



Wednesday, 06 November 2024

KBC Sunrise Market Commentary

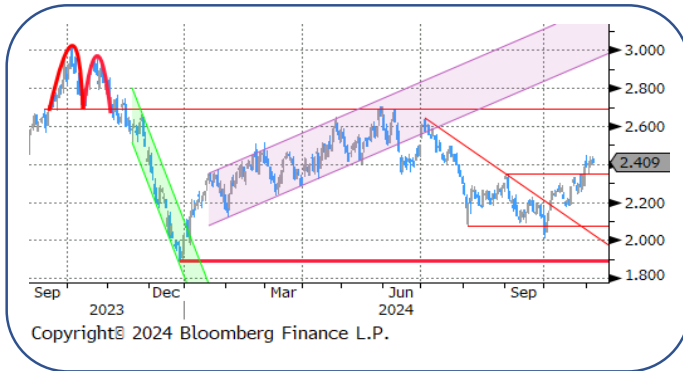
Markets

- At the moment of writing, the outcome of the US elections is still a developing story. **The Republican Party regaining a 51+ majority in the Senate is definitively called.** The battle for a House majority is still a close call. In the race for President, Trumping winning the battleground States of North Carolina and Georgia and taking an almost decisive lead in Pennsylvania is seen as **paving the way for Donald Trump to secure a second term as President of the US. So concludes the market fully resorting to the basics of the 'Trump-trade' including higher long term US yields, a rise in US equity futures and a resumption of the recently aborted/paused USD rally.** At the moment of writing, US yields in a bear steepening move are rising between 9 bps (2-y) and 17 bps (30-y). The US 2-y yield (4.26%) almost fully reverted the decline starting after the July 31 Fed meeting and disappointing early August US payrolls. **At 4.42%, the US 10-y yield already is already (more than) one step further, closing in on the July 01 top just below 4.50%.** It's too early to already shift to an in depth micro analysis. That said, this morning's rise in LT US yields is mainly driven by higher inflation expectations, less by a rise in real yields. **Whatever, the market clearly is preparing for a stimulative, growth and inflationary supportive policy.** Together with a likely big batch (import) tariffs, this won't go unnoticed for the Fed. Markets are further scaling back the probability of additional interest rate cuts. A 25 bps step tomorrow and at the December meeting is still seen as likely. **For the end of next year, expectations are scaled back to only additional steps (cumulative 100 bps from current level) by the end of next year.**
- On equity markets,** the Trump trade clearly, at least in a first reaction, is seen as mainly favoring US companies, especially those with a focus on the domestic economy. US major indices (Dow, S&P 500 and Nasdaq) currently add about 1.5%. The Russel 2000 contract gains about 3.0%. The China CSI 300 trades little changed. This also applies European equity futures.
- Higher US yields and the potential negative fall-out from the Trump trade policy on some/most of the US trading patterns also drives the Trump rally of the dollar.** The **DXY index** jumps from the 103.50 area at the close yesterday to above the 105 barrier. USD/JPY this morning jumps from the 151.30 area to 154.3. **Similar narrative for the yuan (USD/CNY 7.169 from 7.125).** The **Mexican peso is another 'evident' victim (USD/MXN from 20.1 to 20.8).** For EUR/USD, **the technical charts suggested that the outcome of the race between Harris and Trump could be a binary split between returning to 1.06 or 1.12.** It looks that it might be a swift return to the latter (or lower). Despite an apparently first mild reaction on equity markets, **one also shouldn't ignore a further underlying rise in global risk premia (including real yields) and its potential impact on the assessment of smaller countries with a more risk-sensitive profile.** This morning's pressure on the Central European currencies serves as a good illustration. (EUR/CZK from 25.32 to 25.44; EUR/PLN from 4.355 to 4.375 and especially EUR/HUF from 409 to 412.25).

News & View

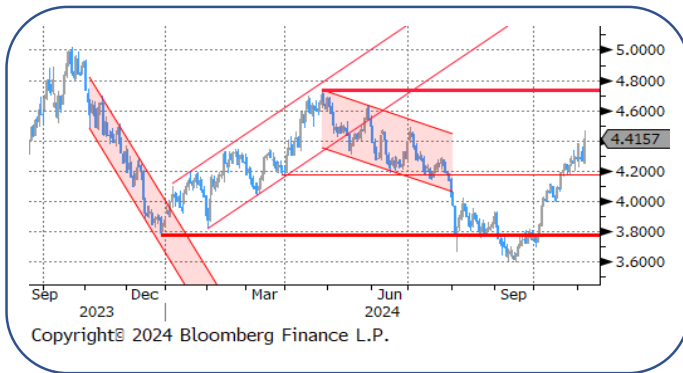
- New Zealand employment fell by 0.5% Q/Q in Q3 2024, marginally more than expected (-0.4% Q/Q).** Compared with Q3 2023, employment was 0.4% lower. The employment rate was 67.8%. The unemployment rate rose from 4.6% in Q2 to 4.8% in Q3, coming from a 3.2% bottom in Q3 2022. The labour force participation rate was 71.2%, down 0.5 ppt over the quarter and 0.8 ppt over the year. Some of the largest increases in those not in the labour force over the year came from people mainly engaged in leisure activities, studying or training, and taking care of themselves due to their own sickness, illness, injury, or disability. Annual wage inflation was 3.8%, slowing from 4.3% in Q2. **Labour market data justify the RBNZ's recent acceleration to a 50 bps rate cut especially given CPI readings (2.2% Y/Y in Q3).** NZD/USD is heading for a test of the YTD lows (0.5850) driven by USD strength.

