



Tuesday, 26 November 2024

KBC Sunrise Market Commentary

Markets

- The **rise in US yields and the dollar showed signs of fatigue lately**, hardly reacting to positive data. What can't go up, must come down. Donald Trump picking Scott Bessent for Treasury Secretary yesterday was a perfect trigger for a countermove. While fully supporting Trump's tariffs and tax cuts, markets considered him as a relatively moderate/pragmatic profile. **This was perceived as giving some comfort on the potential inflationary impact of future policy and to some extent mitigated worries on fiscal exuberance.** US yields in a bull flattening move declined between 10.5 bps (2-y) and 12.7 bps (10-y). A \$69bn 2-y US Treasury auction attracted solid investor demand with a strong bid-cover ratio of 2.77 and printing 1.8 bps below the WI bid, reinforcing the intraday bond rally. **Fed governors Kashkari and Goolsbee** suggested they were still open to considering rate cuts at the December meeting. German **Bunds underperformed Treasuries in the wake of Friday's post-PMI rally.** Yields changed between +3.3 bps (2-y) and 5.5 bps (30-y). The Bessent nomination also triggered a positive open on US and European equity markets, but the move lacked conviction, leaving limited gains at the close (EuroStoxx 50 +0.23%; S&P 500 +0.3%). **The dollar fell prey to some profit taking.** DXY dropped to close at 106.82 compared to 108+ levels briefly touched on Friday. EUR/USD tried to regain the 1.05 levels but gains couldn't be sustained with a close at 1.0495. **The (temporary?) global relief didn't help sterling much as it underperformed the euro (close EUR/GBP 0.835).**
- Yesterday's market hope on a 'guarded' implementation of Trump policies, is already seriously challenged this morning as the US president-elect announced additional tariffs on Canada, Mexico and China (cf infra). Asian equity indices mostly show losses between 0.5% and 1%. US yields gain modestly and so does the dollar (DXY 107.1, EUR/USD 1.048). The damage for the likes of the euro could have been bigger, but we don't draw any conclusion from the fact that Trump didn't say anything about tariffs on European imports. **It's still a long way to January 20. At 153.9, the yen continues its recent outperformance.** In this respect, **Japanese October PPI services price inflation (2.9%) jumped more than expected.** A sub-indicator considering firms with a high labour cost ratio at 3.3% even jumped to a multi-year high, **reinforcing the case for the BOJ to proceed with policy normalization, maybe already at the December meeting.** Later today, the calendar contains US consumer confidence (Conference Board) and housing data (prices, new home sales). The Fed will publish the minutes of the November 7 meeting. Data probably will be secondary to 'announcements' from the Trump administration. In this respect we look out whether yesterday's correction in US yields and the dollar has much further to go. Markets will also keep an eye at multiple ECB speakers looking for 'guidance' on the December rate cut.

News & Views

- **US President-elect Trump** posted on his Truth Social platform that **he'll slap steep tariffs on Mexico and Canada on his first day back in office.** He will charge both neighboring countries a 25% tariff on all products until "Drugs, in particular Fentanyl, and all Illegal Aliens stop this Invasion of our Country". Doing so would likely end the trade agreement (USMCA) from his first term in office. In a separate post, he also aimed at China for not doing enough to stem flow of drugs or migrants to the US.: "Until such time as they stop, we will be charging **China an additional 10% Tariff**, above any additional Tariffs, on all of their many products coming into the United States of America". Local currencies clearly underperform this morning. **USD/CAD set a new multi-year high above 1.41. USD/MXN jumped to the YTD top of 20.75 and USD/CNY returns to 7.25 for the first time since the end of July.**
- The British Retail Consortium's shop price index showed overall prices rising by 0.2% M/M in November, with both food (+0.3%) and non-food prices (+0.2%) increasing. **Annual shop price deflation of 0.6% in the 12 months to November followed a 0.8% drop in the 12 months to October.** BRC chief executive warned that "with significant price pressures on the horizon, November's figures may signal the end of falling inflation". She warns that stores will pass on higher staffing costs including those coming from a rise in social security contributions by employers (2025 Budget) and a 6.7% increase in the minimum wage. A separate survey from British supermarket Asda warns that a drop in households' disposable income and rising inflation could subdue Christmas spending..

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 1.0778 support**. **US elections** and the risk of a new Trump term, including hawkish trade policy, **added another to by default USD strength**. **Euro weakness** caused by poor EMU November PMI's triggered a brief spike below the 1.0448 support.

The trend remains south.



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

Tuesday, 26 November		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Nov)	--	6
15:00	FHFA House Price Index MoM (Sep)	0.3%	0.30%
15:00	House Price Purchase Index QoQ (3Q)	--	0.90%
15:00	S&P CoreLogic CS 20-City MoM/YoY SA (Sep)	0.3%/4.7%	0.35%/5.20%
16:00	New Home Sales Total/MoM (Oct)	725k/-1.80%	738k/4.10%
16:00	Conf. Board Consumer Confidence (Nov)	111.4	108.7
16:00	Conf. Board Present Situation (Nov)	--	138
16:00	Conf. Board Expectations (Nov)	--	89.1
16:00	Richmond Fed Manufact. Index (Nov)	-11	-14
16:00	Richmond Fed Business Conditions (Nov)	--	-4
20:00	FOMC Meeting Minutes		
Japan			
00:50	PPI Services YoY (Oct)	A 2.90%	2.80%
UK			
01:01	BRC Shop Price Index YoY (Nov)	A -0.6%	-0.80%
12:00	CBI Total Dist. Reported Sales (Nov)	--	-12
12:00	CBI Retailing Reported Sales (Nov)	- 15	-6
Events			
09:00	ECB's Villeroy Speaks in Paris		
10:00	ECB's Centeno Speaks at Banking Conference in Lisbon		
10:15	ECB's Villeroy speaks in Paris		
10:30	Germany to Sell EU4 Billion of 2.5% 2029 Bonds		
11:00	Italy to Sell Up to EU2 Billion of 3.1% 2026 Bonds		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,27	-0,13	US	4,27	-0,10	DOW	44736,57	440,06	
DE	2,21	-0,03	DE	2,02	0,03	NASDAQ	19054,84	51,19	
BE	2,84	-0,02	BE	2,18	0,04	NIKKEI	38442	-338,14	
UK	4,34	-0,04	UK	4,32	0,00	DAX	19405,2	82,61	
JP	1,07	-0,01	JP	0,59	0,00	DJ euro-50	4799,87	10,79	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,16	3,96	4,07	€STR	3,1670	-0,0010			
5y	2,17	3,84	3,93	Euribor-1	3,0780	0,0030	SOFR-1	4,5730	-0,0098
10y	2,24	3,80	3,89	Euribor-3	2,9850	-0,0370	SOFR-3	4,5146	-0,0103
				Euribor-6	2,7110	-0,0590	SOFR-6	4,4324	-0,0192
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0495	0,0077	EUR/JPY	161,87	0,63	CRB	287,51	-2,40	
USD/JPY	154,23	-0,55	EUR/GBP	0,8351	0,0038	Gold	2642,60	-94,60	
GBP/USD	1,2568	0,0038	EUR/CHF	0,9302	-0,0010	Brent	73,01	-2,16	
AUD/USD	0,6504	0,0003	EUR/SEK	11,5291	0,0281				
USD/CAD	1,3987	0,0009	EUR/NOK	11,6401	0,1042				

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