Oct P)	0.20%/1.80%	0.00%/1.60%
14:00	CPI EU Harmonized MoM (Oct P)	0.20%/2.10%	-0.10%/1.80%
France			
07:30	Consumer Spending MoM/YoY (Sep)	0.10%/0.00%	0.20%/0.00%
07:30	GDP QoQ/YoY (3Q P)	0.30%/1.20%	0.20%/1.00%
Italy			
10:00	GDP WDA QoQ/WDA YoY (3Q P)	0.20%/0.70%	0.20%/0.90%
Belgium			
30OCT	CPI MoM/YoY (Oct)	-/-	-0.50%/3.06%
Czech Republic			
09:00	GDP QoQ/YoY (3Q A)	0.40%/1.40%	0.40%/0.60%
Hungary			
08:30	GDP SA QoQ/NSA YoY (3Q P)	0.10%/0.70%	-0.20%/1.50%
Spain			
09:00	GDP QoQ/YoY (3Q P)	0.60%/3.00%	0.80%/3.10%
09:00	CPI EU Harmonised MoM/YoY (Oct P)	0.40%/1.80%	-0.10%/1.70%
09:00	CPI Core YoY (Oct P)	2.30%	2.40%
Events			
Q3 earnings	Caterpillar (11:30), Meta Platforms (aft-mkt), Coinbase (aft-mkt), Microsoft (aft-mkt), Starbucks (aft-mkt) ...		
10:00	SNB's Schlegel and Kraenzlin Speak at News Conference in Bern		
11:00	Italy to Sell Bonds		
13:30	UK Chancellor of the Exchequer Rachel Reeves presents budget		
13:30	US Treasury quarterly refunding announcement		
16:00	ECB's Schnabel Speaks in Frankfurt		
16:15	ECB's Villeroy Speaks at LSE in London		
19:00	ECB's Nagel Speaks		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.25	-0.03		US	4.10	-0.04	DOW	42233.05	-154.52
DE	2.34	0.05		DE	2.14	0.04	NASDAQ	18712.75	145.56
BE	2.93	0.06		BE	2.30	0.04	NIKKEI	39277.39	373.71
UK	4.32	0.06		UK	4.26	0.05	DAX	19478.07	-53.55
JP	0.97	-0.02		JP	0.45	-0.01	DJ euro-50	4950.02	-19.81
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.26	3.79	3.99	€STR	3.1640	0.0000			
5y	2.29	3.73	3.91	Euribor-1	3.1460	-0.0060	SOFR-1	4.6830	-0.0096
10y	2.40	3.77	3.91	Euribor-3	3.0560	0.0040	SOFR-3	4.5759	-0.0174
				Euribor-6	2.8860	-0.0190	SOFR-6	4.4065	-0.0252
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0819	0.0007		EUR/JPY	165.91	0.18	CRB	278.33	0.62
USD/JPY	153.36	0.07		EUR/GBP	0.8312	-0.0023	Gold	2781.10	25.20
GBP/USD	1.3015	0.0043		EUR/CHF	0.9382	0.0025	Brent	71.12	-0.30
AUD/USD	0.6561	-0.0022		EUR/SEK	11.5116	-0.0042			
USD/CAD	1.3915	0.0025		EUR/NOK	11.8572	-0.0342			

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