



Thursday, 21 November 2024

## KBC Sunrise Market Commentary

### Markets

- Geopolitical developments keep hijacking headlines.** Risk sentiment improved at the start of yesterday's trading session on talk that Russian president Putin would be open to talks on a ceasefire deal in Ukraine with the US. The optimism quickly evaporated after the Biden administration decided to give Ukraine antipersonnel mines and after Ukraine deployed first long-term missiles from the UK (Storm Shadow) days after first such arms from the US (ATACMS). **Key European equity benchmarks closed up to 0.50% lower.** US stocks treaded water going into **Nvidia earnings** which brought a tepid reaction. While still beating consensus, they didn't top highest estimates triggering some pullback in the share in after-trading after the recent run-up. Eco data included **higher-than-expected October UK CPI figures and record high EMU wage growth (Q3: +5.4% Y/Y)** which failed to really leave a (negative) mark on bond trading. Daily changes on the German curve were limited to +/- 1bp. UK yields were unchanged apart from an underperformance of the (very) long end of the curve: 10y +2.7bps, 30y +5.2 bps). The US yield curve bear flattened with increases between +1.6 bps (30-yr) and +3.4 bps (2-yr) following some **hawkish Fed comments**. EUR/USD oscillates between 1.05 and 1.06. US money markets now put the probability of a 25 bps Fed rate cut in December at only 50%. The latest repositioning started last week after Fed Chair Powell said that the economy is not sending any signals that de Fed needs to be in a hurry to lower rates. **Boston Fed Collins** yesterday suggested that some additional policy easing is needed as policy currently remains at least somewhat restrictive but that the final destination is uncertain. Policy makers should proceed carefully though. *"The policy adjustments made so far enable the FOMC to be careful and deliberate going forward, taking the time to holistically assess implications of the available data for the outlook and the associated balance of risks"* Washington-based **Fed governor Bowman** – who dissented in September in favour of a smaller 25 bps rate cut - sounded equally cautious, citing risks of prematurely fueling demand and reigniting inflationary pressures. Interestingly, she says that we may be closer to a neutral policy stance than we currently think. **Fed governor Cook** also didn't want to frontrun the outcome of the December meeting, hinting that she is ready to respond to a changing outlook. **NY Fed Williams** was more neutral. His 2025 outlook is one of still solid growth (2.5%), a sideways moving labour market (4%-4.25% unemployment rate) and a continuation of the disinflation process (2.25% for the full year). In this context, he argues that it is appropriate to bring the Fed funds rate down closer to more normal or neutral levels. Today's eco agenda again fails to inspire, leaving space for more choppy consolidation trading in the run-up to tomorrow's PMI surveys.

### News & Views

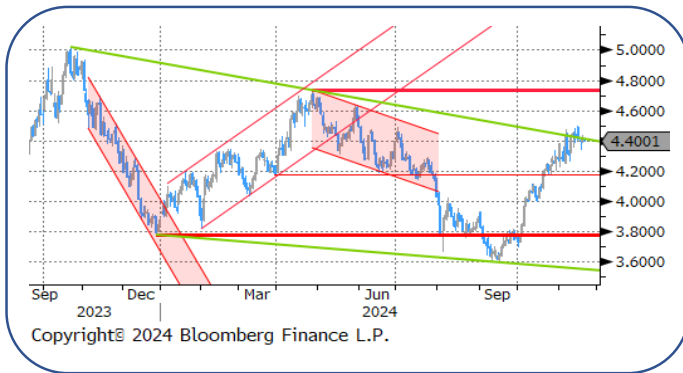
- Japan's public broadcaster NHK said the government is considering a new stimulus package** worth JPY 13.9tn, or about \$90bn, aimed at mitigating the impact of rising prices on households. The package would also contain around JPY 8tn for government investment and lending as well as local government spending, **raising the total size to JPY 21.9tn to top last year's JPY 21.8tn fiscal booster.** Japan's ruling coalition yesterday agreed with a key opposition party on the draft of the package. While these kind of supplementary budgets are not unusual in Japan, their size seem to be ever-increasing. They are also **largely debt-funded.** The IMF earlier this month warned Japan to fund additional spending plans within its budget rather than issue debt. It urged Japan to get its fiscal house in order as the central bank began raising interest rates. The Japanese yen this morning oscillates around USD/JPY 155.
- Advisers to the Chinese government are recommending the country to stick to a 5% growth target for 2025,** Reuters reported. Such growth ambitions match those for this year, which already prove difficult to reach. The advisers **push for stronger fiscal stimulus** to offset the impact of potential US tariff hikes on Chinese exports. One of them said the budget deficit should "definitely exceed" this year's planned 3% level of GDP. Another was more conservative, calling solely relying on fiscal stimulus not sustainable in the long run if China does not go ahead with much-needed reforms to address structural imbalances. The advisers will submit their proposals to next month's annual Central Economic Work Conference, where leaders discuss policies and goals for next year. **The growth target will be officially announced at an annual parliament meeting in March.**

