



Wednesday, 13 November 2024

KBC Sunrise Market Commentary

Markets

- US bond yields surged after having had the day off on Monday for Veteran's Day. Net daily changes varied between 8.7 and 13.1 bps across the curve spectrum as President-elect Trump's reflationary politics continue to reverberate. **Expectations for a (much) looser fiscal policy lift those for US growth at a time when CPI inflation has yet to hit the 2% central bank target.** With Germany now having set the election date at February 23, we'll be looking for the fiscal narrative to gain traction in the country and more broadly in Europe as well. US CPI not being at target will still have been the case in October. **Numbers are released later today.** Headline inflation is seen to accelerate from 2.4% to 2.6% y/y. Core inflation would match September's 3.3%. Any beat, however small, would cast further doubt on another December 25 bps rate cut. Markets already pared the odds sharply to about 60%. Minneapolis Fed Kashkari yesterday said that *"if we saw inflation surprises to the upside between now and then, that might give us pause"* when asked what could cause the Fed not to cut rates next month, deviating from the September dot plot. Kashkari is live commenting at Bloomberg when the CPI numbers come out. Stock markets succumbed to the yield pressure. Wall Street eased off the record highs, the Dow Jones underperforming. Europe's Stoxx50 slipped 2.25%. A technical acceleration kicked in after the index lost support around 4800. Widening interest rate differentials (European swap rates rose between 0.7-4.6 bps) and the risk-off created the **perfect environment for the USD.** The greenback strengthened once more against all major peers. EUR/USD tested the 1.06 big figure. It avoided a break yesterday (1.062) but continues to trade on the backfoot this morning (1.061), **suggesting ongoing, by default dollar strength.** USD/JPY extends its meteoric rise that's been going on since mid-September to beyond 155 currently. We expect to see some Japanese government and central bank officials to become increasingly vocal about the matter. Gilts underperformed Bunds on *"sticky"* (BoE chief economist Pill) wage growth but sterling couldn't benefit. Perhaps the UK currency is eying other important data that's upcoming, including Friday's GDP numbers and next week's CPI. EUR/GBP jumped back above 0.83 but the technical picture remains a fragile one.

News & Views

- The Federal Reserve Bank of New York consumer survey showed **households' inflation expectations declined slightly across the whole spectrum of horizons in October.** One-year ahead inflation expectations eased 0.1%pt to 2.9%, three-year ahead expectations declined 0.2%pt to 2.5% and the 5-y gauge softened to 2.8%. Home price growth expectations (3.0%) were unchanged and stayed in a tight band since August 2023. **Labor market expectations improved with households reporting a lower likelihood of higher unemployment** (-1.7%pt to 34.5%, the lowest since Feb 2022) and personal job loss (-0.3%pt to 13.0%). Consumers see a **higher likelihood of finding a job** if they were laid off. Median expected household income growth as unchanged at 3.0%. That was also the case for spending growth 4.9%, but this parameter stays well above pre-pandemic levels. Perceptions of credit access compared to a year ago improved in October. The average perceived probability of missing a minimum debt payment over the next three months decreased by 0.3%pt to 13.9%, the first decrease since May 2024. Perceptions about households' current financial situations compared to a year ago improved.
- Australian quarterly wage growth figures for Q3 for the third consecutive quarter printed at 0.8% Q/Q.** The Y/Y measure eased to 4.1% to 3.5%. The rise was slightly more modest than expected. Annual growth in the private sector was 3.5% in the September quarter 2024. This is the lowest private sector annual growth since the September quarter 2022. Public sector annual growth (+3.7%) was higher than in the same quarter last year (+3.5%), but lower than the recent peak (+4.2%) seen in December quarter 2023. **The Reserve bank of Australia expects wage growth to ease to 3.4% at the end of the 2024 and 3.2% end 2025.** However, for these kinds of wage growth levels to be compatible with inflation sustainably returning to 2-3% a further rise in productivity is probably needed. **Money markets currently still only fully discount a first RBA rate cut in the summer of next year.** The Aussie dollar remains under pressure from USD strength (AUD/USD 0.6525) but in this move recently outperformed the likes of the euro (EUR/AUD 1.626).

