



Friday, 22 November 2024

KBC Sunrise Market Commentary

Markets

- This week's consolidation pattern on bond markets simply continued yesterday.** Lower weekly jobless claims (213k) and a disappointing November Philly Fed Business outlook balanced each other out data wise. US yields added 3.3 bps (2-yr) to 0.4 bps (30-yr) in another small bear flattening move with money markets reducing the likelihood of a December 25 bps rate cut to 55%. **Our base scenario remains that the Fed will go ahead with a rate cut.** If data permit, they can skip in January, allowing the FOMC to get a better view on the interplay with a likely stimulating fiscal policy under president-elect Trump by the time of new growth and inflation forecasts in March. German yields dropped by 1.1 bp to 3.6 bps with the belly of the curve outperforming the wings. **The (European) proximity to this week's escalating war between Russia and Ukraine directs some haven flows into Bunds.** European stock markets eventually managed to recover from early losses induced by talk that **Russia launched a first ever intermediate-range ballistic missile.** The euro extends its losses, with EUR/USD giving up 1.05 against an overall strong USD. **The pair is on track to test the 2023-2024 sideways range bottom at 1.0448.** The trade-weighted dollar is equally inches away from the 2023 high at 107.35. Only the Japanese yen manages to more or less keep pace with the greenback in such conditions, changing hands at USD/JPY 155.
- Today's eco calendar contains **November global PMI's.** Rising geopolitical tensions will likely limit any rebound potential for the single currency going into the weekend even in case of firmer European numbers. Consensus expects a stabilization at the 50 breakeven level for the EMU composite gauge. **Anything bar a huge negative surprise will also convince final traders out of there 50 bps December rate cut bets by the ECB (15% probability)** as all other intermeeting data (Q3 GDP, October CPI & PMI, Q3 wages) all surprised on the upside. In the US, asymmetric risks are on the other side given that we think markets are underestimating the likelihood of a Fed December move.

News & Views

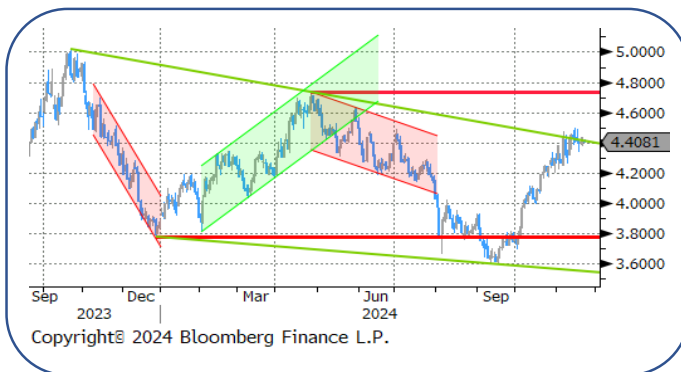
- Japanese inflation eased but remained above the Bank of Japan's 2% target in October.** Headline price increases decelerated **from 2.5% to 2.3%** and the gauge excluding fresh food (the BoJ's preferred gauge) came in at 2.3% as well. The latter was down from 2.4% but above 2.2% expectations. Core CPI (ex. fresh food and energy) picked up from 2.1% to 2.3%, suggesting **energy was a key factor behind the slight slowdown.** Utility subsidies indeed shaved off about 0.5 ppts of the overall index. **Service prices gained momentum, quickening from 1.3% to 1.5%,** adding to evidence that consumer-led inflation is becoming more entrenched in the economy. That should bring comfort to the Bank of Japan, which is looking for signs its (underlying) inflation outlook is materializing, a key condition to further normalize its monetary policy. **The next December meeting is a live one** with money markets slightly in favour (56%) of a 25 bps rate hike to 0.5%. The Japanese yen fails to profit this morning against an overall stronger USD. USD/JPY hovers just south of 155. This level serves as a short-term equilibrium level since the dollar (and rate) rally stalled and geopolitical risk-off kicked in, supporting JPY.
- UK consumers turned a bit less sour in November.** The GfK confidence index edged up from -21 to -18, defying forecasts for a further drop to -22. GfK said that **nervousness ahead of the first Labour budget and US elections appear to have passed.** The survey was taken between October 30 and November 15. Consumers felt some relieve that Labour's **planned tax increases mostly fell on businesses rather than individuals.** All components posted improvements with the biggest taking place in the perceived climate for major purchases (-21 to -16). Consumer's personal finances as well as the economic situation, both over the past and next 12 months, all gained from the previous month too. GfK does note that consumers **still feel acute cost-of-living pressures and urged the government to deliver on their promises to tackle the matter.**

