

Tuesday, 10 December 2024

KBC Sunrise Market Commentary

Markets

- The **Chinese Politburo's directive** changed risk sentiment at the start of European trading from slightly risk-off because of developments in Syria to mildly risk-on given the firm commitment to support the ailing economy. **Extraordinary countercyclical fiscal measures will be complemented by a "moderately loose" monetary policy stance** ("prudent" since 2011) **with a firm commitment to stabilize both the stock market and the property sector.** The Chinese annual Central Economic Work conference starts on Wednesday and could offer more clues on targeted measures to boost growth. **Risk sentiment deteriorated into the European close as US stock markets corrected especially in the tech/AI-sector.** EUR/USD hovered up and down 1.0550 without clear direction. US Treasuries underperformed German Bunds without specific driver. The NY Fed consumer survey (see below) might have played in the run-up to tomorrow's November CPI print. Daily changes on the US yield curve ranged between +2.1 bps (2-yr) and + 5.1 bps (7-yr). **The German yield curve bear steepened** with yields rising up to 3.2 bps (30-yr). The very long end of the European curve shows some early signs of fatigue following an astonishing rally since the end of October.

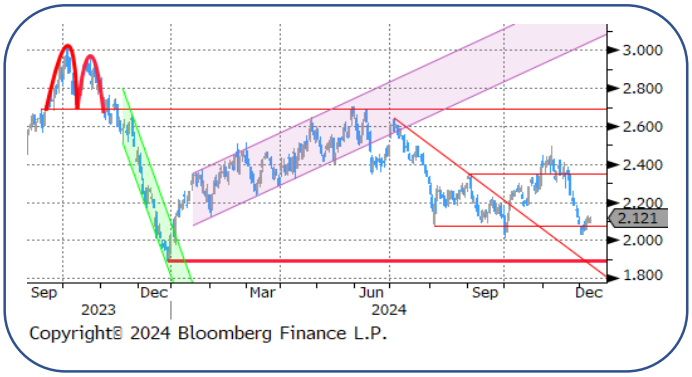
- Today's agenda is again very thin with only **NFIB small business optimism** and the **start of the US Treasury's mid-month refinancing operation** ($58bn 3-yr Note). Tomorrow's $39bn 10-yr Note and Thursday's $22bn 30-yr Bond auction will draw more attention in light of the uncertain spending agenda by US president-elect next year. **We expect more sentiment-driven trading today going into US CPI and the ECB meeting later this week.** Especially European bonds could be prone for some technical correction at the longer end of the curve. The euro's rebound potential is blocked around EUR/USD 1.06 by a likely dovish ECB outcome.

News & Views

- The **NY Fed's November consumer inflation survey** showed expectations rising slightly (+0.1 ppt) at the short-, medium- and longer-term horizons. **One-year-ahead inflation expectations increased to 3%, the three-year-ahead gauge increased to 2.6% and the five-year-ahead one to 2.9%.** Uncertainty around future outcomes picked up as well. Polled about the labour market, US consumers **anticipate their earnings to grow by 3%** (+0.2 ppts), extending the narrow 2.7-3% range in place since the start of the year. Expectations of the unemployment rate being higher one year from now rose to 35%, remaining well below the trailing 12-month average of 37%. On the topic of household finances, US families think their income will gain by 3.1%, the mid of the 2.9-3.3% range since January 2023. They believe spending will grow less quickly than in October but at a pace still above pre-pandemic levels (4.7%). **The US consumer is optimistic on its financial situation** one year ahead from now. The share of households expecting it to be better rose to the highest level since February 2020.

