



Wednesday, 20 November 2024

KBC Sunrise Market Commentary

Markets

- Markets were on an emotional rollercoaster yesterday.** The first Ukrainian use of US-made long range ATACMS missiles pushed Russian President Putin into signing off a **revised nuclear doctrine**. It now includes a possibility of a nuclear response to aggression by non-nuclear states that are supported by other nuclear powers. European stocks lost around 1.5% and hit an intraday bottom (-2%) after Russian minister of foreign affairs Lavrov called it a **“signal of escalation”**. European stock markets eventually recovered to closing losses of somewhat less than 1% after that same minister **tried to calm worries over a nuclear escalation**. *“We are strongly in favor of doing everything not to allow nuclear war to happen. A nuclear weapon is first and foremost a weapon to prevent any nuclear war.”* **Haven assets mirrored the intraday sell-off/recovery from equities.** German yields ended around 3.5 bps lower across the curve but traded with losses of up to 10 bps. US yields lost up to 2.8 bps in a bull flattening move. EUR/USD closed unchanged just below 1.06, but set an intraday bottom around 1.0530. US stock markets turned starting losses into closing gains (S&P & Nasdaq), mainly thanks to a near 5% increase in **Nvidia** shares going into tonight earnings from the company. The outcome will influence general market/risk sentiment and could set the tone going into year-end.
- EMU Q3 negotiated wage data are today’s economic highlight.** 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 an easing of pay growth in 2025 which she hopes to see reflected in today’s numbers. While a further deceleration is likely, we don’t think they will give sufficient confidence for the ECB to accelerate from 25 bps rate cuts to a 50 bps move in December. It could extend the short term bottoming-out process in EUR rates given that EMU money market still attach a small probability to such a scenario.
- UK headline inflation accelerated slightly more than expected in October**, by 0.6% M/M to 2.3% Y/Y. Core CPI remained stronger as well, rising by 0.4% M/M to 3.3% Y/Y (from 3.2%). Services CPI ticked up from 4.9% Y/Y to 5%. Today’s figures **add strength to the Bank of England’s “not too many, not too much” rhetoric**. Sterling strengthens marginally in a first reaction, from EUR/GBP 0.8350 to 0.8330.

News & Views

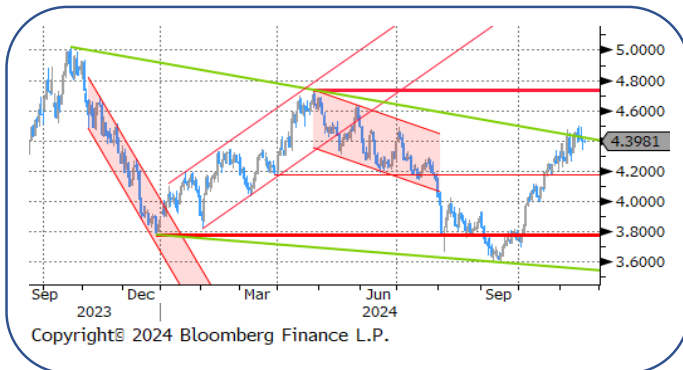
- Hungary’s central bank (MNB) kept the policy rate unchanged at 6.5% yesterday.** One dissenter voted for a rate decrease, potentially inspired by disappointing Q3 growth and the recent sharper-than-expected inflation decline. The MNB noted that this indicates lower inflation in the short term. But the **“exchange rate depreciation seen in the past months as well as changes to the system of excise duties are likely to have inflationary effects in the next year.”** The Monetary Council said the increase in risk aversion towards emerging markets was driven by geopolitics and changing growth and central bank expectations of developed economies. The MNB said these developments pose an upside risk to domestic inflation and **considered a pause in the cutting cycle appropriate**. *“Looking ahead, a careful and patient approach to monetary policy is still warranted.”*, the statement still says. Its deputy governor in the press conference afterwards stressed the importance of anchoring inflation expectations, which for households are “significantly” above the central bank’s 3% target range. He stuck to earlier guidance of **maintaining the current policy rate for a “sustained period”**. The Hungarian forint ended yesterday lower against the euro. EUR/HUF closed at 408.3. Hungarian swap yields dropped some 5 bps across the curve, be it in a pre-meeting move.
- Austria is expected to give Romania and Bulgaria full accession to Europe’s Schengen zone**, the FT reported. Air and maritime checks were already abandoned since end-March but Austria insisted on land border controls because of concerns over irregular migration. It is now ready to drop its veto **after Romania and Bulgaria increased security checks, resulting in lower asylum applications and irregular migration**. Barring a change-of-mind of the Dutch government, which gave green light in 2023 but now has the far-right Freedom party in the coalition, the matter can be formalized at the next EU home affairs meeting Dec 12. **All restrictions may then be lifted at the start of 2025.**

