



Friday, 15 November 2024

KBC Sunrise Market Commentary

Markets

- Markets tried to extend the Trump trade yesterday after higher US October producer price inflation and solid (low) weekly jobless claims. They sparked a reaction higher in the dollar and lower in US Treasuries. However those moves didn't go far and even **started a modest correction move** on this month's one-way traffic. **Enter Fed Chair Powell.** After European close he spoke on the economic outlook at a Dallas Fed event. He labelled the recent performance of the US economy as "remarkably good" in an echo to last week's press conference following the Fed's 25 bps rate cut. While he shied away from commenting on US politics, he did admit that **the economy is not sending any signals that they need to be in a hurry to lower rates.** These comments first of all indicate that the Fed **embraces the recent market repricing on a landing zone for the policy rate next year** (3.75%-4%; clearly above neutral). Secondly Powell **seems to be closer to already pausing the interest rate cycle lower.** While we stick to the view that we'll see another 25 bps rate cut in December, **it won't take much to hold in January.** US money markets are already **contemplating the possibility of a skip at the final meeting of this year** with a 25 bps rate cut only 60% discounted. Earlier on the day, dovish Fed governor Kugler said that the Fed must focus on both inflation and jobs goals. *"If any risks arise that stall progress or reaccelerate inflation, it would be appropriate to pause our policy rate cuts,"* she said. *"But if the labor market slows down suddenly, it would be appropriate to continue to gradually reduce the policy rate."* Kugler's comments seem to be skewing to the upside inflation risks (stubborn housing inflation and high inflation in certain goods and services) which obviously carries some weight given her more dovish status. Daily US yield changes eventually ranged between +5.9 bps (2-yr) and -4.9 bps (30-yr). This flattening move contrasts with the bull steepening in Europe where German yields shed 6.4 bps (5-yr) to 0.9 bps (30-yr). EUR/USD closed at a new YTD low (1.0530) after testing the 1.05 mark during the day. The range bottom and 2023 low stands at 1.0448. **Today's US retail sales have the potential to trigger a test if they showcase more strength. We think risks are becoming asymmetric though. If it weren't for Powell's intervention, the dollar and US Treasuries would have already corrected on the strong trend. It's our preferred scenario going into the weekend.**

News & Views

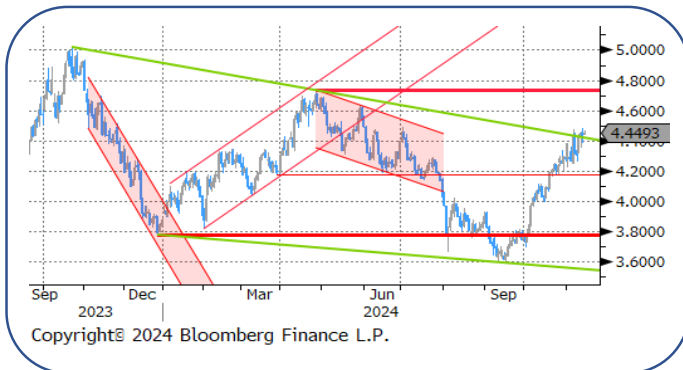
- The Central Bank of Mexico yesterday cut its policy rate by 25 bps to 10.25%.** Annual headline inflation rebounded to 4.76% in October while core inflation continued decreasing to 3.80%. The central bank forecasts headline and core inflation to converge to the 3% inflation target (with a tolerance band of +/- 1.0%) by the end of next year and stay there in 2026. Upside risks to this scenario remain. Looking ahead, the board expects that the inflationary environment will allow further reference rate adjustments, supported by expectations of ongoing weakness in the economy. The Mexican peso (MXN) since Q2 is on a downward trajectory against the dollar with recent political events in the US confirming this trend. USD/MXN currently trades at 20.48, compared to a low of 16.26 early April.
- Japanese growth slowed from 0.5% Q/Q in Q2 to 0.2% Q/Q in Q3 (0.9% Q/Qa).** The outcome was marginally stronger than expected (0.7% Q/Qa). **The details show a mixed picture. Private consumption printed much stronger** than expected at 0.9% Q/Q (from 0.7% in Q2 and 0.2% expected). On the negative side, capital **spending was weak** at -0.2% Q/Q (from 0.9% in Q2). **Net exports also unexpectedly contributed negatively** (-0.4%) to Q3 growth. In the previous quarter this negative contribution was only -0.1%. From a monetary policy point of view, the **solid performance of domestic demand probably is the more important factor for the BOJ** to gradually continue policy normalization. Recent weakening of the yen also points in the same direction. Markets are now looking forward to **a speech and press conference of BOJ governor Ueda next Monday.** Analysts currently are divided whether a next step should already take place in December or only come at the January meeting. USD/JPY tentatively extends its gain trading north of 156, to be compared to sub 140 levels mid-September.