Graphs



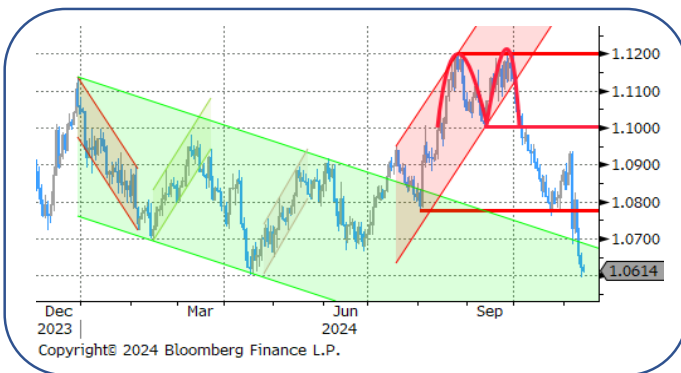
GE 10y yield

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 is currently again under test. The picture remains fragile.

Calendar & Table

Wednesday, 13 November		Consensus	Previous
US			
14:30	Real Avg Hourly Earning YoY (Oct)	--	1.40%R
14:30	Real Avg Weekly Earnings YoY (Oct)	--	1.10%R
14:30	CPI MoM/YoY (Oct)	0.20%/2.60%	0.20%/2.40%
14:30	CPI Ex Food and Energy MoM/YoY (Oct)	0.30%/3.30%	0.30%/3.30%
Japan			
00:50	PPI MoM/YoY (Oct)	0.20%A/3.40%A	0.30%R/3.10%R
France			
07:30	ILO Unemployment Rate (3Q)	7.40%	7.30%
07:30	ILO Mainland Unemployment Rate (3Q)	7.20%	7.10%
Events			
10:45	BOE's Mann Speaks		
11:30	Germany to Sell EU4 Billion of 2.6% 2034 Bonds		
14:30	Fed's Kashkari Appears on Bloomberg Television		
15:30	Fed's Williams Gives Welcome Remarks		
15:45	Fed's Logan Gives Opening Remarks at Energy Conference		
19:00	Fed's Musalem Speaks on Economy, Monetary Policy		
19:30	Fed's Schmid Gives Keynote Remarks at Energy Conference		

10-year	<u>Close</u>	<u>-1d</u>	2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>	
US	4.43	0.12	US	4.34	0.09	DOW	43910.98	-382.15	
DE	2.36	0.04	DE	2.13	0.00	NASDAQ	19281.4	-17.36	
BE	2.97	0.05	BE	2.33	0.01	NIKKEI	38721.66	-654.43	
UK	4.50	0.07	UK	4.50	0.08	DAX	19033.64	-414.96	
JP	1.05	0.03	JP	0.53	0.02	DJ euro-50	4744.69	-109.34	
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	2.24	4.05	4.25	€STR	3.1630	0.0010			
5y	2.27	3.96	4.12	Euribor-1	3.0880	0.0080	SOFR-1	4.6072	0.0052
10y	2.35	3.92	4.08	Euribor-3	3.0340	-0.0060	SOFR-3	4.5293	0.0028
				Euribor-6	2.7970	-0.0340	SOFR-6	4.4478	0.0122
Currencies	<u>Close</u>	<u>-1d</u>	Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>	
EUR/USD	1.0623	-0.0032	EUR/JPY	164.25	0.48	CRB	279.39	0.47	
USD/JPY	154.61	0.89	EUR/GBP	0.8333	0.0053	Gold	2606.30	-11.40	
GBP/USD	1.2748	-0.0120	EUR/CHF	0.9367	-0.0020	Brent	71.89	0.06	
AUD/USD	0.6533	-0.0042	EUR/SEK	11.5809	0.0265				
USD/CAD	1.3944	0.0019	EUR/NOK	11.7679	0.0135				

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