



Thursday, 28 November 2024

KBC Sunrise Market Commentary

Markets

- Multiple US data, including the closely watched PCE deflators, yesterday didn't stop the recent correction on the Trump-trade.** The headline (0.2% M/M and 2.3% Y/Y from 2.2%,) and core PCE measures (0.3% M/M and 2.8% Y/Y from 2.7%) illustrated the bumpy path for inflation to return to 2.0%. Spending (0.4% M/M) and income (0.6% M/M) suggest that consumer spending can further support growth. US yields temporarily regained a few ticks after the release but still finished between 2.9 bps (2-y) and 5.3 bps (5-y) lower. **The data support a call for gradualism, but markets still see a 25 bps December cut as the most likely scenario (70%).** In Europe, **ECB Board member Isabel Schnabel tried to mitigate expectations for too aggressive ECB easing.** If the outlook materializes, the ECB can gradually reduce the policy rate toward a neutral level which she sees between 2% and 3%, a range not that far away from current 3.25%. In this process she doesn't see room for 50 bps steps. Schnabel also pointed to the discrepancy between very negative surveys and less negative hard data, **making her to conclude the EU isn't heading for a recession.** Schnabel's comments caused an intraday uptick in EMU/German yields. The 2-y German yield added 1.6 bps. Longer maturities still lost up to 5.0 bps (30-y). Schnabel's comments and the ongoing correction in US yields gave the EUR/USD pair some breathing space with the pair rebounding from 1.049 to 1.0566.
- US markets are closed for the Thanksgiving Holiday today. **The EMU calendar contains EC confidence data and national CPI data in Belgium, Spain and Germany.** Even as the monthly inflation dynamics in individual countries might differ across countries, it'll give a first indication on what to expect for the EMU flash estimate tomorrow. Despite an expected monthly decline (-0.5%), German Y/Y headline inflation is expected to reaccelerate from 2.4% to 2.6%. A similar pattern is expected for tomorrow's EMU data (headline -0.2% M/M and +2.3% from 2.0%, core 2.8% from 2.7%). Yesterday's comments from ECB's Schnabel indicate that (underlying) inflation is still a reason for at least some ECB members not to reduce rates too quickly and avoid to make policy stimulative again. Markets until now were reluctant to pick up this message. We are keen to see the market reaction in case of higher than expected inflation data. **The 2-y German yield and the EMU 2-y swap yield are testing/at risk of breaking important support areas respectively near 2.0% and 2.20%.** Interesting to see whether this week's EMU inflation data will provide some kind of 'reflection point' after the recent protracted yield decline. For the euro, we don't draw any firm conclusions yet as interest rates (differentials) are only one element in a very diffuse, EU unfriendly (economic and geopolitical) environment. EUR/USD 1.0610 is first ST resistance on the charts.

News & Views

- The Bank of Korea unexpectedly lowered its base rate for a second consecutive meeting by 25 bps** to 3% to mitigate downside risks to the economy. Growth has weakened due to a slowdown in export growth, amid a moderate recovery in domestic demand. The BoK downgraded this and next year's growth forecasts from 2.4% and 2.1% to 2.2% and 1.9% respectively. **The future path of economic growth is subject to high uncertainties** related to changes in the trade environment, trends in IT exports, and the pace of recovery in domestic demand. Inflation has stabilized despite upward pressure from a weakening FX rate. CPI is forecast to average 2.3% this year and 1.9% next year (vs August prognosis of 2.5% and 2.1%). Regarding **financial stability**, the slowing trend in household debt is expected to persist for some time but it is important to stay cautious concerning the potential for high FX volatility. The BoK dropped the word "carefully" with regard to the pace of further cuts, but governor Rhee indicated that cutting below neutral is not yet on the table. USD/KRW (1395) remains close to weakest levels since mid-2022.
- Coffee futures tracking arabica beans rose to their highest level since 1977** (\$3.23/pound) as coffee roasters try to get their hands on as much as possible beans ahead of possible shortages. Weather events in Brazil (hot and dry August-September months followed by heavy rains in October) and Vietnam could result in a supply deficit next year with EU legislation and the US tariff treat causing additional uncertainty. EU authorities are due to apply a 12-month delay to legislation (which normally comes into effect Jan 1st) which requires importers to prove the coffee beans they bought wasn't grown on deforested land.

