



Tuesday, 12 November 2024

## KBC Sunrise Market Commentary

### Markets

- US markets were closed yesterday in observance of Veteran's Day**, thinning trading conditions at the start of the week. For now, **the by default trading mechanisms are the ones put in place after US Republicans secured their hatr trick last week**. The **dollar sets the pace** in FX markets with the trade-weighted greenback (DXY) closing in on 106.13 June top (currently 105.70). It's the first of a set of mediocre resistance levels on the way to the upper band of the sideways trading channel in place since the start of 2023. Via 106.52 (2024 top) and 107.11 (Nov 23 high), we arrive at the 2023 top of 107.35 which is still our preferred scenario. **EUR/USD sets a new short-term low at 1.0630 this morning and is equally looking at 1.0601 (2024 low) as final support ahead of the range bottom of the past two years (1.0448)**. The People Bank of China fixed the yuan at its weakest since September (USD/CNY now 7.2350), suggesting that a weaker currency will become part of the policy mix. Regulators are also planning to cut taxed for home purchases as the government drives up its fiscal spending efforts to revive the economy.
- The underlying trend in (long-term) bond yields is still up as markets gear up for more fiscal stimulus on a global level**. These short term growth and inflationary boosting measures come with a higher credit premium as well. Last week's first ever positive Bund/swap spread is a point in case with the German government heading to early elections as the coalition collapsed over breaking up the debt brake. **Such fiscal strategies have implications for monetary policy as well** with BoE governor Bailey's call for activism making way for "not too many and not too much" after calculating the impact of Chancellor Reeves' 2025 budget. A higher growth and inflation peak in 2025 call for a careful monetary approach given that inflation remains stick above the 2% targets.

### News & Views

- An article in the Financial Times suggests that **the European Union is preparing a change in its spending policies that can potentially redirect tens of billions of euro to defense and security**. According to the reporting, the policy shift could **apply to about a third of the EU's common budget** mentioning an amount of **about €392bn over the 2021 to 2027 budget period** as only about 5% of these cohesion funds have been spend. For now, the funds can't be used to fund the military, but according to the FT referring to EU officials, more flexibility will be allowed to support the defense industry and to support military mobility projects. The FT quotes a spokesman of the European Commission saying that cohesion funds could be used for the defense industry as **they contribute to the overall mission to enhance regional development, including military mobility**. According to the FT analysis, this shift in spending might also be **supported by net payers of the EU budget who see it as preferable to issuing joined debt or providing additional EU funding**.
- Czech inflation accelerated further to 0.3% M/M and 2.8% Y/Y in October**. The outcome was in line with expectations but shows a further rise from September (-0.4% M/M and 2.6% Y/Y). The monthly increase was **mainly due to of housing, water, electricity, gas another solid fuels (0.4%)**. Food and non-alcoholic beverages rose 0.3% M/M. Price of goods in total increased by 0.2% M/M and 1.3% Y/Y. **Prices of services were 0.5% higher in a monthly perspective and 5.3% compared to the same period last year**. Core inflation at 2.4% Y/Y was in line with the forecast of the Czech national Bank (CNB). While still within the CNB tolerance band, the gradual rise in inflation comes as the CNB and its governor Michl recently indicated that they were **considering a halt to its rate cutting cycle** after the policy rate was reduced to 4% at last week's policy meeting. In this respect, Michl indicated that he prefers core inflation to decline slightly below the 2% target. After a temporary rebounding last week, the Czech koruna currently again trades slightly weaker near EURCZK 25.34.

# Graphs



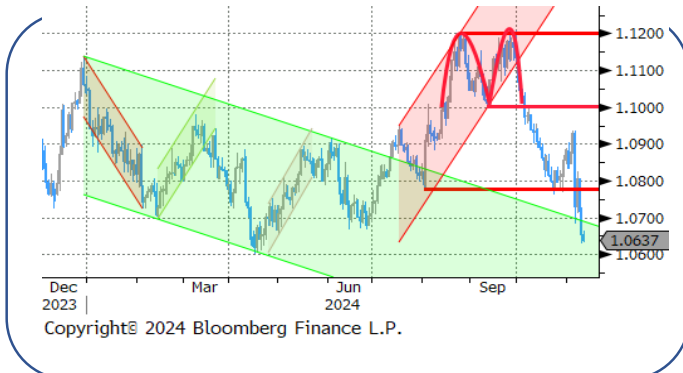
## GE 10y yield

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. Against this background and with a little help from ongoing strong US data, the 2% support in the 10-yr yield looks solid.



