



Friday, 29 November 2024

KBC Sunrise Market Commentary

Markets

- US markets were closed for Thanksgiving yesterday, leaving **European markets looking for their own dynamics**. **National inflation data** from Germany (HICP -0.7% M/M and 2.4% Y/Y; unchanged October) and Spain (0% M/M and 2.4% Y/Y from 1.8%, core 2.4% from 2.5%) **overall printed on the softer side of expectations**, suggesting (modest) downside risks for today's Flash EMU release. The decline of EMU yields to the incoming CPI data was initially modest/limited. However, in afternoon trading, **comments from Banque de France governor Villeroy clearly put other accents on the ECB's strategy than board member Schnabel on Wednesday**. The French governor indicated that **the ECB needs full optionality** in the current environment **on the frequency and the size of rate cuts, including the December one**. Inflation reaching the target sooner than expected also is a reason to bring rates to a neutral level and even a decline below neutral might be possible. Especially the latter assessment clearly diverged from Schnabel's view. The combination of slightly softer than-expected CPI data and the Villeroy comments **finally caused EMU yields to follow the path of least resistance, which currently obviously is still south**. German yields declined 3.8 bps (5-y) to 1.9 bps (30-y). Money markets see the trough in the EMU easing cycle next year near 1.75%. The Euro this time quite easily withstood the further decline in yields and closed only modestly lower at 1.0552 (from 1.0566). Growing tensions/uncertainty on the French budget didn't impact the euro. The Eurostoxx 50 even added 0.54%.
- US markets rejoin the action today. However with **no US data scheduled for release**, the focus in the US might be on the shopping malls rather than on Wall Street. Still, US yields this morning continue their recent corrective decline, ceding 3-4 bps across the curve. **EMU November CPI data take center stage (headline expected at -0.2% M/M and 2.3% Y/Y from 2%, core expected 2.8% from 2.7%)**. Even with the French and Italian data still to be released, risks for the outcome are to the downside. **Question is how much further markets will/can push expected easing next year, given what is already discounted (1.75% ECB depo rate in H2)**. For now, there probably is no trigger to row against the existing downtrend in EMU yields, but it might shift into a lower gear. **On FX markets**, the euro (EUR/USD) enjoys some relief as the **correction in US yields and the dollar apparently still has some legs**. DXY drops below the 106 handle (105.85). USD/JPY, also pressured by yen strength, is testing the 150 mark this morning. EUR/USD gains a few ticks (EUR/USD 1.0582), but the political/budgetary uncertainty in France probably will continue to prevent dynamic/sustained comeback.

News & Views

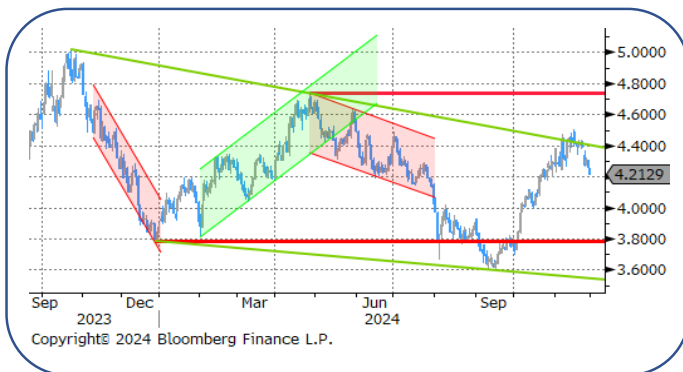
- November Tokyo inflation numbers boost market odds that the Bank of Japan will conduct another rate hike at its December policy meeting**. Prices in the capital region rose by 0.5% M/M on a headline level. That's the third such increase in the past four months. In annual terms, CPI jumped from 1.8% to 2.6%, matching the YTD high. The BoJ's preferred ex-fresh food gauge equally rose by 0.5% M/M to be up 2.2% Y/Y (from 1.8%). More details showed goods and services inflation increasing by 0.8% and 0.2% respectively in November. Only household goods (-0.5% M/M) and entertainment (-0.1% M/M) had a dampening impact on the monthly CPI-print. **The Japanese yen rallied from USD/JPY 151.50 to 150 in response to the figures with money markets currently discounting a 15 bps increase in the BoJ's target rate (currently 0.25%)**.
- French finance minister Armand yesterday noon already hinted that it's better to have a budget that is not exactly the one they want instead of having no budget at all**. PM Barnier than later on the day stressed that they will do everything to bring the country's budget deficit from this year's 6% of GDP to about 5% next year. He also announced a first major concession for the far-right RN who threatens the government over the budget bill. A previously planned increase for an electricity tax will no longer be included in the budget. From February, electricity taxes will now decrease by 14% instead of by 9%. **While obviously welcomed, RN-president Bardella already said that his party won't stop there and that other red lines remain**. The French left opposition still plans to table a motion of no-confidence as soon as next week..