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

Wed., 20 November		Consensus	Previous
Japan			
00:50	Exports YoY (Oct)	3.10%A	-1.70%
00:50	Imports YoY (Oct)	0.40%A	1.80%R
00:50	Trade Balance Adjusted (Oct)	-¥357.7bA	-¥274.6bR
UK			
08:00	CPI MoM / YoY (Oct)	0.50%/2.20%	0.0%/1.70%
08:00	CPI Core YoY (Oct)	3.10%	3.20%
08:00	CPI Services YoY (Oct)	4.90%	4.90%
08:00	PPI Output NSA MoM / YoY (Oct)	-0.10%/-1.10%	-0.5%/-0.7%
08:00	PPI Input NSA MoM / NSA YoY (Oct)	0.50%/-2.90%	-1.0%/-2.30%
10:30	House Price Index YoY (Sep)	--	2.80%
EMU			
11:00	Construction Output MoM / YoY (Sep)	--/--	0.10%/-2.50%
Germany			
08:00	PPI MoM / YoY (Oct)	0.20%/-1.00%	-0.50%/-1.40%
China			
02:00	5-Year Loan Prime Rate	3.60%A	3.60%
02:00	1-Year Loan Prime Rate	3.10%A	3.10%
Events			
Q3 earnings	Nvidia (22:20) ...		
10:00	ECB Financial Stability Review		
11:00	ECB Publishes Euro Area Negotiated Wages Indicator for Q3 2024		
11:30	Germany to Sell 1.8% 2053 & 0% 2052 Bonds		
14:00	ECB's Lagarde Speaks at MacroPru Conference		
16:00	Fed's Barr Testifies Before House Financial Services Committee		
17:00	Fed's Cook Speaks on Economic Outlook, Policy		
17:00	BOE's Ramsden Speaks		
18:15	Fed's Bowman Speaks on Agency Policymaking		
19:00	US to Sell \$16bn 20-yr Bonds		
19:00	ECB's Guindos Speaks at MacroPru Conference		
19:30	ECB's Stournaras Speaks in London		
20:00	ECB's Makhoul Speaks in Dublin		
22:00	Fed's Collins Speaks on Policy, Career		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.40	-0.02		US	4.28	0.00	DOW	43268.94	-120.66
DE	2.34	-0.04		DE	2.14	-0.04	NASDAQ	18987.47	195.66
BE	2.91	0.04		BE	2.32	-0.04	NIKKEI	38352.34	-62.09
UK	4.44	-0.02		UK	4.41	-0.01	DAX	19060.31	-128.88
JP	1.08	0.01		JP	0.56	0.00	DJ euro-50	4751.23	-39.10
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.24	4.00	4.15	€STR	3.1660	0.0010			
5y	2.25	3.91	4.02	Euribor-1	3.0350	-0.0080	SOFR-1	4.5882	-0.0138
10y	2.32	3.90	3.97	Euribor-3	3.0130	0.0090	SOFR-3	4.5200	-0.0010
				Euribor-6	2.7430	0.0080	SOFR-6	4.4353	0.0053
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0596	-0.0002		EUR/JPY	163.86	-0.07	CRB	285.10	1.09
USD/JPY	154.66	0.00		EUR/GBP	0.8355	-0.0005	Gold	2631.00	16.40
GBP/USD	1.2682	0.0004		EUR/CHF	0.9350	-0.0010	Brent	73.31	0.01
AUD/USD	0.6532	0.0024		EUR/SEK	11.5708	0.0115			
USD/CAD	1.3956	-0.0059		EUR/NOK	11.6348	-0.0222			

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		

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