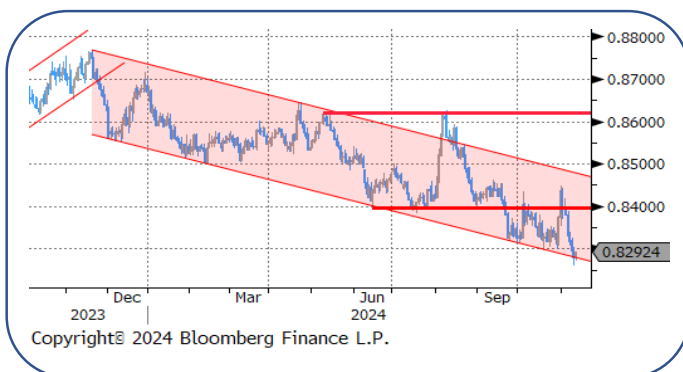
## US 10y yield

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)**. 3.60% acted as strong support before a Trump-trade driven rebound (and fiscal-related steepening trend) kicked in. This trend might continue after the Trump victory with the 4.73% next key reference.



## EUR/USD

**Solid early October US data started an impressive USD comeback** as money markets reduced Fed rate cut bets. **Relative yield dynamics pulled EUR/USD below 1.1002 to testing 1.0778 support. US elections and the risk of a new Trump term, including hawkish trade policy, added another to by default USD strength, with the 1.0601 YTD low the next reference on the charts.**



## 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 0.83 support zone is currently again under test. The picture remains fragile.

# Calendar & Table

Tuesday, 12 November		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Oct)	92.0	91.5
17:00	NY Fed 1-Yr Inflation Expectations (Oct)	2.97%	3.00%
<b>Japan</b>			
00:50	Money Stock M3 YoY (Oct)	A: 0.7%	R: 0.7%
07:00	Machine Tool Orders YoY (Oct P)	--	-6.40%
<b>UK</b>			
08:00	Average Weekly Earnings 3M/YoY (Sep)	3.90%	3.80%
08:00	Weekly Earnings ex Bonus 3M/YoY (Sep)	4.70%	4.90%
<b>08:00</b>	<b>ILO Unemployment Rate 3Mths (Sep)</b>	<b>4.10%</b>	<b>4.00%</b>
<b>08:00</b>	<b>Employment Change 3M/3M (Sep)</b>	<b>287k</b>	<b>373k</b>
08:00	Payrolled Employees Monthly Change (Oct)	-20k	-15k
08:00	Claimant Count Rate (Oct)	--	4.70%
08:00	Jobless Claims Change (Oct)	--	27.9k
<b>EMU</b>			
11:00	ZEW Survey Expectations (Nov)	--	20.1
<b>Germany</b>			
11:00	ZEW Survey Expectations (Nov)	13.2	13.1
11:00	ZEW Survey Current Situation (Nov)	-85.0	-86.9
<b>Hungary</b>			
<b>08:30</b>	<b>CPI MoM/YoY (Oct)</b>	<b>0.40%/3.50%</b>	<b>-0.10%/3.00%</b>
<b>Events</b>			
09:00	ECB's Rehn Speaks		
10:00	ECB's Centeno Speaks		
11:30	Germany to Sell EU5 Billion of 2% 2026 Bonds		
15:00	ECB's Cipollone Chairs Panel		
<b>16:00</b>	<b>Fed's Waller Speaks at Banking Conference</b>		
16:15	Fed's Barkin Speaks in Baltimore		
<b>20:00</b>	<b>Senior Loan Officer Opinion Survey on Bank Lending Practices</b>		
23:00	Fed's Harker Speaks on Fintech, AI		
23:30	Fed's Barkin Repeats Speech, followed with Q&A		



10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.30	0.00		US	4.25	0.00	DOW	44293.13	304.14
DE	2.33	-0.04		DE	2.14	-0.05	NASDAQ	19298.76	11.98
BE	2.92	-0.04		BE	2.32	-0.05	NIKKEI	39376.09	-157.23
UK	4.43	-0.01		UK	4.42	-0.01	DAX	19448.6	233.12
JP	1.01	0.01		JP	0.51	0.01	DJ euro-50	4854.03	51.27
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.22	3.96	4.16	€STR	3.1620	-0.0010			
5y	2.23	3.86	4.03	Euribor-1	3.0800	-0.0070	SOFR-1	4.6020	0.0000
10y	2.30	3.83	3.98	Euribor-3	3.0400	0.0080	SOFR-3	4.5265	0.0040
				Euribor-6	2.8310	0.0090	SOFR-6	4.4356	0.0096
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0655	-0.0063		EUR/JPY	163.77	0.16	CRB	278.92	-2.76
USD/JPY	153.72	1.08		EUR/GBP	0.8280	-0.0016	Gold	2617.70	-77.10
GBP/USD	1.2868	-0.0053		EUR/CHF	0.9387	0.0000	Brent	71.83	-2.04
AUD/USD	0.6575	-0.0008		EUR/SEK	11.5544	-0.0400			
USD/CAD	1.3925	0.0013		EUR/NOK	11.7544	-0.0384			

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