



Monday, 25 November 2024

KBC Sunrise Market Commentary

Markets

- The PMI's on Friday again highlighted the divergence in growth and confidence between the US and EMU.** The glimmers of hope some optimists saw in the October EMU PMI reading where brutally rejected by the November update. The composite PMI tumbled back in contraction territory (48.1 from 50.0). Even more worrisome, **services which until now still provided some counterweight against an ailing manufacturing sector, this time also dropped below the 50-boom-or-bust level** (49.2 from 51.6). Germany and in particular France, were the main reason of the decline, but growth in the rest of the EMU is slowing as well. At the same time, rising wage costs caused input and output prices rising again, indicating Europa is heading for a stagflationary environment. **The contrast with the US could hardly be bigger.** The US composite PMI rose more than expected to a healthy 55.3 from 54.1, with survives taking the lead (57.0). In manufacturing, a mild contraction continues (48.8). Even more striking, in this context, the pace of US output price inflation slowed to the slowest since May 2000. **In a sharp bull steepening move, German yields tumbled between 11.7 bps (2-y) and 4.4 bps (30-y).** Markets now again see a 50-50% chance between a 25 bps and 50 bps ECB rate cut at the December 12 meeting. The reaction of US interest rate markets to the US PMI's was much more modest. The US 2-y yield added 2.4 bps. The 30-y declined 1.4 bps. With markets discounting only 60% of a 25 bps Fed cut at the December Fed meeting and less than 75bps additional easing toward the end of next year, investors apparently don't feel the need to a more hawkish positioning yet. The combination of lower EMU yields and a solid US eco performance supported equities on both sides of the Atlantic (Dow +0.97%; Eurostoxx 50 +0.70%). EUR/USD briefly spiked below the 1.035 mark immediately after the EMU data, but closed the day at 1.042. Sterling showed a similar intraday pattern, but EUR/GBP soon returned north of 0.83, as the US PMI (composite 49.9) also missed expectations by a big margin.
- This morning, **sentiment on Asian markets (ex China) is constructive.** Markets apparently draw some comfort from Scott Bessent being Donald Trump's candidate to become Treasury Secretary. Markets hope he will hold a market-friendly but also a measured policy, supporting financial and macro-economic stability. US Treasuries are rebounding, with yields declining between 4.5 (2-y) and 7 bps (10-30-y). **The correction (in US yields) and a constructive risk sentiment also triggers some profit taking on recent USD rally.** DXY drops below the 107 barrier (compared to a test of 108 on Friday). EUR/USD also tries to fight back (1.048). Especially, for EUR/USD, we don't anticipate a genuine turnaround, but some consolidation might be on the cards. The eco calendar contains the IFO business confidence. We also keep a close eye at ECB comments after last Friday's PMI's. **Later this week** EMU CPI data (Thursday, Friday) are important to further shape expectations on the pace of ECB easing in December.

News & Views

- Nationalist candidate Calin Georgescu unexpectedly won the first round of Romanian presidential elections,** securing around 22% of the vote. He's slightly ahead of Prime Minister Ciolacu who gained around 20%. Both men advance to a run-off vote on December 8. This set-up still favors Ciolacu for the ceremonial win, although the president is commander-in-chief of the military and the country's representative at NATO and EU Summits. Georgescu has questioned military support for Ukraine, called for an end to the war, cast doubt on the benefit of Romania's NATO-membership and labeled Russian president Putin one of the world's few true leaders. **The outcome of the presidential ballot makes way for possible surprises at general elections (December 1) triggered by a collapse of the coalition government** (Social Democrats of PM Ciolacu and Liberal Party) after three years in charge.
- People close to the Italian government indicated that this year's budget deficit could be 3.9% or 4% of GDP instead of the 3.8% target.** The debt ratio might be up to two percentage points above the 134.8% tabled in September. The key concern is the 1% growth forecast Rome uses is significantly above the 0.7%-0.8% taking into account by the Bank of Italy, the IMF or the EC. That's also why the impact on debt ratio is larger than on the deficit. Italian officials estimate that every tenth of a percentage point deviation in growth equates to around €2bn in additional issuance.

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. The 1.0448 2023 low was tested after the November EMU PMI's**



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 0.8250 support zone was tested but survived. The picture remains fragile.

Calendar & Table

Monday, 25 November		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Oct)	-0.20	-0.28
16:30	Dallas Fed Manf. Activity (Nov)	-2.4	-3
Japan			
06:30	Nationwide Dept Sales YoY (Oct)	-0.70%A	2.30%
06:30	Tokyo Dept Store Sales YoY (Oct)	-1.10%A	-0.60%
Germany			
10:00	IFO Business Climate (Nov)	86.0	86.5
10:00	IFO Current Assessment (Nov)	85.5	85.7
10:00	IFO Expectations (Nov)	87.0	87.3
Belgium			
15:00	Business Confidence (Nov)	-12.6	-12.8
China			
25NOV	1-Yr Medium-Term Lending Facility Rate	2.00%A	2.00%
25NOV	1-Yr Medium-Term Lending Facilities Volume	900.0bA	700.0b
Events			
10:00	BOE's Lombardelli Speaks		
11:30	BOE's Dhingra Speaks		
11:30	EU to Sell Up to EU2 Billion of 3% 2034 Bonds, Up to EU2 Billion of 2% 2027 Bonds		
17:30	ECB's Lane Speaks in London		
18:30	ECB's Nagel Speaks in Dortmund		
20:00	ECB's Makhlouf Speaks		
19:00	U.S. To Sell USD69 Bln 2-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,40	-0,02		US	4,37	0,02	DOW	44296,51	426,16
DE	2,24	-0,08		DE	1,99	-0,12	NASDAQ	19003,65	31,23
BE	2,86	-0,07		BE	2,13	-0,14	NIKKEI	38780,14	496,29
UK	4,39	-0,06		UK	4,33	-0,06	DAX	19322,59	176,42
JP	1,08	-0,01		JP	0,60	0,00	DJ euro-50	4789,08	33,25
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	2,15	4,06	4,07	€STR	3,1680	0,0010			
5y	2,18	3,94	3,95	Euribor-1	3,0750	-0,0040	SOFR-1	4,5828	0,0053
10y	2,27	3,90	3,92	Euribor-3	3,0220	0,0170	SOFR-3	4,5249	0,0054
				Euribor-6	2,7700	-0,0080	SOFR-6	4,4516	0,0086
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0418	-0,0056		EUR/JPY	161,24	-0,63	CRB	289,91	1,59
USD/JPY	154,78	0,24		EUR/GBP	0,8313	-0,0007	Gold	2737,20	37,90
GBP/USD	1,253	-0,0059		EUR/CHF	0,9311	0,0023	Brent	75,17	0,94
AUD/USD	0,6501	-0,0010		EUR/SEK	11,501	-0,0865			
USD/CAD	1,3978	0,0004		EUR/NOK	11,5359	-0,0618			

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