

Tuesday, 03 December 2024

KBC Sunrise Market Commentary

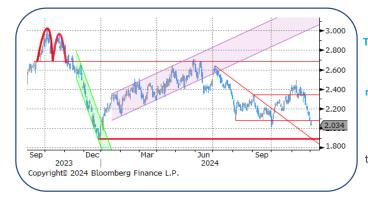
Markets

EUR/USD was among the worst cross rate performers yesterday. The currency pair dropped as low as 1.046, down from 1.058 at the open. French politics beat the common currency down after PM Barnier forced through part 1 of the budget using article 49.3 through which he circumvented parliament. Both the left and the right bloc in the opposition were against. Shortly after Barnier's risky move, the far-left party La France Insoumise tabled a motion of no confidence. The far-right (Rassemblement National) said they would support it this time around in frustration of Barnier not incorporating enough of its demands in the bill. A vote and therefore the fall of the government could come as soon as Wednesday. Apart from the euro, French assets suffered. Equities (CAC40) clearly underperformed. OAT spreads vs Bund and swap rose to new 12-year highs. The dollar kept a strong bid overall. A slightly better-thanexpected November US manufacturing ISM ahead of more important data later this week triggered little volatility. Influential Fed Waller saying he's leaning towards a rate cut in December did cause some late-night USD weakness but barely enough for EUR/USD to close the day at 1.05 instead of below. Waller's comments also capped the Treasury yield rebound to 0.1-3.8 bps. The front-end underperformed even as such a 25 bps rate is still not fully discounted. Rates in Europe dropped around 5-6 bps across the curve, both in Germany and in swap. Euro weakness filtered through in EUR/GBP too, dropping to an intraday low of 0.827 but closing around 0.83. JPY eked out small gains against the dollar (< USD/JPY 150) while showing a stronger performance against the rest of G10 peers. It's backtracking a bit on those gains this morning. The Chinese yuan continues to trade in the defensive. USD/CNY jumped to the highest level since November last year, just below 7.3. Usual suspects for CNY weakness include ongoing economic worries, sliding Chinese yields & the US tariff threat. Next week's annual Central Economic Work Conference is the next high-profile meeting to watch for clues on next year's growth target and stimulus plans. Today is an in-between in terms of economic data. On the FX side we remain cautious on the euro in a daily and short-term perspective. Geopolitics, national politics, the economy or monetary policy, neither is looking good for the common currency for now. EUR/USD 1.0335 (November low) is the key reference. European yields have dropped sharply but we wouldn't row against the tide. Germany's 10-yr is closing in on 2%. We do look out for US yields at the long end of the curve to show signs of bottoming out after the recent correction on the Trump-trade.

News & Views

- Inflation in South Korea printed lower than expected. Both the headline and core inflation stayed below the 2.0% target of the Bank of Korea. Headline inflation declined -0.3% M/M, but unfavorable base effects caused the Y/Y figure to rise from 1.3% to 1.5%. Markets expected a 1.7% Y/Y rise. Core inflation (ex. food and energy prices) rose marginally from 1.8% to 1.9%. The Bank of Korea last week unexpectedly cut its policy rate by 25 bps for the second consecutive meeting, bringing the policy rate to 3.0%. The BoK further prioritized growth in its policy assessment as inflation shows further signs for easing. Uncertainty on the impact of trade protectionism for the economy probably was a factor behind the unexpected rate cut alongside risks to domestic demand from consumers being hampered by a high debt load. Today's lower than expected inflation keeps the door open of addition easing in Q1 next year. The won recently also suffered from a strong dollar and at USD/KRW 1403 is holding the YTD low within reach.
- October UK retail sales showed a disappointing performance in November according the BRC sales monitor for November. Sales declined 3.3% compared to the same month last year (same store sales -3.4% Y/Y). Total sales were up 0.6%Y/Y in October. The November reading was the weakest since April of this year. Food sales were up 2.4% Y/Y but non-food sales declined 2.1% Y/Y in the three months to November. Interpretation of the data is complicated as Back Friday sales this year were not included in the November figure but will be part of the December publication. Still the data suggest a poor sales dynamics. Higher energy prices due to lifting the cap in energy bills and low consumer confidence are as mentioned as potential explanation for the poor performance of non-food sales.







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. Growth concerns dominate short term though, with the 2% support in the 10-yr yield preparing to be tested.



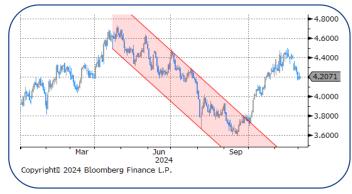
The Fed slowed the easing pace to 25 bps in November and reiterated the path to a more neutral stance is set by the economy. Recent **US data suggest there's no need for aggressive Fed support for now (25 bps steps will do).** The long end surged after touching the 3.60% on Trump's election victory. This fiscal-related steepening trend is strong but took a breather in recent weeks. 4.15% and 4.04% are tough support areas.

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. Trump's election victory and his hawkish trade policy added to by default USD strength. EMU growth concerns, geo- and national politics weigh on the euro in the meantime. South remains the path of least resistance.

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, 3 Dece	mber	Consensus	Previous
US			
16:00	JOLTS Job Openings (Oct)	7519k	7443k
Japan			
00:50	Monetary Base YoY (Nov)		-0.30%
UK			
01:01	BRC Sales Like-For-Like YoY (Nov)	-3.40%A	0.30%
France			
08:45	Budget Balance YTD (Oct)		-173.8b
Spain			
09:00	Unemployment Change (Nov)		26.8k
09:00	Employment Net Change m/m (Nov)		67.8k
Events			
03DEC	ECB's Panetta speaks at Spain-Italy Forum		
09:00	ECB's Cipollone Speaks in Milan		
18:15	Fed's Daly Is Interviewed Live on Fox Business		
18:35	Fed's Kugler Gives Speech on Labor Market, Policy		
19:30	Fed's Goolsbee Speaks in Moderated Q&A		
21:45	Fed's Goolsbee Gives Closing Remarks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.19	0.02		US	4.18	0.03	DOW	44782	-128.65
DE	2.03	-0.05		DE	1.90	-0.05	NASDAQ	19403.95	185.78
BE	2.67	-0.02		BE	2.04	-0.05	NIKKEI	39248.86	735.84
ик	4.21	-0.03		υκ	4.21	-0.03	DAX	19933.62	307.17
JP	1.08	0.00		JP	0.62	0.00	DJ euro-50	4846.73	42.33
IRS	EUR	<u>USD</u>	GBP	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
Зу	2.01	3.88	3.97	€STR	3.1650	0.0020			
5y	2.01	3.77	3.82	Euribor-1	2.9870	-0.0170	SOFR-1	4.5178	-0.0208
10y	2.10	3.72	3.79	Euribor-3	2.9240	-0.0100	SOFR-3	4.4512	-0.0158
				Euribor-6	2.6750	-0.0200	SOFR-6	4.3686	-0.0096
Currencies	Close	<u>-1d</u>		Currencies	Close	<u>-1d</u>	Commodities	Close	<u>-1d</u>
EUR/USD	1.0498	-0.0079		EUR/JPY	157.05	-1.36	CRB	284.55	-2.39
USD/JPY	149.6	-0.17		EUR/GBP	0.8296	-0.0010	Gold	2658.50	-22.50
GBP/USD	1.2655	-0.0080		EUR/CHF	0.9307	-0.0013	Brent	71.83	-0.01
AUD/USD	0.6475	-0.0037		EUR/SEK	11.54	0.0117			
USD/CAD	1.4047	0.0041		EUR/NOK	11.6544	-0.0284			



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