



Monday, 02 December 2024

KBC Sunrise Market Commentary

Markets

- The front end of the European yield curve outperformed going into the weekend. Rates dropped almost 5 bps in the 2-yr German tenor, enough to lose the symbolical 2% barrier to close at a 2-year low. It followed European inflation numbers coming in at the expected 2.3% headline, which **prompted ECB's de Guindos and Villeroy but also Nagel downplaying the acceleration above 2%**. Core inflation missed the bar slightly with an October-matching 2.7% instead of 2.8% expected. The ECB's chief economist Lane in a podcast with the Financial Times talked about the matter and the implications for monetary policy. In comments recorded prior to the CPI release Lane said once inflation was sure to return to 2%, **the ECB needs "to be driven by upcoming risks rather than being backward-looking"**. He refrained from giving time specifics but it suggests the central bank may already change some of its wording in the December policy statement so that "data dependence falls down in priority". US yields were headed south as well. Net daily changes varied between 7.6 and 9.4 bps but we wouldn't read too much into it. The US trading session was a shortened one due to Black Friday. **The traditional start of the holiday shopping season was a strong one** with sales growing at a faster pace this year. Joe Sixpack to the economy is a gift that keeps on giving. The dollar underperformed in currency markets, a product of falling yields and stock optimism. JPY was able to make the most out of it, thanks to consensus-beating Tokyo inflation numbers. USD/JPY dropped below 150. EUR/USD stranded just shy of 1.06 before going in reverse again this morning towards 1.052. **French politics are once again cause of concern**. Le Pen over the weekend said PM Barnier needs to amend the budget to some of the RN's demands by today or have her Rassemblement National supporting a no-confidence motion. **The finance minister Armand responded in a Bloomberg interview in early Asian trading by saying they won't be blackmailed and don't take ultimatums**. French OAT futures currently tank, yields prepare for a sharply higher open. Spreads vs swap and German Bund are bound to rise. Watch out for French yields to surpass those in Greece. Last week was a dress rehearsal. The French theme will keep yields and the especially the euro in a tight spot at the very minimum in a daily perspective but more likely for the next two weeks going into December 12, when parliament gets to vote on the budget for a last time. **In the US the monthly economic update kicks off** with the manufacturing ISM today, followed by the services gauge and ADP job report on Wednesday and the official payrolls report on Friday. Fed's Waller speech at "Building a Better Fed Framework: The AIER Monetary Conference" tonight is worth mentioning.

News & Views

- Rating agency Moody's on Friday changed Hungary's credit rating outlook to negative from stable**. The rating was maintained at Baa2. **It reflects the agency's assessment related to risks related to the quality of Hungary's institutions and governance**. The country may ultimately lose out on a substantial amount of EU funds because it doesn't meet the conditions for the release. Moody's thinks this could also lower trend GDP growth and weaken fiscal and debt metrics. As this happens in a context of weak growth in Germany, an important trading partner, this could amplify the negative pressure on the economy. Moody's mentions a **potential sharp increase in government spending** ahead of the 2026 parliamentary elections. The rating agency still sees a partial reversal in 2025 of the weakening in debt affordability from the past two years. At the same it mentions institutional weakness weighing on the debt profile, including in adherence to the rule of law, interference in civil society and concerns over central bank independence and monetary policy. The agency sees growth returning to an average of 3.0% in the 2026-28 period.
- GDP growth in India slowed to 5.4% Y/Y from 6.7% Y/Y in Q3**. Expectations were for a 6.5% Y/Y growth. Growth in the agricultural sector held up fairly well (3.5% Y/Y from 2.0%) but mining contracted 0.1%. Manufacturing slowed from 7.0% to 2.2% and growth in the sectors of electricity, gas and water (3.3%), construction (7.7% from 10.5%) and financial services/real estate (6.7%) were lower than Q2. On the demand side, private consumption growth slowed from 7.4% Y/Y to 6.0%, as did growth capital formation (5.4% from 7.5%). The disappointing growth performance might pressure the RBI of India not to wait too long with its easing cycle. The bank has kept its policy rate unchanged at 6.50% since February 2023. The rupee is setting new all-time lows against the dollar this morning (USD/INR 84.68).

