



Wednesday, 27 November 2024

## KBC Sunrise Market Commentary

### Markets

- US President-elect Trump announcing he will raise tariffs** on imports from Canada and Mexico by 25% and the levy on China by 10% in the end **only had a limited impact on markets**. Early rises in yields and the dollar were largely reversed. The US yield curve closed with the 2-y 1.2 bps lower (benchmark change) and the 10-y adding 3.3 bps. However, the biggest intraday swigs came in US trading hours, not immediately after the Trump announcements. US yields initially (re)gained a few basis points on mixed regional confidence and housing data. **US consumer confidence rebounded to the best level since July last year**. A \$70 bln 5-y auction went ok, with a slightly above average bid-to-cover ratio (2.43) and a yield print close to the WI bid (4.197%). While individual policy makers evidently still put personal accents in their assessment of policy, the global tone from the **Fed minutes of the November 7 meeting** was that as inflation is continuing to move to the 2.0% target but the economy remaining near maximum employment, **it would likely be appropriate to move gradually toward a more neutral policy stance**. Uncertainty on the level of this neutral rate makes it difficult to assess the degree of policy restriction and is an additional reason for a cautious approach. Markets still see about a 60% chance on a December Fed rate cut. **German yields remained under modest downward pressure easing between 0.8 bps (2-y) and 2.3 bps (10-y)**. US equities for now didn't see much of a risk from the Trump tariffs announcement. The S&P 500 set a new record close (+0.57%). **The dollar showed no clear directional pattern**. DXY finish slightly higher from Monday's close at 107.01. EUR/USD after an intraday rebound finish little changed (1.0489). The yen still outperformed (USD/JPY close 153.08 from 154.2).
- Asian equity indices this morning are trading mixed as regional investors ponder the potential impact of Trump's trade policy. Later today, the US calendar is well filled with amongst others a revision to the US Q3 GDP data, durable goods orders, jobless claims, the Chicago PMI and spending and income data, including the price deflators. Both the Y/Y headline (2.3%) and core (2.8%) PCE deflators are expected slightly higher from last month. The might have some intraday impact but the debate on a December rate cut won't be concluded today as markets are counting down to the Thanksgiving weekend. **US yields are in a mild correction after recent rally**. In Europe, we look out how much room there is left after recent decline in yields. Even in case of a pause, the picture for EUR/USD looks fragile, with a return to the 1.0335 correction low still very well possible. Yen outperformance still continues, also this morning.

### News & Views

- The **Reserve Bank of New Zealand lowered its policy rate for a second consecutive meeting by 50 bps**, from 4.75% to 4.25%. RBNZ governor Orr suggested that a third such move would come at February 19 meeting conditional on economic projections panning out. The RBNZ puts an average policy rate of 3.83% forward in Q2 2025 (vs 4.36% in August forecasts). The landing zone remains broadly unaltered (3.17% average in Q4 2026 vs 3.13%) implying **no intention to bring policy rates below neutral levels**. Annual inflation forecasts for Q4 2024, 2025 and 2026 stand at 2.1%, 2.4% and 2.1%, close to August levels (2.3%-2.3%-2%). The downturn in domestic activity had stabilized in recent months, following the pronounced and broad-based deterioration observed in August. **Growth is expected to recover during 2025, but considerable spare productive capacity remains in the economy**. NZD swap rates rebound up to 10 bps at the front end of the curve as some expected more dovish language or even already a 75 bps rate cut today. NZD/USD leaves the YTD lows around 0.58 behind to currently change hands around 0.5870.
- The pace of annual Australian inflation was unchanged in October (2.1% Y/Y), the lowest level since July 2021**. The significant drop from 3.8% Y/Y in June is mainly due to price falls in Electricity and Automotive fuel prices. **Core measures show a more diffuse picture**. Annual trimmed mean inflation was 3.5%, up from 3.2% and similar to where it was in August. The CPI excluding volatile items and holiday travel was 2.4% Y/Y, down from 2.7% in September. The next quarterly inflation report, used as key RBA-input will only be published on Jan 29. **AUD/USD remains stuck near the recent lows sub-0.65...**

