



Wednesday, 04 December 2024

KBC Sunrise Market Commentary

Markets

- Yesterday's shock decision by South Korean president Yoon of the conservative People Power Party to declare martial law spiced up an otherwise uneventful trading session. Yoon backtracked after parliament voted unanimously against. The opposition, which holds a majority, moved to impeach Yoon with a vote possible as soon as this Friday. Yoon's exit is all but certain. **It's unclear yet what it means for SK (geo)politics and its economy but investor confidence in the country was severely violated.** The central bank already pledged to offer all the liquidity needed. The SK won tanked to USD/KRW 1444 from the low 1400 area before returning to 1411 in trading this morning. Stock markets underperform Asian peers (-2%). US Treasuries yesterday attracted safe haven flows during the chaos but finished with losses anyway. A sharper than expected uptick in US job openings to 7.74mln helped yields rising up to 4 bps at the long end of the curve. We've been looking for that part to show some bottoming out after the correction over the past few days. **The economic calendar today could support the process with the release of the US services ISM.** The expected 55.7 would be in line with October's 56 and is testament of a solid US consumer and economy and thus a **strong dollar**. The ADP job report ahead of Friday's payrolls report is forecasted at a 150k employment increase. Front end yields remain more vulnerable since a December rate cut by the Fed is still not fully priced in. **Chair Powell is appearing in a moderated discussion later today and will be closely watched for some clues.** The German curve bear flattened with net daily changes varying between 4.2 bps (2-yr) to 0.6 bps (30-yr). It's been the first gain for the likes of the 10-yr (+2 bps) in 10 (!) trading days. We're wary to call it the start of a bottoming out yet but it may be a first sign. Pressure meanwhile in Germany is rising to lift the debt brake. **Bundesbank president Nagel in the Financial Times calling on Berlin to soften the spending rules is telling. ECB chair Lagarde appears before the European Parliament** today. It's her last opportunity to shape market expectations for the December policy meeting before the blackout period kicks in. A 25 bps rate cut is all but certain but the market refuses to let the idea of a 50 bps move completely go (15% chance priced in currently). Market expectations for a 1.75% terminal rate in our view are too aggressive. **Bank of England governor Bailey is also in the picture today.** Markets are rightly so expecting nothing from the central bank at least until the February meeting. Bailey swapped his activist approach for a guarded stance after the Labour Budget was released and higher-than-expected October CPI is all the reason to stick to it. We're keeping a close eye on France as well today. Parliament will vote on a motion of no confidence in late afternoon (> 16:00). We expect the government to fall as a result, plunging the country into another episode of political chaos. The topic may continue to weigh on the euro.

News & Views

- Australian GDP in Q3 grew at a lower than expected 0.3% Q/Q and 0.8% Y/Y** according to data published by the Australian Bureau of Statistics (ABS). Growth was **mainly driven by public sector expenditures**. Public investment rose 6.3 in the September quarter, albeit coming after three quarterly falls. Government spending rose 1.4%, including social benefits paid to households and energy cost relief rebates. **Household spending was flat**, coming after a 0.3% decline in the June quarter even as the poor Q3 performance was affected by statistical issues related to the energy relief measures. Net trade contributed 0.1% ppt to growth as exports grew 0.2% and imports declined 0.3%. There was a 0.4% negative contribution from inventories. **Meagre economic growth is fueling the debate whether there is room for the RBA to cut policy rates earlier** than what was anticipated until now. Money markets now fully discount a 25 bps cut at the April meeting. The 3-y Australian government bond yield declines 8 bps this morning. The Aussie dollar from the 0.6485 area to currently trade near 0.644.
- The Czech government yesterday approved the 2025 budget bill which includes a continuation of the fiscal consolidation.** The budget deficit will be reduced further to CZK 241bln from a CZK 282bln target this year. **The new budget should reduce the deficit below 3.0%.** KBC expects the government budget balance to decline further from a deficit of 2.8% this year to 2.1% next year. The center right ruling party is facing elections next year with the opposition party of former PM Babis aiming to raise public spending to revive the economy.