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 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

Friday, 29 November		Consensus	Previous
Canada			
14:30	Quarterly GDP Annualized (3Q)	1.1%	2.10%
14:30	GDP MoM/YoY (Sep)	0.30%/1.60%	0.00%/1.30%
Japan			
00:30	Jobless Rate (Oct)	A 2.50%	2.40%
00:30	Job-To-ApPLICANT Ratio (Oct)	A 1.25	1.24
00:30	Tokyo CPI YoY (Nov)	A 2.60%	1.80%
00:30	Tokyo CPI Ex-Fresh Food YoY (Nov)	A 2.20%	1.80%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Nov)	A 1.90%	1.80%
00:50	Retail Sales MoM/YoY (Oct)	A 0.1%/1.6%	-2.20%/0.70%
00:50	Industrial Production MoM/YoY (Oct P)	A 3.00%/1.60%	1.60%/-2.60%
06:00	Housing Starts YoY (Oct)	A -2.90%	-0.60%
06:00	Consumer Confidence Index (Nov)	A36.4	36.2
UK			
01:01	Lloyds Business Barometer (Nov)	44	44
01:01	Lloyds Own Price Expectations (Nov)	--	61
10:30	Net Consumer Credit (Oct)	1.3b	1.2b
10:30	Money Supply M4 MoM/YoY (Oct)	--/--	0.60%/3.50%
EMU			
10:00	ECB 1 Year CPI Expectations (Oct)	2.3%	2.40%
10:00	ECB 3 Year CPI Expectations (Oct)	2.10%	2.10%
11:00	CPI MoM/YoY (Nov P)	-0.20%/2.30%	0.30%/2.00%
11:00	CPI Core YoY (Nov P)	2.80%	2.70%
Germany			
08:00	Retail Sales MoM/NSA YoY (Oct)	-0.50%/3.3%	1.20%/0.90%
09:55	Unemployment Change (000's) (Nov)	20.0k	27.0k
09:55	Unemployment Claims Rate SA (Nov)	6.10%	6.10%
France			
08:45	Consumer Spending MoM/YoY (Oct)	0.00%/--	0.10%/-0.10%
08:45	CPI EU Harmonized MoM (Nov P)	0.00%/1.80%	0.30%/1.60%
08:45	CPI MoM/YoY (Nov P)	0.0%/1.40%	0.30%/1.20%
08:45	PPI MoM/YoY (Oct)	--/--	-0.10%/-7.00%
Italy			
10:00	Industrial Sales MoM/WDA YoY (Sep)	--/--	-0.10%/-4.60%
11:00	CPI EU Harmonized MoM (Nov P)	-0.2%/1.4%	0.30%/1.00%
Norway			
08:00	Retail Sales W/Auto Fuel MoM (Oct)	--	-0.30%
08:00	Unemployment Rate SA (Nov)	2.1%	2.10%
Poland			
10:00	CPI MoM/YoY (Nov P)	0.4%/4.60%	0.30%/5.00%
Spain			
09:00	Retail Sales SA YoY (Oct)	-/3.7%-	4.10%
Sweden			
08:00	Wages Non-Manual Workers YoY (Sep)	--	4.30%
08:00	GDP QoQ/WDA YoY (3Q)	-0.10%/0.30%	-0.30%/0.50%
08:00	Retail Sales MoM/WDA YoY (Oct)	--/--	-0.10%/2.70%
Events			
29NOV	Black Friday kicks off start of US holiday shopping season		
14:00	ECB Governing Council member Joachim Nagel		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,26	0,00		US	4,23	0,00	DOW	44722,06	0,00
DE	2,13	-0,03		DE	2,00	-0,04	NASDAQ	19060,48	0,00
BE	2,73	-0,07		BE	2,12	-0,07	NIKKEI	38208,03	-141,03
UK	4,28	-0,02		UK	4,28	-0,03	DAX	19425,73	163,98
JP	1,05	0,00		JP	0,59	0,01	DJ euro-50	4758,65	25,50
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,12	3,93	4,03	€STR	3,1640	-0,0010			
5y	2,12	3,82	3,88	Euribor-1	3,0220	0,0450	SOFR-1	4,5462	0,0063
10y	2,20	3,79	3,82	Euribor-3	2,9390	0,0270	SOFR-3	4,4746	0,0051
				Euribor-6	2,7080	0,0140	SOFR-6	4,3936	0,0021
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0552	-0,0014		EUR/JPY	159,9	0,24	CRB	286,72	0,00
USD/JPY	151,55	0,46		EUR/GBP	0,8318	-0,0014	Gold	2664,80	0,00
GBP/USD	1,2687	0,0007		EUR/CHF	0,9320	0,0001	Brent	73,28	0,45
AUD/USD	0,6499	0,0002		EUR/SEK	11,525	-0,0034			
USD/CAD	1,4014	-0,0016		EUR/NOK	11,6552	-0,0337			

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
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
CSOB Economics – Markets Prague		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
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		

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