



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-than-expected 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.

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



## 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)**. 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 December		Consensus	Previous
<b>US</b>			
16:00	JOLTS Job Openings (Oct)	7519k	7443k
<b>Japan</b>			
00:50	Monetary Base YoY (Nov)	--	-0.30%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Nov)	-3.40%A	0.30%
<b>France</b>			
08:45	Budget Balance YTD (Oct)	--	-173.8b
<b>Spain</b>			
09:00	Unemployment Change (Nov)	--	26.8k
09:00	Employment Net Change m/m (Nov)	--	67.8k
<b>Events</b>			
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		

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>		<b>Stocks</b>	<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
UK	4.21	-0.03		UK	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
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<b>EUR</b>	<u>-1d</u>	<u>-2d</u>		<b>USD</b>	<u>-1d</u>	<u>-2d</u>
3y	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
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Commodities</b>	<u>Close</u>	<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				



## 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	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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