



Tuesday, 05 November 2024

## KBC Sunrise Market Commentary

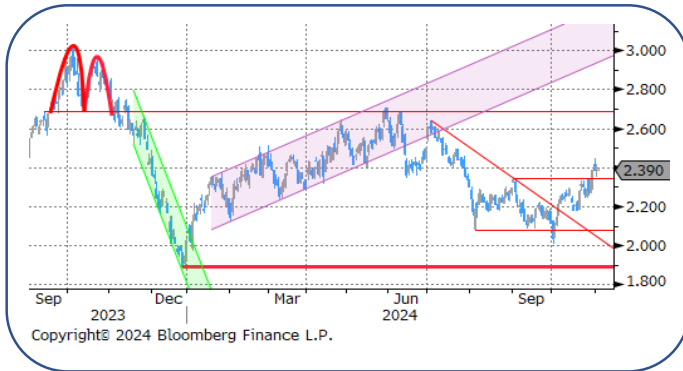
### Markets

- US market moves **suggested investors reduced the ‘established Trump-trade’ to position to a more neutral one** with a survey showing Harris potentially taking the lead in Iowa driving the move. After rising substantially on Friday, US yields faced a material setback in Asia and most of this was maintained later in the session. US yields declined between 4.5 bps (2-y) and 10.3 bps (30-y). However, with the broader picture still pointing to a close neck-and-neck race, it’s useless to draw any conclusions. **It probably was nothing more than the erratic swings one can expect in thinned market conditions ahead of major event risk.** A \$58 bln US Treasury auction was awarded at 4.152%, slightly above the WI bid (4.143%), slightly reinforcing the underperformance of bonds at the short end of the US yield curve. **German yields changed between +1.7 bps (2-y) and -4.9 bps (30-y).** EMU interest rate markets after last week’s higher than expected EMU Q3 growth and CPI data are coming to understand that it won’t be evident for the ECB to accelerate the pace of rate hikes to a 50 bps step at the December meeting. **The dollar copied the election-related setback in US yields.** After closing at 104.28 on Friday, the DXY index tested the 103.6 area to finish the day off the intraday lows at 103.88. EUR/USD filled offers north of 1.09, but later also returned part of the intraday gains to close at 1.0878. Similar story for USD/JPY (close 152.13 from 153.01 on Friday). US equities lost modest ground (S&P 500 -0.28%). Brent oil tries to regain the \$75 bp handle. After outperforming the euro on Friday, **sterling yesterday hovered around the EUR/GBP 0.84 pivot** as markets look forward to the BOE’s assessment on fiscal policy at Thursday’s policy meeting/monetary policy report.
- Asian equities trade mixed to positive this morning with China outperforming. The China Caixin Services PMI improved more than expected from 50.3 to 52.0. **The outcome supports confidence that recent stimulus measures might help a rebound in domestic demand.** However, the US election also remains a big source of uncertainty for the overall performance of the Chinese economy going forward. On ‘global markets’ US yields are trading marginally higher (<1 bp) as investors are counting down to the outcome of the US elections. The dollar is holding little changed (DXY 103.9). In a ‘normal context’ one would today mention the US services ISM as interesting last input for this week’s Fed meeting, but investors won’t feel inclined to adapt positions on the basis of whatever important eco data series at ahead of the election event risk. Later this session, the US Treasury will sell \$42 bln of 10-y notes.

### News & View

- The Reserve Bank of Australia remains one of the hawkish outliers amongst central banks.** The central bank kept its policy rate unchanged at 4.35% this morning as underlying inflation (3.5% Y/Y in Q3 2024) remains too high and isn’t expected to sustainably return to the midpoint of the 2-3% inflation target range until 2026. This reinforces the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out. The forecast is backed by a judgement that aggregate demand remains above the economy’s supply capacity, the mere persistence of core price pressures, surveys of business conditions and ongoing strength in the labour market. Weak output growth is expected to recover from H2 2024 onwards, but that outlook remains highly uncertain. **Australian money markets put the probability of a first rate cut in February, when new forecasts are available, at roughly 40%.** A full 25 bps rate cut is only discounted by the May 2025 meeting. AUD/USD is marginally stronger this morning at AUD/USD 0.66.
- Data from the **British Retail Consortium (BRC) show that total UK sales increased by 0.6% Y/Y in October, down from 1.7% in September and below 1.4% consensus.** Food sales were 2.9% higher Y/Y with non-food sales 0.1% Y/Y lower. The disappointing result can be partly explained by a later October half-term in England, mild weather (detering spending on winter clothes) and by uncertainty before the budget and rising energy bills. The promotional weeks around Black Friday will be the first real test of post-budget consumer sentiment.