Graphs



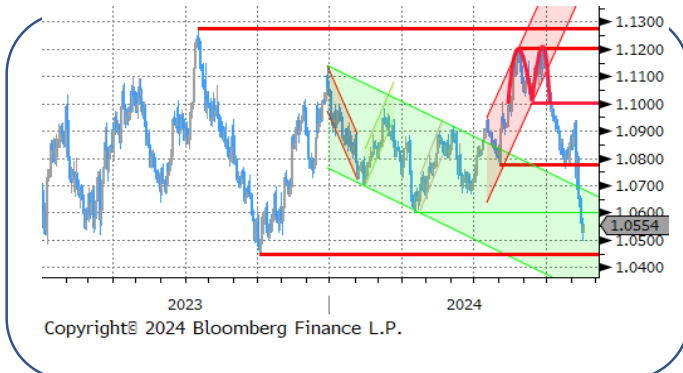
GE 10y yield

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 1.0448 2023 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, 15 November		Consensus	Previous
US			
14:30	Empire Manufacturing (Nov)	0.0	-11.9
14:30	Retail Sales Advance MoM (Oct)	0.30%	0.40%
14:30	Retail Sales Ex Auto MoM (Oct)	0.30%	0.50%
14:30	Retail Sales Ex Auto and Gas (Oct)	0.30%	0.70%
14:30	Retail Sales Control Group (Oct)	0.30%	0.70%
15:15	Industrial Production MoM (Oct)	-0.40%	-0.30%
15:15	Capacity Utilization (Oct)	77.10%	77.50%
15:15	Manufacturing (SIC) Production (Oct)	-0.50%	-0.40%
16:00	Business Inventories (Sep)	0.20%	0.30%
Japan			
00:50	GDP SA QoQ/Annualized SA (3Q P)	A: 0.20%/0.90%	R: 0.50%/2.20%
00:50	GDP Deflator YoY (3Q P)	A: 2.50%	R: 3.10%
00:50	GDP Private Consumption QoQ (3Q P)	A: 0.90%	R: 0.70%
00:50	GDP Business Spending QoQ (3Q P)	A: -0.20%	R: 0.90%
00:50	Inventory Contribution % GDP (3Q P)	A: 0.10%	-0.10%
00:50	Net Exports Contribution % GDP (3Q P)	A: -0.40%	-0.10%
UK			
08:00	Industrial Production MoM (Sep)	0.10%	0.50%
08:00	Industrial Production YoY (Sep)	-1.10%	-1.60%
08:00	Manufacturing Production MoM/YoY (Sep)	-0.10%/-0.00%	1.10%/-0.30%
08:00	Index of Services MoM/3M-3M (Sep)	0.20%/0.20%	0.10%/0.10%
08:00	Construction Output MoM/YoY (Sep)	0.20%/-0.60%	0.40%/0.30%
08:00	Trade Balance GBP/Mn (Sep)	£1200m	£955m
08:00	GDP QoQ/YoY (3Q P)	0.20%/1.00%	0.50%/0.70%
08:00	Private Consumption QoQ (3Q P)	0.20%	0.20%
08:00	Government Spending QoQ (3Q P)	0.60%	1.10%
08:00	Gross Fixed Capital Formation QoQ (3Q P)	0.0%	0.60%
08:00	Exports/Imports QoQ (3Q P)	1.1%/-0.8%	-0.30%/6.30%
08:00	Total Business Investment QoQ/YoY (3Q P)	--/--	1.40%/0.20%
10:30	Output Per Hour YoY (3Q)	--	-0.10%
China			
03:00	Industrial Production YoY/YTD YoY (Oct)	A: 5.30%/5.80%	5.40%/5.80%
03:00	Retail Sales YoY/YTD YoY (Oct)	A: 4.80%/3.50%	3.20%/3.30%
03:00	Fixed Assets Ex Rural YTD YoY (Oct)	A: 3.40%	3.40%
03:00	Property Investment YTD YoY (Oct)	A: -10.30%	-10.10%
03:00	Residential Property Sales YTD YoY (Oct)	A: -22.0%	-24.00%
03:00	Surveyed Jobless Rate (Oct)	A: 5.00%	5.10%
Sweden			
08:00	Unemployment Rate SA (Oct)	8.60%	8.60%
Events			
01:30	RBA's Jones-Panel		
11:00	EU Commission Economic Forecasts		
16:00	ECB's Lane Moderates Panel		



10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.44	-0.02		US	4.34	0.06	DOW	43750.86	-207.33
DE	2.34	-0.05		DE	2.10	-0.06	NASDAQ	19107.65	-123.07
BE	2.94	-0.06		BE	2.28	-0.06	NIKKEI	38642.91	107.21
UK	4.48	-0.04		UK	4.42	-0.06	DAX	19263.7	260.59
JP	1.07	0.01		JP	0.55	0.01	DJ euro-50	4833.53	93.19
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2.17	4.05	4.18	€STR	3.1650	0.0010			
5y	2.20	3.96	4.07	Euribor-1	3.0830	-0.0160	SOFR-1	4.6028	-0.0047
10y	2.29	3.93	4.02	Euribor-3	3.0050	-0.0180	SOFR-3	4.5210	0.0345
				Euribor-6	2.7650	-0.0140	SOFR-6	4.4354	0.0447
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0530	-0.0034		EUR/JPY	164.55	0.31	CRB	280.52	0.24
USD/JPY	156.27	0.81		EUR/GBP	0.8313	0.0001	Gold	2572.90	-13.60
GBP/USD	1.2666	-0.0042		EUR/CHF	0.9375	0.0015	Brent	72.56	0.28
AUD/USD	0.6454	-0.0031		EUR/SEK	11.5799	-0.0275			
USD/CAD	1.406	0.0063		EUR/NOK	11.7421	-0.0226			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
CSOB Economics – Markets Prague		Hong Kong	+852 2525 9232
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at www.kbceconomics.be

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