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-y 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 an 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

| Thursday, 28 November | | Consensus | Previous |
|-----------------------|---|---------------------|--------------------|
| EMU | | | |
| 10:00 | M3 Money Supply YoY (Oct) | 3.40% | 3.20% |
| 11:00 | Consumer Confidence (Nov F) | -- | -13.7 |
| 11:00 | Services Confidence (Nov) | 6.5 | 7.1 |
| 11:00 | Industrial Confidence (Nov) | -13.0 | -13 |
| 11:00 | Economic Confidence (Nov) | 95.2 | 95.6 |
| Germany | | | |
| 14:00 | CPI MoM/YoY (Nov P) | -0.20%/2.20% | 0.40%/2.00% |
| 14:00 | CPI EU Harmonized MoM/YoY (Nov P) | -0.50%/2.60% | 0.40%/2.40% |
| Italy | | | |
| 10:00 | Consumer Confidence Index (Nov) | 97.4 | 97.4 |
| 10:00 | Manufacturing Confidence (Nov) | 85.0 | 85.8 |
| 10:00 | Economic Sentiment (Nov) | -- | 93.4 |
| 11:00 | PPI MoM/YoY (Oct) | --/-- | -0.80%/-2.70% |
| Belgium | | | |
| 28NOV | CPI MoM/YoY (Nov) | --/-- | 0.48%/3.20% |
| Spain | | | |
| 09:00 | CPI MoM/YoY (Nov P) | 0.20%/2.30% | 0.60%/1.80% |
| 09:00 | CPI EU Harmonised MoM/YoY (Nov P) | 0.10%/2.40% | 0.40%/1.80% |
| 09:00 | CPI Core YoY (Nov P) | 3.70% | 2.50% |
| Events | | | |
| 28NOV | US financial markets closed for Thanksgiving Day | | |
| 09:55 | RBA's Bullock-Speech | | |
| 11:00 | Italy to Sell Bonds | | |
| 14:30 | ECB's Villeroy speaks in Paris | | |
| 14:50 | ECB's Knot speaks in Paris | | |
| 18:00 | ECB's Lane Speaks in Paris | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|------------|--------|---------|------|------------|---------|---------|-------------|----------|---------|
| US | 4,26 | -0,04 | | US | 4,23 | -0,03 | DOW | 44722,06 | -138,25 |
| DE | 2,16 | -0,03 | | DE | 2,04 | 0,02 | NASDAQ | 19060,48 | -115,10 |
| BE | 2,80 | -0,05 | | BE | 2,19 | 0,02 | NIKKEI | 38349,06 | 214,09 |
| UK | 4,30 | -0,06 | | UK | 4,31 | -0,03 | DAX | 19261,75 | -34,23 |
| JP | 1,06 | -0,01 | | JP | 0,59 | 0,00 | DJ euro-50 | 4733,15 | -28,84 |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | 2,16 | 3,93 | 4,05 | €STR | 3,1650 | 0,0000 | | | |
| 5y | 2,16 | 3,82 | 3,90 | Euribor-1 | 2,9770 | -0,0250 | SOFR-1 | 4,5399 | -0,0117 |
| 10y | 2,23 | 3,79 | 3,84 | Euribor-3 | 2,9120 | 0,0140 | SOFR-3 | 4,4695 | -0,0137 |
| | | | | Euribor-6 | 2,6940 | 0,0180 | SOFR-6 | 4,3915 | -0,0183 |
| | | | | | | | | | |
| Currencies | Close | -1d | | Currencies | Close | -1d | Commodities | Close | -1d |
| EUR/USD | 1,0566 | 0,0077 | | EUR/JPY | 159,66 | -0,92 | CRB | 286,72 | -1,30 |
| USD/JPY | 151,09 | -1,99 | | EUR/GBP | 0,8333 | -0,0012 | Gold | 2664,80 | 18,50 |
| GBP/USD | 1,268 | 0,0111 | | EUR/CHF | 0,9319 | 0,0021 | Brent | 72,83 | 0,02 |
| AUD/USD | 0,6497 | 0,0022 | | EUR/SEK | 11,5284 | 0,0019 | | | |
| USD/CAD | 1,403 | -0,0024 | | EUR/NOK | 11,6889 | -0,0186 | | | |

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