



Monday, 18 November 2024

KBC Sunrise Market Commentary

Markets

- Volatility remains high in the US Treasury market.** We believed that Wednesday's in-line with consensus CPI inflation report could be the start of **a consolidation process** on the sell-off which started mid-September. **Fed Chair Powell's comments** on Thursday ("not in a hurry") and **retail sales on Friday** twice ended the tentative correction higher before it even started. Headline retail sales were somewhat stronger than expected (+0.4% M/M) while slight disappointment in core gauges (+0.1% M/M) and for the retail control group (-0.1% M/M) were completely erased by a huge upward revision to already good September data (control group +1.2% M/M from +0.7% M/M). **On both occasions, US Treasuries tested the sell-off lows but failed to break lower.** Daily changes on the US yield curve ranged between -4.2 bps (2-yr) and +3.1 bps (30-yr). It strengthens our view that the **time is there for some rebound action higher.** Especially given **deteriorating risk sentiment.** Main US equity indices lost 0.7% (Dow) to 2.25% (Nasdaq) in what was the S&P's worst week in more than two months. The **vacuum on the US calendar** comes in handy as well. Fed Powell's comments minify the potential market impact of this week's avalanche of Fed speakers. If any, they could even prompt a new increase of watered-down market bets on a December Fed rate cut (65%). From a data point of view, it will be **a waiting game into Friday's November PMI business surveys.**
- Higher front-end US yields served the dollar well recently. The same combo Powell-retail sales twice triggered a tentative move to reach for EUR/USD 1.05, but again without conviction. **A correction in US Treasuries could in theory provide some breathing space in the pair, but the risk-off climate, rising gas prices (see below) and market conviction on a stimulative ECB monetary policy in 2025 to help the EMU economy all suggest that the rebound potential remains low.** Just like in the US, we have a lot of ECB speeches this week. Apart from PMI's, we also keep a close eye on Q3 wage data which are published on Wednesday.
- Attention went to Japan this morning where **Bank of Japan governor Ueda gave** a final major speech ahead of the December 19 policy meeting. He kept close to recent comments, reiterating that *"the actual timing of the adjustments (in the policy rate) will continue to depend on developments in economic activity and prices as well as financial conditions going forward"*. That way **he didn't drop a hint that a next hike could be around a corner.** There was some speculation that recent JPY weakness in combination with sticky inflation could trigger such frontrunning. JPY is a tad weaker this morning around USD/JPY 154.60.

News & Views

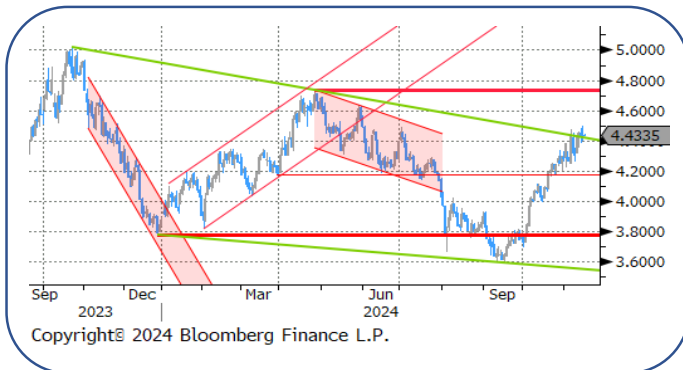
- Dutch natural gas prices spiked to the highest in a year** over the last couple of days. The surge towards €46/MWh and more are the result of **supply concerns.** **Russia's Gazprom warned Austria's biggest oil and gas company that it would halt deliveries** in response to the Austrian company seeking to reclaim hundreds of millions of euros over past contract violations by Gazprom. Russia made good on the threat over the weekend. With Ukraine's transit deal with Moscow to supply Slovakia scheduled to run out at the end of this year, there could be **an additional crunch in the midst of the heating season.** The supply worries coincide with European countries **dipping into their reserves earlier than usual** amid chilly weather and slumping energy production from renewable sources.
- UK's Rightmove said that asking prices for British homes fell by 1.4% m/m in November to 1.2% y/y.** The property portal noted it was an **unusually big dip for the time of the year**, which is typically something around 0.8%. The survey was squeezed in between the release of finance minister Reeves' October 30 budget and the Bank of England policy meeting (Nov 7). When publishing new forecasts for 2025 it said that *"The big picture of market activity remains positive when compared to the quieter market at this time last year. This sets us up for what we predict will be a stronger 2025 in both prices and number of homes sold."* Rightmove expects house prices to rise by 4% new year, its highest prediction since 2021.

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

Monday, 18 November		Consensus	Previous
US			
14:30	New York Fed Services Business Activity (Nov)	--	-2.2
16:00	NAHB Housing Market Index (Nov)	42	43
Japan			
00:50	Core Machine Orders MoM / YoY (Sep)	1.50%/1.80%	-1.90%/-3.40%
UK			
01:01	Rightmove House Prices MoM / YoY (Nov)	-1.40%/1.20%A	0.30%/1.0%
EMU			
11:00	Trade Balance SA (Sep)	7.7b	11.0b
Norway			
06:30	Consumer Confidence (4Q)	--	-16.3
Events			
09:00	ECB's Guindos Speaks in Frankfurt		
09:00	Bundesbank Chief Nagel Speaks in Tokyo		
10:00	ECB's Makhlouf Speaks in Dublin		
11:00	Slovakia to Sell 3% 2028, 3.625% 2033, 3.75% 2034 and 0.375% 2036		
12:00	Belgium to Sell 2.85% 2034 & 3.45% 2043 Bonds		
14:00	ECB's Lane Gives Lecture in Rome		
14:00	ECB's Stournaras Speaks at Bloomberg Forum in Athens		
16:00	Fed's Goolsbee Gives Welcome Remarks		
19:30	BOE's Greene & ECB's Vujcic Speak in London		
19:30	ECB's Lagarde Speaks in Paris		

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	0.00		US	4.30	-0.04	DOW	43444.99	-305.87
DE	2.36	0.01		DE	2.12	0.02	NASDAQ	18680.12	-427.53
BE	2.95	0.01		BE	2.31	0.03	NIKKEI	38220.85	-422.06
UK	4.47	-0.01		UK	4.40	-0.02	DAX	19210.81	-52.89
JP	1.08	0.01		JP	0.56	0.01	DJ euro-50	4794.85	-38.68
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	2.19	4.02	4.16	€STR	3.1650	0.0000			
5y	2.21	3.94	4.04	Euribor-1	3.0620	-0.0210	SOFR-1	4.6008	-0.0020
10y	2.29	3.93	4.00	Euribor-3	2.9980	-0.0070	SOFR-3	4.5215	0.0005
				Euribor-6	2.7480	-0.0170	SOFR-6	4.4303	-0.0051
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0540	0.0010		EUR/JPY	162.66	-1.89	CRB	279.72	-0.80
USD/JPY	154.3	-1.97		EUR/GBP	0.8352	0.0039	Gold	2570.10	-2.80
GBP/USD	1.2618	-0.0048		EUR/CHF	0.9361	-0.0014	Brent	71.04	-1.52
AUD/USD	0.6462	0.0008		EUR/SEK	11.5715	-0.0084			
USD/CAD	1.409	0.0030		EUR/NOK	11.6848	-0.0573			

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