Graphs



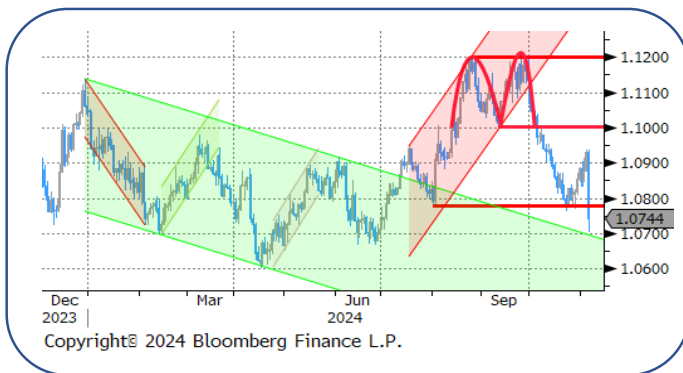
GE 10y yield

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. Recent **US data suggest the economy doesn't need aggressive Fed support for now (25 bps steps will do)**. 3.60% acted as strong support before a Trump-trade driven rebound (and fiscal-related steepening trend) kicked in. This trend might continue after the Trump victory with the 4.50% reference coming within reach.



EUR/USD

Solid early October US data started an impressive USD comeback as money markets reduced Fed rate cut bets. **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 to by default USD strength, with the 1.0601 YTD low the next reference on the charts.**



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

Wednesday, 6 November		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-0.10%
Japan			
01:30	Jibun Bank Japan PMI Composite (Oct F)	49.6A	49.4
01:30	Jibun Bank Japan PMI Services (Oct F)	49.7A	49.3
EMU			
10:00	HCOB Eurozone Services PMI (Oct F)	51.2	51.2
10:00	HCOB Eurozone Composite PMI (Oct F)	49.7	49.7
11:00	PPI MoM/YoY (Sep)	-0.60%/-3.40%	0.60%/-2.30%
Germany			
08:00	Factory Orders MoM/WDA YoY (Sep)	1.50%/-2.10%	-5.80%/-3.90%
Italy			
09:45	HCOB Italy Composite PMI (Oct)	50.0	49.7
09:45	HCOB Italy Services PMI (Oct)	50.2	50.5
Poland			
06NOV	Poland Base Rate Announcement	5.75%	5.75%
Spain			
09:15	HCOB Spain Services PMI (Oct)	56.6	57
09:15	HCOB Spain Composite PMI (Oct)	56.3	56.3
Events			
13:00	ECB's Vujcic Speaks		
15:00	ECB's Lagarde Gives Welcome Remarks		
15:30	ECB's Guindos Gives Speech		
18:00	ECB's Villeroy speaks in Lyon, France		
19:00	U.S. To Sell USD25 Bln 30-Year Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,27	-0,01		US	4,18	0,02	DOW	42221,88	427,28
DE	2,43	0,03		DE	2,30	0,04	NASDAQ	18439,17	259,19
BE	3,00	0,02		BE	2,44	0,03	NIKKEI	39480,67	1005,77
UK	4,53	0,07		UK	4,51	0,08	DAX	19256,27	108,42
JP	0,98	0,04		JP	0,48	0,02	DJ euro-50	4870,33	18,23
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,43	3,86	4,25	€STR	3,1630	0,0000			
5y	2,42	3,78	4,12	Euribor-1	3,0920	-0,0360	SOFR-1	4,6173	-0,0112
10y	2,47	3,76	4,07	Euribor-3	3,0570	-0,0180	SOFR-3	4,5248	-0,0025
				Euribor-6	2,9230	0,0070	SOFR-6	4,3872	-0,0009
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0930	0,0052		EUR/JPY	165,73	0,25	CRB	283,65	0,90
USD/JPY	151,62	-0,51		EUR/GBP	0,8381	-0,0015	Gold	2749,70	3,50
GBP/USD	1,3042	0,0085		EUR/CHF	0,9434	0,0034	Brent	75,53	0,45
AUD/USD	0,6638	0,0053		EUR/SEK	11,6959	0,0294			
USD/CAD	1,3824	-0,0078		EUR/NOK	11,9723	0,0033			

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