



Thursday, 31 October 2024

Dear reader,

There will be no KBC Economics-Markets reports on Friday, November 1. We resume our publications on Monday, November 4.

KBC Sunrise Market Commentary

Markets

- "Overall borrowing between 2024-25 and 2028-29 is higher than the March forecast by £142.2 billion, an average of £28.4 billion a year. **This represents one of the largest fiscal loosening of any fiscal event in recent decades.**"* It's the UK Office for Budget Responsibility's summary of Chancellor Reeves autumn Budget yesterday. UK gilts initially stomach the Budget extremely well, with the lack of Truss/Kwarteng-like surprises causing yield drops of >10 bps across the curve compared to Tuesday's close. Things took a turn after the OBR dropped its analysis with a massive >20 bps comeback from the intraday lows. Yields eventually closed 4.1 (30-yr) to 6 bps (2-yr) higher. Markets trimmed bets for BoE easing to <100 bps of cuts in the year ahead. EUR/GBP rebounded from the low 0.83 to 0.8375 amid significant Bund underperformance. Yields rose +/-12 bps at the front in the wake of (much) higher-than-expected European growth and inflation reaccelerating quicker than anticipated. Readings from several national member states yesterday **suggest a faster return of the European figure back above 2%** from the 1.7% currently. Risks to analysts' estimate of 1.9% for the October outcome released later today are clearly skewed to the upside. US yields rose up to 8.5-9.4 bps (2-yr, 3-yr) on a consensus-crushing ADP job report, solid, consumer-driven GDP growth and strong housing data. Narrowing interest rate differentials nevertheless gave the euro the upper hand against the dollar. EUR/USD jumped to 1.0856. We think the downside around 1.076-1.0778 is better protected from the euro's perspective. The eco calendar this week still has something in offer for the USD though. PCE inflation for September today is a non-event after yesterday's Q3 release. But the Employment Cost Index (Q3) and weekly jobless claims serve as wildcards. **The October payrolls and manufacturing ISM are due on Friday.** We think material upside surprises are needed for dollar strength to have technical implications with the **US elections and Fed policy meeting next week drawing close.** The US 2-yr and 10-yr are trading around first resistance of 4.2% and 4.3% respectively (38.2% and 50% recovery on the 2023-2024 high-to-low).

News & Views

- The Bank of Japan delivered the much-anticipated status quo this morning, keeping the key policy rate level at 0.25%.** Updated growth and inflation forecasts barely changed compared with the July update. The BoJ plots a 0.6%-1.1% (from 1%)-1% growth path for fiscal years 2024-2026. Core CPI is expected to average 2.5%-1.9% (from 2.1%)-1.9% over that same time horizon. The BoJ cited a recent decline in oil prices as main reason for the FY2025 revision. The central bank sticks to the view that **inflation risks are tilted on the upside.** JPY-weakness is an (unmentioned) reason for concern, stoking import prices. One of the reasons why the BoJ didn't commit to another rate hike (yet) is that it pays attention to the **future course of overseas economies**, particularly the US'. Governor Ueda holds a press conference later today. USD/JPY trades a tad softer this morning, sliding from 153.50 to 152.80 currently.
- Czech National Bank vice-governor Zamrazilova is the first to openly suggest she might opt for a pause as the CNB's rate cut cycle slowly draws to an end.** The policy rate currently stands at 4.25% compared with an estimated neutral rate of at least 3.5%. Zamrazilova still sees room for rates to decrease further, but she's **evaluating how to spread those rate cuts in time.** She added that risks to fulfilling the inflation target next year are prevailing at the moment and that's a reason for caution. Latest eco data suggest that household spending was stronger than in H1 2024 and will probably accelerate further next year, helped by growing real wages. **The worsening global outlook nevertheless suggest a downward growth revision** at next week's policy meeting. Money markets discount a 25 bps rate cut, but Zamrazilova's comments suggests that **a pause is possible in December.** EUR/CZK continues to trade near this year's weakest levels (25.40 compared to 25.53 YTD high).

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 and neither by Reeves' expansive autumn Budget. The EUR/GBP 0.83 support zone was tested but survived. We could see some return action higher.

