



Friday, 08 November 2024

KBC Sunrise Market Commentary

Markets

- The barrage of central bank meetings in Sweden, Norway, the Czech Republic and the UK ended with a decision in the US. **The Fed delivered the expected 25 bps cut to 4.5-4.75%**. The new statement featured little changes compared to September and guidance for future decisions, if any, was limited. Chair Powell in the presser said the way to a more neutral stance will be dictated by the health of the US economy and that the data currently do not suggest there's "any need to be in a hurry to get there." He added that as rates closed in on neutral, it may be appropriate to slow down the pace. **With president-elect Trump on track to loosen the purse materially and add fuel to an already solid economy, the Fed may already be pretty close to that point.** Powell said yesterday it was too soon to say how the Trump administration's policies would reshape the outlook. But things may have gotten clearer by the December 18 meeting. Barring unexpected economic weakness, we wouldn't be surprised to see the updated economic forecasts and Powell **to lay the groundwork for a skip or pause the cycle** early 2025. US interest rates dropped on a daily basis but that had little to do with the Fed decision. Yields simply gave back some of the post-election gains, easing between 6.3 (2-yr) and 12.1 (7-yr) bps, the belly of the curve outperforming the wings. Bunds underperformed Treasuries in anticipation of a **new, willing-to-spend German government** (already in January?) after the current one collapsed yesterday over the liberal democrat's hard pass for lifting the debt brake. Yields recovered between 3.8 and 5.3 bps. Interest rate differentials favoured EUR/USD, lifting the pair back towards the 1.08 area. Sterling gained modestly to EUR/GBP 0.831. **The Bank of England cut rates to 4.75% but governor Bailey was cautious about future cuts given the expansionary Labour budget.** After a key four days that covered all corners of the world, the economic calendar shifts into lower gear ahead a long weekend for US (bond) markets. That paves the way for technical trading as markets look for a new balance in the run-up to, amongst others, next week's US inflation numbers and retail sales. We do keep a close eye at the outcome of an important meeting in China that ends today. More supportive measures are expected to be announced.

News & View

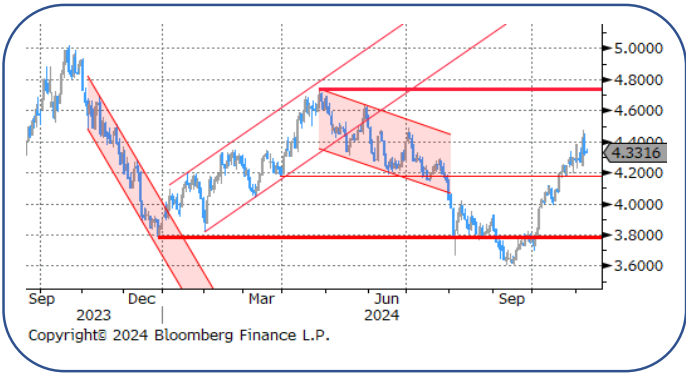
- The Czech National Bank cut its key policy rate by 25 bps yesterday, to 4%, in a split decision.** One out of seven members voted for leaving rates unchanged and one voted for a larger 50 bps rate cut. The Czech economy is recovering only slowly and is below its potential. GDP forecasts faced a downward revision compared with August: 1% for this year and 2.4% for 2025, from respectively 1.2% and 2.8%. **Inflation is the central bank's key worry though.** The Bank board expects it to rise temporarily over the next few months (food prices) but core inflation remains elevated as well, especially in services. CPI forecasts faced an upward revision, from 2.2% to 2.5% this year and from 2% to 2.2% next year. It is expected to remain within the 1%-3% tolerance band around the 2% inflation target but thus more elevated. Risks and uncertainties around the outlook are modestly inflationary overall. In this respect, **the CNB says that it will approach future monetary policy easing with great caution and may pause or terminate the interest rate reduction process in the month ahead** at levels that are still restrictive as rates approach neutral levels (3.5%). The Czech krone won ground after the hawkish cut with EUR/CZK dropping from the 25.40 support area to 25.25.
- October's KPMG and REC, UK report on jobs survey signaled further declines in both permanent and temporary placements during October.** Rates of decline were the **steepest since March**, amid reports of reduced demand and hiring freezes at firms (partly in the run-up to the late October government Budget). Higher staff availability (20th consecutive monthly rise) amid a reduced number of vacancies was also seen. The increase in temps was notable in being the sharpest recorded by the survey since December 2020. "With many of the tax rises announced in last week's Budget impacting businesses, the expectation from some chief execs is that this could further dampen hiring as companies grapple with absorbing any extra costs." Whilst firms signaled willingness to pay higher salaries to suitable candidates, permanent salary growth softened in October to its lowest level since early 2021. REC CEO **Carberry said that there's little in the pay data of today's report that suggests the BoE should step away from further cuts to interest rates, which will also boost business confidence.**

Graphs



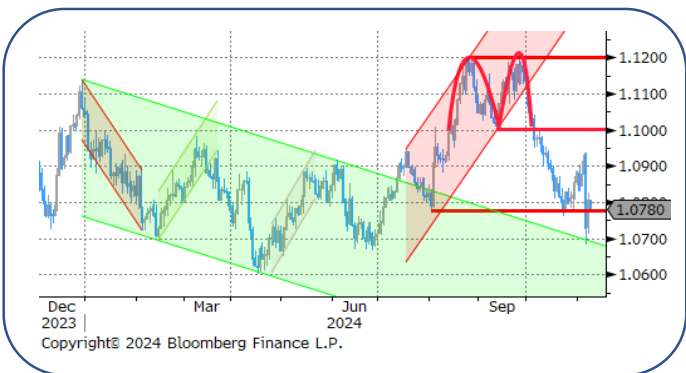
GE 10y yield

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 slowed the easing pace to 25 bps in November and reiterated the path to a more neutral stance is set by the economy. Recent **US data suggest there's no need for 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 4.73% next key reference.