Graphs



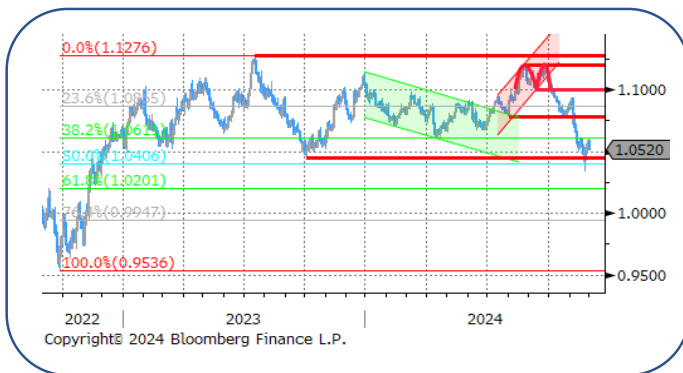
GE 10y yield

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 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. Lingering French political uncertainty keeps **the trend 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

Monday, 2 December		Consensus	Previous
US			
16:00	Construction Spending MoM (Oct)	0.20%	0.10%
16:00	ISM Manufacturing (Nov)	47.6	46.5
16:00	ISM Prices Paid (Nov)	56	54.8
16:00	ISM New Orders (Nov)	--	47.1
16:00	ISM Employment (Nov)	--	44.4
Japan			
01:30	Jibun Bank Japan PMI Mfg (Nov F)	--	49
UK			
01:01	Lloyds Business Barometer (Nov)	41A	44
01:01	Lloyds Own Price Expectations (Nov)	60A	61
08:00	Nationwide House PX MoM/NSA YoY (Nov)	0.20%/2.40%	0.10%/2.40%
10:30	S&P Global UK Manufacturing PMI (Nov F)	48.6	48.6
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Nov F)	45.2	45.2
11:00	Unemployment Rate (Oct)	6.30%	6.30%
Italy			
09:45	HCOB Italy Manufacturing PMI (Nov)	46	46.9
10:00	Unemployment Rate (Oct)	6.10%	6.10%
Belgium			
11:00	Unemployment Rate (Oct)	--	5.50%
China			
02:45	Caixin China PMI Mfg (Nov)	51.5A	50.3
Norway			
10:00	DNB/NIMA PMI Manufacturing (Nov)	--	52.4
Spain			
09:15	HCOB Spain Manufacturing PMI (Nov)	54	54.5
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Nov)	--	53.1
Events			
03:25	RBA's Jacobs-Speech		
16:00	Breman: the Riksbank's role in the economy and total defence		
21:15	Fed's Waller Gives Keynote at Fed Framework Conference		
22:30	Fed's Williams Gives Keynote Remarks		



10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.17	-0.09	US	4.15	-0.08	DOW	44910.65	188.59	
DE	2.09	-0.04	DE	1.95	-0.05	NASDAQ	19218.17	157.69	
BE	2.68	-0.05	BE	2.08	-0.04	NIKKEI	38513.02	304.99	
UK	4.24	-0.03	UK	4.23	-0.04	DAX	19626.45	200.72	
JP	1.08	0.03	JP	0.63	0.04	DJ euro-50	4804.4	45.75	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.07	3.88	3.99	€STR	3.1630	-0.0010			
5y	2.07	3.74	3.84	Euribor-1	3.0040	-0.0180	SOFR-1	4.5386	-0.0076
10y	2.16	3.71	3.79	Euribor-3	2.9340	-0.0050	SOFR-3	4.4670	-0.0076
				Euribor-6	2.6950	-0.0130	SOFR-6	4.3782	-0.0154
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0577	0.0025	EUR/JPY	158.41	-1.49	CRB	286.94	0.22	
USD/JPY	149.77	-1.78	EUR/GBP	0.8306	-0.0012	Gold	2681.00	16.20	
GBP/USD	1.2735	0.0048	EUR/CHF	0.9320	0.0000	Brent	71.84	-0.94	
AUD/USD	0.6512	0.0013	EUR/SEK	11.5283	0.0033				
USD/CAD	1.4006	-0.0008	EUR/NOK	11.6828	0.0276				

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