Calendar & Table

Thursday, 31 October		Consensus	Previous
US			
12:30	Challenger Job Cuts YoY (Oct)	--	53.40%
13:30	Employment Cost Index (3Q)	0.90%	0.90%
13:30	Personal Income/Spending (Sep)	0.30%/0.40%	0.20%/0.20%
13:30	Real Personal Spending (Sep)	0.30%	0.10%
13:30	PCE Price Index MoM/YoY (Sep)	0.20%/2.10%	0.10%/2.20%
13:30	Core PCE Price Index MoM/YoY (Sep)	0.30%/2.60%	0.10%/2.70%
13:30	Initial Jobless Claims	230k	227k
13:30	Continuing Claims	1880k	1897k
14:45	MNI Chicago PMI (Oct)	47.0	46.6
Japan			
31OCT	BOJ Target Rate	0.25%A	0.25%
31OCT	BOJ GDP Current Forecast (4Q)	0.60%A	0.60%
31OCT	BOJ GDP Current Forecast +1 (4Q)	1.10%A	1.00%
31OCT	BOJ GDP Current Forecast +2 (4Q)	1.00%A	1.00%
31OCT	BOJ Core CPI Current Forecast (4Q)	2.50%A	2.50%
31OCT	BOJ Core CPI Current Forecast +1 (4Q)	1.90%A	2.10%
31OCT	BOJ Core CPI Current Forecast +2 (4Q)	2.00%A	1.90%
31OCT	BOJ Core CPI Ex-Energy Current (4Q)	1.90%A	1.90%
31OCT	BOJ Core CPI Ex-Energy Current Forecast +1 (4Q)	1.90%A	1.90%
31OCT	BOJ Core CPI Ex-Energy Current Forecast +2 (4Q)	2.10%A	2.10%
00:50	Retail Sales MoM/YoY (Sep)	-2.30%A/0.50%A	1.00%R/3.10%R
00:50	Industrial Production MoM/YoY (Sep P)	1.40%A/-2.80%A	-3.30%/-4.90%
06:00	Housing Starts YoY (Sep)	-0.60%A	-5.10%
06:00	Annualized Housing Starts (Sep)	0.800mA	0.777m
EMU			
11:00	CPI MoM/YoY (Oct P)	0.20%/1.90%	-0.10%/1.70%
11:00	CPI Core YoY (Oct P)	2.60%	2.70%
11:00	Unemployment Rate (Sep)	6.40%	6.40%
France			
08:45	CPI EU Harmonized MoM/YoY (Oct P)	0.20%/1.50%	-1.30%/1.40%
08:45	PPI MoM/YoY (Sep)	0.20%/1.10%	0.20%/-6.30%
Italy			
10:00	Unemployment Rate (Sep)	6.20%	6.20%
11:00	CPI EU Harmonized MoM/YoY (Oct P)	0.20%/0.90%	1.20%/0.70%
12:00	Industrial Sales MoM/WDA YoY (Aug)	--/--	-0.40%/-4.70%
Belgium			
11:00	Unemployment Rate (Sep)	--	5.40%
China			
02:30	Composite PMI (Oct)	50.8A	50.4
02:30	Manufacturing PMI (Oct)	50.1A	49.8
02:30	Non-manufacturing PMI (Oct)	50.2A	50
Poland			
10:00	CPI MoM/YoY (Oct P)	--/--	0.10%/4.90%
Events			
Q3 earnings	Estee Lauder (bef-mkt), Comcast (bef-mkt), Mastercard (bef-mkt), Apple (aft-mkt), Intel (aft-mkt), Amazon (aft-mkt) ...		
02:35	BOE's Breeden Speaks		
10:00	ECB Publishes Economic Bulletin		
10:00	ECB's Panetta speaks in Rome		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.30	0.05		US	4.18	0.09	DOW	42141.54	-91.51
DE	2.39	0.05		DE	2.26	0.12	NASDAQ	18607.93	-104.82
BE	2.97	0.04		BE	2.40	0.10	NIKKEI	39081.25	-196.14
UK	4.35	0.04		UK	4.32	0.06	DAX	19257.34	-220.73
JP	0.96	-0.01		JP	0.45	0.00	DJ euro-50	4885.75	-64.27
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.36	3.88	4.11	€STR	3.1650	0.0010			
5y	2.38	3.80	4.00	Euribor-1	3.1300	-0.0160	SOFR-1	4.6711	-0.0119
10y	2.45	3.81	3.98	Euribor-3	3.0560	0.0000	SOFR-3	4.5718	-0.0041
				Euribor-6	2.8670	-0.0190	SOFR-6	4.4275	0.0210
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0856	0.0037		EUR/JPY	166.55	0.64	CRB	280.26	1.93
USD/JPY	153.42	0.06		EUR/GBP	0.8376	0.0063	Gold	2800.80	19.70
GBP/USD	1.2962	-0.0053		EUR/CHF	0.9409	0.0027	Brent	72.55	1.43
AUD/USD	0.6572	0.0011		EUR/SEK	11.5908	0.0792			
USD/CAD	1.3904	-0.0011		EUR/NOK	11.9028	0.0456			

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