



Monday, 09 December 2024

## KBC Sunrise Market Commentary

### Markets

- US November payrolls cemented the case for a 25 bps rate cut by the Fed.** That scenario wasn't completely discounted (70%) ahead of the numbers. While headline payrolls growth rebounded to 227k (with an additional 56k upward revision to September & October figures), the accompanying **household survey** made **a more grim reading**. With a 193k decline in the workforce, a 355k decline in employment, a rise in the unemployment rate from 4.1% to 4.2% and a decline in the participation rate from 62.6% to 62.5%. US Treasuries spiked lower on the headline number, but rapidly looked higher. **The move topped out after the release of December University of Michigan consumer confidence.** A fifth consecutive increase brings the index at 74 (best since April) with details showing short term inflation expectations (1y) rising from 2.6% to 2.9% and ending the decline from 3.3% in May. Longer-term inflation expectations were broadly stable (3.1% from 3.2%). **Fed governor Bowman**, who dissented at the September meeting in favour of a smaller 25 bps rate cut, reiterated that she wants to proceed cautiously and gradually in lowering the policy rate as underlying inflation remains uncomfortably above the 2% target. She thinks that the neutral rate moved higher with the current policy rate not being restrictive. The US yield curve eventually bull steepened with yields losing up to 4 bps at the front end of the curve. The US Treasuries' outperformance vs German Bunds (yields up to 2 bps lower) **didn't help EUR/USD**. A brief uptick above 1.06 was rapidly undone with the pair closing at 1.0568. After market close, **rating agency Fitch raised the outlook on the Hungarian BBB rating from negative to stable.** They cite an easing of policy uncertainty, prudent monetary easing, a moderation of inflation, the balanced primary fiscal position, an improvement in the current account and a projected fall in debt as key reasons. At EUR/HUF 413.50, the forint remains weak.
- The fall of Syrian president al-Assad's government** is omnipresent this morning. If any, it triggers some **minor safe haven flows** at the start of the trading week given uncertainty over how the power vacuum will be solved and what it will mean for the wider region. Both the dollar and US Treasuries eke out small gains. **Today's eco calendar is empty, suggesting that risk sentiment will continue dominating broader markets.** The agenda turns more interesting later this week with US CPI numbers (Wednesday) and central bank meetings in Australia (tomorrow), Canada (Wednesday), Switzerland and EMU (both Thursday).

### News & Views

- Chinese consumer inflation unexpectedly eased from 0.3% to 0.2% y/y in November. Slowing food prices** were among the key forces weighing down on the numbers. The 0.9% m/m increase came after a +/- 2% jump over the past few months which reflected the impact of heavy rain in the summer on food production. **Core inflation picked up for a second month straight, be it to a very low 0.3% y/y still. Producer prices eased 2.5%**, extending the deflation streak in place since October 2022. It was, however, a smaller drop than in October (-2.9%) and than expected (-2.8%). The inflation numbers suggest the range of stimulus measures have yet to show a significant impact on the economy. They raise the stakes for **Wednesday's Central Economic Work Conference**. The meeting behind closed doors will be to discuss next year's growth target, probably the same as 2024's (+/- 5%) and additional stimulus measures to get it done. China's yuan loses marginal ground this morning towards USD/CNY 7.28.
- Rating agency Fitch said that the French government collapse threatens the country's necessary fiscal consolidation efforts.** It said the recently ousted Barnier's 5% target for next year is now "very unlikely". The developments also put serious question marks to France's medium-term plan to reduce the deficit over an EC-approved 7-year term. Fitch now expects **fiscal gaps above 5% to lead to a steep rise in government debt towards 118.5% of GDP by 2028**, adding that the lack of a "credible medium-term fiscal consolidation plan that would lead to a stabilization of debt in the medium term is one of the main downgrade sensitivities for France's ratings." The rating agency recently **lowered France's growth forecasts from 1.2% to 0.9%** and noted that slowing growth could hamper the fiscal tightening. While France faces no serious financing challenges, Fitch says, the political crisis has raised its borrowing costs. If permanently, these will further compound the challenges.