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 second **hawkish cut** in November. The expansionary Labour budget lifted the BoE's GDP and CPI forecasts. It forced Bailey to backtrack on his earlier call for an activist approach and instead **sounded cautious on future cuts**. The economic picture between the UK and Europe diverged **to the benefit of sterling**. The EUR/GBP 0.83 support zone was tested but survived. The picture remains fragile.

Calendar & Table

| Friday, 8 November | | Consensus | Previous |
|--------------------|--|---------------|--------------|
| US | | | |
| 16:00 | U. of Mich. Sentiment (Nov P) | 71.0 | 70.5 |
| 16:00 | U. of Mich. Current Conditions (Nov P) | 65.5 | 64.9 |
| 16:00 | U. of Mich. Expectations (Nov P) | 75.0 | 74.1 |
| 16:00 | U. of Mich. 1 Yr Inflation (Nov P) | 2.70% | 2.70% |
| 16:00 | U. of Mich. 5-10 Yr Inflation (Nov P) | 3.00% | 3.00% |
| Canada | | | |
| 14:30 | Net Change in Employment (Oct) | 27.2k | 46.7k |
| 14:30 | Part Time Employment Change (Oct) | -- | -65.3k |
| 14:30 | Full Time Employment Change (Oct) | -- | 112.0k |
| 14:30 | Unemployment Rate (Oct) | 6.60% | 6.50% |
| 14:30 | Participation Rate (Oct) | 64.90% | 64.90% |
| 14:30 | Hourly Wage Rate Permanent Employees YoY (Oct) | 4.50% | 4.50% |
| Japan | | | |
| 00:30 | Household Spending YoY (Sep) | -1.1.0%A | -1.90% |
| Italy | | | |
| 10:00 | Industrial Production MoM/WDA YoY (Sep) | -0.50%/-3.50% | 0.10%/-3.20% |
| 12:00 | Retail Sales MoM/YoY (Sep) | --/0.50% | -0.50%/0.80% |
| Sweden | | | |
| 08:00 | Household Consumption MoM/YoY (Sep) | --/-- | 0.80%/0.10% |
| 08:00 | Private Sector Production MoM/YoY (Sep) | --/-- | 1.60%/1.10% |
| 08:00 | Industry Production Value YoY (Sep) | -- | -3.20% |
| 08:00 | Service Production Value YoY (Sep) | -- | 2.00% |
| Events | | | |
| 01:01 | S&P Global, KPMG and REC UK Report on Jobs | | |
| 03:45 | RBA's Jones-Panel | | |
| 09:00 | SNB's Martin Speaks | | |
| 13:15 | BOE's Pill Speaks | | |



| 10-year | Close | -1d | 2-year | Close | -1d | Stocks | Close | -1d | |
|------------|--------|---------|------------|-----------|---------|-------------|----------|--------|---------|
| US | 4.33 | -0.11 | US | 4.20 | -0.06 | DOW | 43729.34 | -0.59 | |
| DE | 2.45 | 0.04 | DE | 2.21 | 0.04 | NASDAQ | 19269.46 | 286.00 | |
| BE | 3.04 | 0.04 | BE | 2.37 | 0.04 | NIKKEI | 39500.37 | 118.96 | |
| UK | 4.50 | -0.06 | UK | 4.45 | -0.06 | DAX | 19362.52 | 323.21 | |
| JP | 1.01 | 0.00 | JP | 0.51 | 0.00 | DJ euro-50 | 4851.96 | 51.33 | |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | 2.30 | 3.91 | 4.13 | €STR | 3.1630 | 0.0010 | | | |
| 5y | 2.31 | 3.83 | 4.03 | Euribor-1 | 3.0950 | -0.0070 | SOFR-1 | 4.6027 | -0.0017 |
| 10y | 2.41 | 3.84 | 4.01 | Euribor-3 | 3.0320 | -0.0170 | SOFR-3 | 4.5092 | -0.0153 |
| | | | | Euribor-6 | 2.8580 | -0.0580 | SOFR-6 | 4.3939 | -0.0266 |
| | | | | | | | | | |
| Currencies | Close | -1d | Currencies | Close | -1d | Commodities | Close | -1d | |
| EUR/USD | 1.0805 | 0.0076 | EUR/JPY | 165.25 | -0.66 | CRB | 286.20 | 4.76 | |
| USD/JPY | 152.94 | -1.69 | EUR/GBP | 0.8319 | -0.0012 | Gold | 2705.80 | 29.50 | |
| GBP/USD | 1.2987 | 0.0108 | EUR/CHF | 0.9426 | 0.0020 | Brent | 75.63 | 0.71 | |
| AUD/USD | 0.6679 | 0.0110 | EUR/SEK | 11.5412 | -0.1100 | | | | |
| USD/CAD | 1.3861 | -0.0078 | EUR/NOK | 11.7381 | -0.1462 | | | | |

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