Graphs



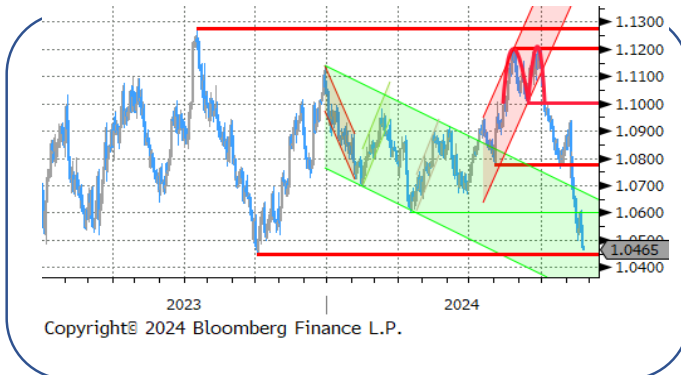
GE 10y yield

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, 22 November		Consensus	Previous
US			
15:45	S&P Global US Manufacturing PMI (Nov P)	48.9	48.5
15:45	S&P Global US Services PMI (Nov P)	55.0	55
15:45	S&P Global US Composite PMI (Nov P)	54.3	54.1
16:00	U. of Mich. Sentiment (Nov F)	73.9	73
Japan			
00:30	Natl CPI YoY (Oct)	2.30%A	2.50%
00:30	Natl CPI Ex Fresh Food YoY (Oct)	2.30%A	2.40%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Oct)	2.30%A	2.10%
01:30	Jibun Bank Japan PMI Composite (Nov P)	49.8A	49.6
01:30	Jibun Bank Japan PMI Mfg (Nov P)	49.0A	49.2
01:30	Jibun Bank Japan PMI Services (Nov P)	50.2A	49.7
UK			
01:01	GfK Consumer Confidence (Nov)	-18A	-21
08:00	Retail Sales Ex Auto Fuel MoM / YoY (Oct)	-0.40%/3.30%	0.30%/4.00%
08:00	Retail Sales Inc Auto Fuel YoY / YoY (Oct)	-0.30%/3.40%	0.30%/3.90%
10:30	S&P Global UK Manufacturing PMI (Nov P)	50.0	49.90
10:30	S&P Global UK Services PMI (Nov P)	52.0	52
10:30	S&P Global UK Composite PMI (Nov P)	51.7	51.8
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Nov P)	46.0	46
10:00	HCOB Eurozone Services PMI (Nov P)	51.6	51.6
10:00	HCOB Eurozone Composite PMI (Nov P)	50.0	50
Germany			
08:00	GDP SA QoQ / WDA YoY (3Q F)	0.20%/-0.20%	0.20%/-0.20%
08:00	Private Consumption QoQ (3Q)	0.50%	-0.20%
08:00	Government Spending QoQ (3Q)	0.40%	1.00%
08:00	Capital Investment QoQ (3Q)	-0.50%	-2.20%
09:30	HCOB Germany Manufacturing PMI (Nov P)	43.0	43
09:30	HCOB Germany Services PMI (Nov P)	51.7	51.6
09:30	HCOB Germany Composite PMI (Nov P)	48.7	48.6
France			
22NOV	Retail Sales SA YoY (Oct)	--	-0.5%
09:15	HCOB France Manufacturing PMI (Nov P)	44.5	44.50
09:15	HCOB France Services PMI (Nov P)	49.0	49.20
09:15	HCOB France Composite PMI (Nov P)	48.3	48.1
Events			
09:30	ECB's Lagarde Speaks in Frankfurt		
09:40	ECB's Guindos Speaks in Madrid		
14:00	ECB's Nagel, Villeroy Speak in Frankfurt		
16:45	ECB's Schnabel Speaks in Basel		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.42	0.01		US	4.35	0.03	DOW	43870.35	461.88
DE	2.32	-0.03		DE	2.11	-0.02	NASDAQ	18972.42	6.28
BE	2.92	-0.01		BE	2.27	-0.03	NIKKEI	38283.85	257.68
UK	4.44	-0.03		UK	4.38	-0.02	DAX	19146.17	141.39
JP	1.09	-0.01		JP	0.59	0.01	DJ euro-50	4755.83	26.12
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.24	4.05	4.11	€STR	3.1670	0.0000			
5y	2.25	3.95	3.99	Euribor-1	3.0790	0.0340	SOFR-1	4.5775	-0.0105
10y	2.33	3.92	3.97	Euribor-3	3.0050	0.0050	SOFR-3	4.5195	-0.0060
				Euribor-6	2.7780	0.0170	SOFR-6	4.4430	-0.0031
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0474	-0.0070		EUR/JPY	161.87	-2.01	CRB	288.32	2.08
USD/JPY	154.54	-0.90		EUR/GBP	0.8320	-0.0013	Gold	2699.30	23.70
GBP/USD	1.2589	-0.0063		EUR/CHF	0.9289	-0.0033	Brent	74.23	1.42
AUD/USD	0.6511	0.0005		EUR/SEK	11.5875	-0.0393			
USD/CAD	1.3974	-0.0001		EUR/NOK	11.5977	-0.0618			

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

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 date of the report and are subject to change without notice.

