Tuesday, 19 November 2024

KBC Sunrise Market Commentary

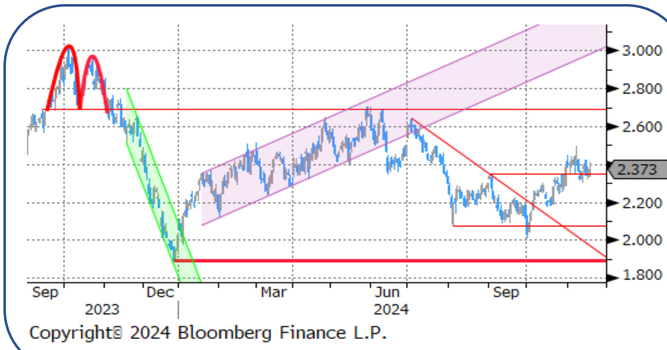
Markets

- **US Treasuries followed last week's recipe.** Testing the recent low (area; depending on the maturity), but eventually rebounding higher. This time without strong trigger though like Thursday's Powell speech or Friday's retail sales. The move seemed more **erratic** in nature. Timing didn't fit with the release of **second-tier, but consensus-beating US figures.** NY Fed services business activity rose from -2.2 to -0.5 in November, with details showing strength in business activity and employment. Both in the current and 6-month forward looking subindex. The NAHB housing index recorded a third consecutive increases to a 7-month high, from 43 to 46. The 6-monht sales outlook reached the highest level since April 2022 on hope on looser regulation and more construction during president Trump's second tenure. **Yesterday's price action strengthens our short term consolidation call** as dust settles over the US presidential elections, in absence of important eco data and with the Fed not in a hurry. Intraday changes on the US yield curve ranged between -0.7 bps and -3.3 bps with the belly of the curve outperforming the wings. **German Bunds underperformed US Treasuries (GE 2y: +5.4 bps) in what could be the start of an opposite (to US Treasuries) consolidation phase.** EUR/USD profited from relative yield dynamics with the pair being squeezed from 1.0531 to 1.0598. Dovish Greek ECB member Stournaras labelled a December 25 bps rate cut a done deal and added that it's **an optimal reduction.** That way, he dented more aggressive market bets calling on a 50 bps move (25% probability). This week's eco data have the potential to completely close the door obviously depending on their outcome. The ECB built her recent reaction function on what her president Lagarde calls "the three criteria": **the inflation outlook, the dynamics of underlying inflation and the strength of monetary transmission.** Tomorrow, we receive important info on the second pillar via **Q3 negotiated wage data.** Annualized wage growth remained between 4.3% and 4.7% from Q1 2023 to Q1 2024. Last quarter's decline to 3.5% was welcomed by the ECB in its inflation fight, but remains way above the central bank's 2% inflation target. ECB Lagarde indicated that **forward-looking wage trackers point to a an easing of pay growth in 2025** which she hopes to see reflected in tomorrow's numbers. On Friday, **EMU November PMI's** are expected to paint a similar, dire, picture as in October (50 for composite). Recall though that there was a serious discrepancy between weak Q3 soft data and hard data (+0.4 Q/Q EMU GDP growth).

News & Views

- **ECB chair Lagarde** in yesterday's "The economic and human challenges of a transforming era" speech again **called for a(n effective) single market for both goods and capital** in order to reverse progressively slowing productivity. *"By acting as a union to* ***raise our productivity growth,*** *and by* ***pooling our resources*** *in areas where we have a tight convergence of priorities – like* ***defense and the green transition*** *– we can both deliver the outcomes we want and be efficient in our management of public spending."* Lagarde stressed the need for such changes given the two megatrends that are challenging the bloc's economic model. The first is a **new geopolitical landscape.** An increasingly inward-looking global environment is a hazard to the open European economy. The second is Europe **falling behind in emerging technologies,** specializing mostly in technology developed the last century. Lagarde said the innovation and financing ecosystems are not suited to develop new advanced technologies, noting that **about a third of EU savings sit in cash and bank deposits** compared to around one-tenth in the US. She floated an amount of up to €8tn that could be redirected into long-term investments if EU households were given **better opportunities to invest their savings.** The still-existing trade barriers within the EU's single market for goods and capital are estimated to represent a shortfall of around 10% of the EU's economic potential.
- **San Francisco Fed economists** in research published yesterday said that **the US labor market is still adding to inflationary pressures, be it less than in 2022 and 2023.** *"Declines in excess demand pushed inflation down almost three-quarters of a percentage point over the past two years. However, elevated demand continued to contribute 0.3 to 0.4 percentage point to inflation as of September 2024."* The findings offer some counterweight to Fed chair Powell's observation back in the summer, when he said that the job market is no longer a source of significant inflationary pressures.