# 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

Thursday, 21 November		Consensus	Previous
<b>US</b>			
14:30	Philadelphia Fed Business Outlook (Nov)	8.0	10.30
14:30	Initial Jobless Claims	220k	217k
14:30	Continuing Claims	1880k	1873k
16:00	Existing Home Sales (Oct)	3.95m	3.84m
16:00	Existing Home Sales MoM (Oct)	2.90%	-1.00%
<b>UK</b>			
08:00	Public Sector Net Borrowing (Oct)	--	16.6b
12:00	CBI Trends Total Orders (Nov)	-25	-27
12:00	CBI Trends Selling Prices (Nov)	--	0.00
<b>EMU</b>			
06:00	EU27 New Car Registrations (Oct)	1.10%A	-6.10%
16:00	Consumer Confidence (Nov P)	--	-22
<b>France</b>			
08:45	Business Confidence (Nov)	97	97
<b>Belgium</b>			
11:00	Consumer Confidence Index (Nov)	--	-5
<b>Norway</b>			
08:00	GDP QoQ / Mainland QoQ (3Q)	--/0.3%	1.40%/0.1%
<b>Events</b>			
06:25	ECB's Villeroy speaks in Tokyo		
09:00	ECB's Knot Speaks in Amsterdam		
09:30	ECB's Holzmann Speaks in Vienna		
09:30	ECB's Cipollone Speaks as ECRB in Frankfurt		
10:00	ECB's Escriva in Spanish Parliament		
10:30	Spain to Sell Bonds		
10:50	France to Sell 2.5% 2027, 0.75% 2028, 0% 2030 and 2.75% 2030		
14:45	Fed's Hammack Gives Welcome Remarks		
15:00	BOE's Mann Speaks		
16:30	ECB's Lane Participates in Panel in Amsterdam		
17:00	ECB's Holzmann, Kazimir, Vujcic speak in Vienna		
18:25	Fed's Goolsbee Participates in Moderated Q&A		
18:30	Fed's Hammack Moderates Conversation		
18:40	Fed's Schmid Gives Speech on Longer-Term Policy		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.41	0.01		US	4.31	0.03	DOW	43408.47	139.53
DE	2.35	0.01		DE	2.13	-0.01	NASDAQ	18966.14	-21.33
BE	2.93	0.02		BE	2.30	-0.02	NIKKEI	38026.17	-326.17
UK	4.47	0.03		UK	4.41	0.00	DAX	19004.78	-55.53
JP	1.10	0.02		JP	0.58	0.02	DJ euro-50	4729.71	-21.52
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.25	4.02	4.15	€STR	3.1670	0.0010			
5y	2.27	3.93	4.02	Euribor-1	3.0450	0.0100	SOFR-1	4.5880	-0.0002
10y	2.35	3.91	3.99	Euribor-3	3.0000	-0.0130	SOFR-3	4.5255	0.0055
				Euribor-6	2.7610	0.0180	SOFR-6	4.4461	0.0108
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0544	-0.0052		EUR/JPY	163.88	0.02	CRB	286.24	1.14
USD/JPY	155.44	0.78		EUR/GBP	0.8333	-0.0021	Gold	2675.60	21.00
GBP/USD	1.2652	-0.0030		EUR/CHF	0.9322	-0.0027	Brent	72.81	-0.50
AUD/USD	0.6506	-0.0026		EUR/SEK	11.6268	0.0560			
USD/CAD	1.3975	0.0019		EUR/NOK	11.6595	0.0247			

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