- The **Reserve Bank of Australia's** rate status quo was accompanied by some **dovish twists.** It took note of the recently published **Q3 GDP growth figures** which were - outside of the pandemic period - the slowest since the early 1990s. Data in general since the November policy meeting has been ***"on balance softer than expected".*** The RBA said underlying inflation remains too high (3.5% in the September quarter). It referred to the November forecasts which penciled in **a return to the 2.5% midpoint target not before 2026.** While recent data are still consistent with these projections, the RBA said it is **gaining some confidence that inflation is moving sustainably towards target.** Policy is working as intended and some of the upside risks are easing. The level of aggregate demand is still above supply capacity but that gap is easing. The combination of these additions to the statement led to **the removal of the sentence** *"This reinforces the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out".* The clear dovish accents didn't go by unnoticed. Australian swap yields tumble more than 10 bps at the front end of the curve with bets for a February rate cut rising. The Aussie dollar wipes out yesterday's China-driven gains to trade back to the recent lows around AUD/USD 0.64. **RBA governor Bullock** in the press conference tried to offer some counterweight. She expected the current market repositioning but does not endorse it.

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, 10 December		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Nov)	95.3	93.7
Japan			
00:50	Money Stock M3 YoY (Nov)	0.70%A	0.70%
07:00	Machine Tool Orders YoY (Nov P)	--	9.40%
Italy			
10:00	Industrial Production MoM/WDA YoY (Oct)	0.00%/-3.50%	-0.40%/-4.00%
Australia			
04:30	**RBA Cash Rate Target**	**4.35%A**	**4.35%**
China			
10DEC	Imports YoY (Nov)	-3.90%A	-2.30%
10DEC	Exports YoY (Nov)	6.70%A	12.70%
10DEC	Trade Balance (Nov)	$97.44bA	$95.72b
Czech Republic			
09:00	**CPI MoM/YoY (Nov)**	**0.20%/3.00%**	**0.30%/2.80%**
Hungary			
08:30	**CPI MoM/YoY (Nov)**	**0.50%/3.70%**	**0.10%/3.20%**
Norway			
08:00	**CPI MoM/YoY (Nov)**	**0.20%/2.30%**	**0.60%/2.60%**
08:00	CPI Underlying MoM/YoY (Nov)	-0.10%/2.80%	0.20%/2.70%
Sweden			
08:00	Household Consumption MoM/YoY (Oct)	--/--	-0.30%/0.10%
08:00	Private Sector Production MoM/YoY (Oct)	--/--	1.10%/2.40%
08:00	Industry Production Value YoY (Oct)	--	-1.00%
08:00	Service Production Value YoY (Oct)	--	2.60%
08:00	Industrial Orders MoM/NSA YoY (Oct)	--/--	-3.60%/-5.70%
Events			
19:00	U.S. To Sell USD58 Bln 3-Year Notes		

10-year	Close	-1d
US	4.20	0.05
DE	2.12	0.01
BE	2.65	0.00
UK	4.27	-0.01
JP	1.07	0.02

2-year	Close	-1d
US	4.12	0.02
DE	2.00	0.00
BE	2.08	-0.01
UK	4.25	-0.01
JP	0.59	0.01

Stocks	Close	-1d
DOW	44401.93	-240.59
NASDAQ	19736.69	-123.08
NIKKEI	39367.58	207.08
DAX	20345.96	-38.65
DJ euro-50	4985.46	7.68

IRS	EUR	USD	GBP
3y	2.07	3.84	3.96
5y	2.06	3.74	3.82
10y	2.13	3.72	3.80

EUR	-1d	-2d
€STR	3.1640	-0.0010
Euribor-1	2.9440	-0.0610
Euribor-3	2.8620	-0.0060
Euribor-6	2.6610	0.0070

USD	-1d	-2d
SOFR-1	4.4584	-0.0102
SOFR-3	4.3980	0.0035
SOFR-6	4.2910	0.0042

Currencies	Close	-1d
EUR/USD	1.0554	-0.0014
USD/JPY	151.21	1.21
GBP/USD	1.275	0.0006
AUD/USD	0.644	0.0049
USD/CAD	1.4171	0.0014

Currencies	Close	-1d
EUR/JPY	159.57	1.02
EUR/GBP	0.8277	-0.0016
EUR/CHF	0.9274	-0.0011
EUR/SEK	11.5166	-0.0397
EUR/NOK	11.7401	-0.0494

Commodities	Close	-1d
CRB	289.06	2.72
Gold	2685.80	26.20
Brent	72.14	1.02

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