Graphs



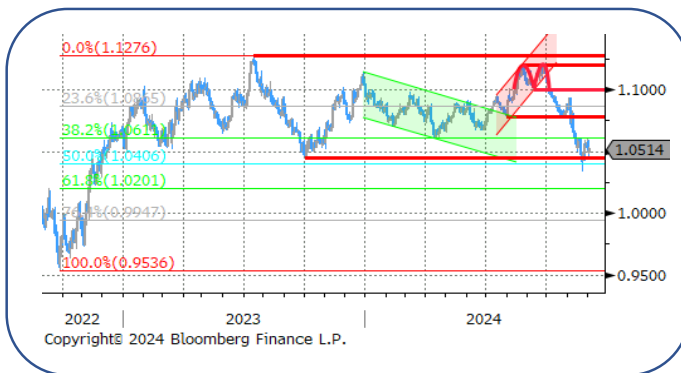
GE 10y yield

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

Wednesday, 4 December		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	6.30%
14:15	ADP Employment Change (Nov)	150k	233k
16:00	ISM Services Index (Nov)	55.7	56
16:00	ISM Services Prices Paid (Nov)	57.0	58.1
16:00	ISM Services Employment (Nov)	53.0	53
16:00	ISM Services New Orders (Nov)	56.6	57.4
16:00	Cap Goods Ship Nondef Ex Air (Oct F)	0.20%	0.20%
Japan			
01:30	Jibun Bank Japan PMI Composite (Nov F)	50.1A	49.8
01:30	Jibun Bank Japan PMI Services (Nov F)	50.5A	50.2
UK			
10:30	S&P Global UK Services PMI (Nov F)	50.0	50
10:30	S&P Global UK Composite PMI (Nov F)	49.9	49.9
EMU			
10:00	HCOB Eurozone Services PMI (Nov F)	49.2	49.2
10:00	HCOB Eurozone Composite PMI (Nov F)	48.1	48.1
11:00	PPI MoM/YoY (Oct)	0.40%/-3.20%	-0.60%/-3.40%
China			
02:45	Caixin China PMI Composite (Nov)	52.3A	51.9
02:45	Caixin China PMI Services (Nov)	51.5A	52
Poland			
04DEC	Poland Base Rate Announcement	5.75%	5.75%
Sweden			
08:30	Swedbank/Silf PMI Services (Nov)	53.2	52.9
08:30	Swedbank/Silf PMI Composite (Nov)	--	53
Events			
02:00	RBNZ Appears at Select Committee for Annual Review		
09:00	Meeting of the Executive Board of the Riksbank		
10:00	ECB's Cipollone Speaks in Milan		
10:00	BOE's Bailey Speaks		
12:00	OECD Publishes Economic Outlook		
14:30	ECB's Lagarde Speaks in EU Parliament		
14:45	Fed's Musalem Speaks on US Economy, Policy		
18:10	ECB's Nagel Speaks at ESM		
19:40	Fed's Powell Speaks in Moderated Discussion		
20:00	Federal Reserve Releases Beige Book		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.22	0.03	US	4.18	0.00	DOW	44705.53	-76.47	
DE	2.05	0.02	DE	1.94	0.04	NASDAQ	19480.91	76.96	
BE	2.66	-0.01	BE	2.06	0.02	NIKKEI	39276.39	27.53	
UK	4.24	0.03	UK	4.23	0.02	DAX	20016.75	83.13	
JP	1.06	-0.02	JP	0.59	-0.03	DJ euro-50	4878.51	31.78	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.02	3.90	3.97	€STR	3.1640	-0.0010			
5y	2.02	3.79	3.83	Euribor-1	3.0020	0.0150	SOFR-1	4.5157	-0.0021
10y	2.09	3.75	3.80	Euribor-3	2.8790	-0.0450	SOFR-3	4.4469	-0.0043
				Euribor-6	2.6340	-0.0410	SOFR-6	4.3517	-0.0169
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0509	0.0011	EUR/JPY	157.2	0.15	CRB	285.98	1.43	
USD/JPY	149.6	0.00	EUR/GBP	0.8293	-0.0003	Gold	2667.90	9.40	
GBP/USD	1.2673	0.0018	EUR/CHF	0.9316	0.0009	Brent	73.62	1.79	
AUD/USD	0.6486	0.0011	EUR/SEK	11.5712	0.0312				
USD/CAD	1.4069	0.0022	EUR/NOK	11.6293	-0.0251				

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