# 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.



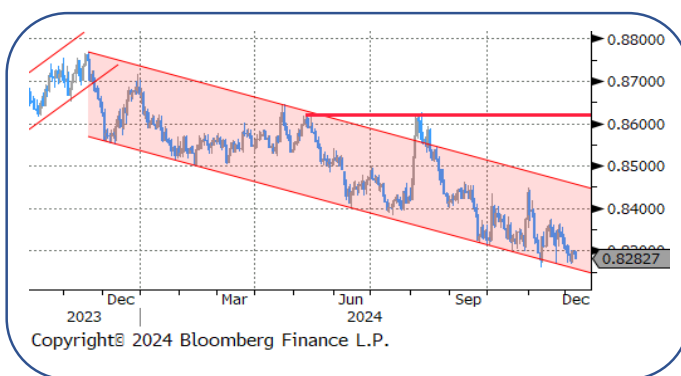
## US 10y yield

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

Monday, 9 December		Consensus	Previous
<b>US</b>			
16:00	Wholesale Trade Sales MoM (Oct)	--	0.30%
17:00	NY Fed 1-Yr Inflation Expectations (Nov)	--	2.87%
<b>Japan</b>			
00:50	BoP Current Account Adjusted (Oct)	¥2408.8bA	¥1271.7b
00:50	Trade Balance BoP Basis (Oct)	-¥155.7bA	-¥315.2b
00:50	Bank Lending Ex-Trusts YoY (Nov)	3.30%A	2.90%R
06:00	Eco Watchers Survey Current SA (Nov)	49.4A	47.5
06:00	Eco Watchers Survey Outlook SA (Nov)	49.4A	48.3
<b>EMU</b>			
10:30	Sentix Investor Confidence (Dec)	-12.3	-12.8
<b>China</b>			
02:30	PPI YoY (Nov)	-2.50%A	-2.90%
02:30	CPI YoY (Nov)	0.20%A	0.30%
09DEC-15DEC	Money Supply M2 YoY (Nov)	7.50%	7.50%
09DEC-15DEC	New Yuan Loans CNY YTD (Nov)	17510.0b	16520.0b
09DEC-15DEC	Aggregate Financing CNY YTD (Nov)	29650.0b	27060.0b
<b>Events</b>			
01:01	S&P Global, KPMG and REC UK Report on Jobs		
14:00	BOE's Ramsden Speaks		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.15	-0.02	US	4.10	-0.04	DOW	44642.52	-123.19	
DE	2.11	0.00	DE	2.00	-0.02	NASDAQ	19859.77	159.05	
BE	2.66	-0.01	BE	2.09	-0.01	NIKKEI	39160.5	69.33	
UK	4.28	-0.01	UK	4.26	-0.01	DAX	20384.61	25.81	
JP	1.05	-0.01	JP	0.58	-0.01	DJ euro-50	4977.78	26.20	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.08	3.82	3.99	€STR	3.1650	0.0000			
5y	2.06	3.70	3.85	Euribor-1	3.0050	-0.0220	SOFR-1	4.4686	-0.0219
10y	2.12	3.67	3.81	Euribor-3	2.8680	-0.0130	SOFR-3	4.3945	-0.0328
				Euribor-6	2.6540	0.0120	SOFR-6	4.2868	-0.0405
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0568	-0.0018	EUR/JPY	158.55	-0.36	CRB	286.34	-0.09	
USD/JPY	150	-0.10	EUR/GBP	0.8293	-0.0004	Gold	2659.60	11.20	
GBP/USD	1.2744	-0.0015	EUR/CHF	0.9286	-0.0016	Brent	71.12	-0.97	
AUD/USD	0.6391	-0.0062	EUR/SEK	11.5563	0.0653				
USD/CAD	1.4157	0.0134	EUR/NOK	11.7895	0.1048				

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