# 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. Decent **US data post the September meeting 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 testing 1.0778 support.** **US elections** and the risk of a new Trump term, including hawkish trade policy, **added 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

Tuesday, 5 November		Consensus	Previous
<b>US</b>			
14:30	Trade Balance (Sep)	-\$84.0b	-\$70.4b
<b>16:00</b>	<b>ISM Services Index (Oct)</b>	<b>54.3</b>	<b>54.9</b>
16:00	ISM Services Prices Paid (Oct)	58.0	59.4
16:00	ISM Services Employment (Oct)	48.0	48.1
16:00	ISM Services New Orders (Oct)	58.0	59.4
<b>Japan</b>			
00:50	Monetary Base YoY (Oct)	-0.30%A	-0.10%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Oct)	0.30%A	1.70%
10:30	S&P Global UK Services PMI (Oct F)	51.8	51.8
10:30	S&P Global UK Composite PMI (Oct F)	51.7	51.7
<b>France</b>			
08:45	Industrial Production MoM/YoY (Sep)	-0.60%/-0.40%	1.40%/0.50%
08:45	Manufacturing Production MoM/YoY (Sep)	-1.30%/--	1.60%/0.30%
<b>Australia</b>			
<b>04:30</b>	<b>RBA Cash Rate Target</b>	<b>4.35%A</b>	<b>4.35%</b>
<b>China</b>			
02:45	Caixin China PMI Composite (Oct)	51.9A	50.3
<b>02:45</b>	<b>Caixin China PMI Services (Oct)</b>	<b>52.0A</b>	<b>50.3</b>
<b>Sweden</b>			
08:30	Swedbank/Silf PMI Services (Oct)	50.0	49.1
08:30	Swedbank/Silf PMI Composite (Oct)	--	49.7
<b>Events</b>			
<b>5NOV</b>	<b>US Presidential Elections</b>		
04:30	RBA-Statement on Monetary Policy		
19:00	U.S. To Sell USD42 Bln 10-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,28	-0,10		US	4,16	-0,05	DOW	41794,6	-257,59
DE	2,40	-0,01		DE	2,26	0,02	NASDAQ	18179,98	-59,94
BE	2,98	-0,02		BE	2,41	0,02	NIKKEI	38474,9	421,23
UK	4,46	0,01		UK	4,44	0,00	DAX	19147,85	-107,12
JP	0,94	-0,01		JP	0,46	0,00	DJ euro-50	4852,1	-25,65
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,38	3,86	4,18	€STR	3,1630	0,0000			
5y	2,38	3,78	4,05	Euribor-1	3,1280	0,0090	SOFR-1	4,6285	-0,0089
10y	2,43	3,77	4,03	Euribor-3	3,0750	-0,0100	SOFR-3	4,5273	-0,0087
				Euribor-6	2,9160	0,0040	SOFR-6	4,3881	-0,0147
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0878	0,0044		EUR/JPY	165,48	-0,29	CRB	282,75	3,31
USD/JPY	152,13	-0,88		EUR/GBP	0,8396	0,0010	Gold	2746,20	-3,00
GBP/USD	1,2957	0,0033		EUR/CHF	0,9400	-0,0024	Brent	75,08	1,98
AUD/USD	0,6585	0,0026		EUR/SEK	11,6665	0,0238			
USD/CAD	1,3902	-0,0047		EUR/NOK	11,969	-0,0150			

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