# Graphs



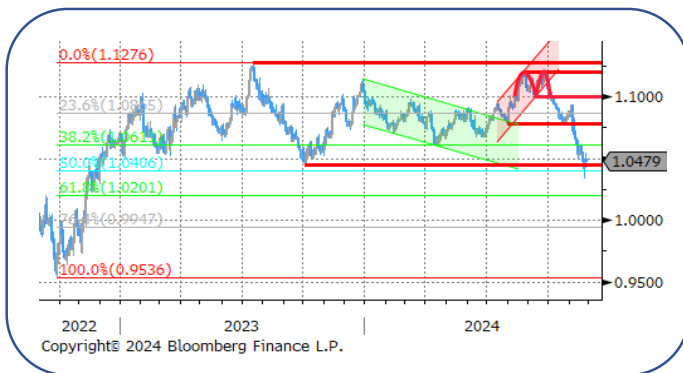
## GE 10y yield

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

Wednesday, 27 November		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	1.70%
14:30	Advance Goods Trade Balance (Oct)	-\$102.7bA	-\$108.7bR
14:30	Wholesale Inventories MoM (Oct P)	0.10%	-0.20%
14:30	Retail Inventories MoM (Oct)	0.50%	0.80%
14:30	Durable Goods Orders (Oct P)	0.50%	-0.70%
14:30	Durables Ex Transportation (Oct P)	0.10%	0.50%
14:30	Cap Goods Orders Nondef Ex Air (Oct P)	0.10%	0.70%
14:30	<b>Cap Goods Ship Nondef Ex Air (Oct P)</b>	<b>0.10%</b>	<b>-0.10%</b>
14:30	<b>Initial Jobless Claims</b>	<b>215k</b>	<b>213k</b>
14:30	Continuing Claims	1892k	1908k
15:45	MNI Chicago PMI (Nov)	45.0	41.6
16:00	<b>Personal Income/Spending (Oct)</b>	<b>0.30%/0.40%</b>	<b>0.30%/0.50%</b>
16:00	Real Personal Spending (Oct)	0.20%	0.40%
16:00	<b>PCE Price Index MoM/YoY (Oct)</b>	<b>0.20%/2.30%</b>	<b>0.20%/2.10%</b>
16:00	Core PCE Price Index MoM/YoY (Oct)	0.30%/2.80%	0.30%/2.70%
16:00	Pending Home Sales MoM/NSA YoY (Oct)	-2.00%/0.20%	7.40%/2.20%
<b>Germany</b>			
10:30	GfK Consumer Confidence (Dec)	-18.8	-18.3
<b>France</b>			
08:45	Consumer Confidence (Nov)	94	94
<b>China</b>			
02:30	Industrial Profits YTD YoY (Oct)	-4.30%A	-3.50%
02:30	Industrial Profits YoY (Oct)	-10.00%A	-27.10%
<b>New Zealand</b>			
02:00	<b>RBNZ Official Cash Rate</b>	<b>4.25%A</b>	<b>4.75%</b>
<b>Events</b>			
02:00	RBNZ Monetary Policy Statement		
03:00	RBNZ News Conference on Mon Policy Statement		
08:30	Riksbank's Jansson speech on monetary policy		
19:00	ECB's Lane Speaks in Frankfurt		
19:00	U.S. To Sell USD44 Bln 7-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,31	0,03		US	4,26	-0,01	DOW	44860,31	123,74
DE	2,19	-0,02		DE	2,02	0,00	NASDAQ	19175,58	120,74
BE	2,85	0,01		BE	2,17	0,00	NIKKEI	38134,97	-307,03
UK	4,35	0,01		UK	4,33	0,01	DAX	19295,98	-109,22
JP	1,07	0,00		JP	0,60	0,01	DJ euro-50	4761,99	-37,88
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,15	3,98	4,07	€STR	3,1650	-0,0020			
5y	2,16	3,88	3,92	Euribor-1	3,0020	-0,0760	SOFR-1	4,5516	-0,0214
10y	2,24	3,84	3,88	Euribor-3	2,8980	-0,0870	SOFR-3	4,4832	-0,0314
				Euribor-6	2,6760	-0,0350	SOFR-6	4,4098	-0,0226
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0489	-0,0006		EUR/JPY	160,58	-1,29	CRB	288,02	0,51
USD/JPY	153,08	-1,15		EUR/GBP	0,8344	-0,0006	Gold	2646,30	3,70
GBP/USD	1,2569	0,0001		EUR/CHF	0,9298	-0,0003	Brent	72,81	-0,20
AUD/USD	0,6475	-0,0029		EUR/SEK	11,5265	-0,0026			
USD/CAD	1,4054	0,0067		EUR/NOK	11,7075	0,0674			

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