Graphs

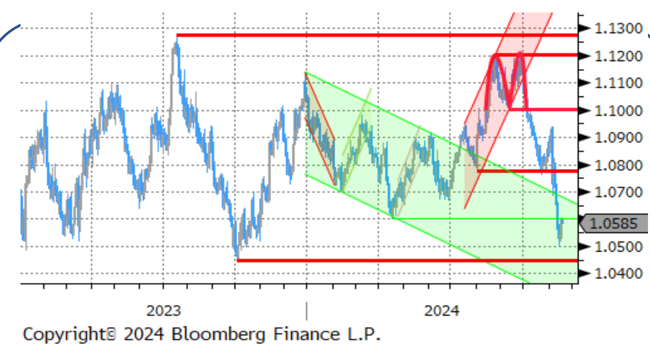


GE 10y yield

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.

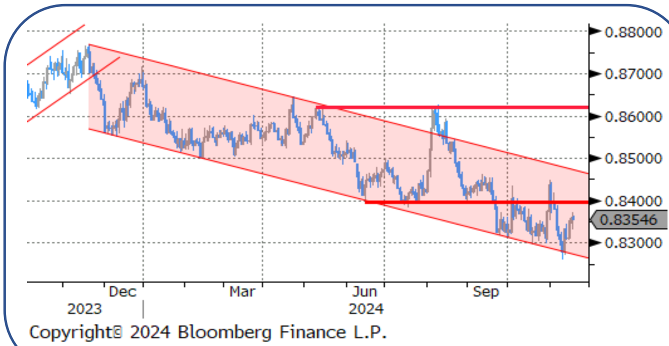
US 10y yield

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

Tuesday, 19 November		Consensus	Previous
US			
14:30	Housing Starts (Oct)	1334k	1354k
14:30	Building Permits (Oct)	1435k	1425kR
14:30	**Housing Starts MoM (Oct)**	**-1.50%**	**-0.5%**
14:30	**Building Permits MoM (Oct)**	**0.70%**	**-3.10%R**
Canada			
14:30	CPI NSA MoM / YoY (Oct)	0.30%/1.90%	-0.40%/1.60%
14:30	CPI Core- Median YoY% (Oct)	2.40%	2.30%
14:30	CPI Core- Trim YoY% (Oct)	2.40%	2.40%
EMU			
10:00	ECB Current Account SA (Sep)	--	31.5b
11:00	CPI MoM / YoY (Oct F)	0.3%/2.0%	0.3%/2.0%
11:00	CPI Core YoY (Oct F)	2.7%	2.7%
Events			
01:30	RBA Minutes of Nov. Policy Meeting		
09:30	ECB's Elderson Speaks at Green Finance Forum		
11:00	ECB's Panetta Speaks in Milan		
11:00	**BOE Rate-Setters Bailey, Lombardelli, Mann & Taylor Speak before UK Parliament's Treasury Committee**		
12:00	Finland to Sell 2.875% 2029 & 3% 2034 Bonds		
19:00	**Fed's Schmid Speaks on Economic Outlook, Policy**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.41	-0.03		**US**	4.28	-0.02	**DOW**	43389.6	-55.39
DE	2.37	0.02		**DE**	2.18	0.06	**NASDAQ**	18791.81	111.69
BE	2.87	-0.08		**BE**	2.35	0.04	**NIKKEI**	38414.43	193.58
UK	4.47	-0.01		**UK**	4.42	0.02	**DAX**	19189.19	-21.62
JP	1.07	-0.01		**JP**	0.56	0.00	**DJ euro-50**	4790.33	-4.52
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	2.24	4.00	4.17	**€STR**	3.1650	0.0000			
5y	2.25	3.92	4.04	**Euribor-1**	3.0430	-0.0190	**SOFR-1**	4.6020	0.0012
10y	2.32	3.91	3.99	**Euribor-3**	3.0040	0.0060	**SOFR-3**	4.5210	-0.0005
				Euribor-6	2.7350	-0.0130	**SOFR-6**	4.4300	-0.0003
Currencies	Close	-1d		**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1.0598	0.0058		**EUR/JPY**	163.93	1.27	**CRB**	284.01	4.29
USD/JPY	154.66	0.36		**EUR/GBP**	0.8360	0.0008	**Gold**	2614.60	44.50
GBP/USD	1.2678	0.0060		**EUR/CHF**	0.9359	-0.0002	**Brent**	73.30	2.26
AUD/USD	0.6508	0.0046		**EUR/SEK**	11.5593	-0.0122			
USD/CAD	1.4015	-0.0075		**EUR/NOK**	11.657	-0.0278			

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
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
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