



Thursday, 12 December 2024

## KBC Sunrise Market Commentary

### Markets

- November US CPI data** came in **bang in line with consensus**. Monthly growth of 0.3% for both the headline and the core series resulted in annual readings of respectively 2.7% (from 2.6%) and 3.3% (stable). **Contrarians betting on a status quo at next week's FOMC meeting threw in the towel** in absence of an upward surprise. The 25 bps rate cut is now fully discounted. The stalling disinflation process simultaneously **strengthened the case for a Fed pause in January** in anticipation of Trump's inauguration and first official policy moves. The US yield curve initially bull steepened, but that **morphed into a bear steepening pattern** as tech and AI-stocks **pushed Nasdaq to closing gains of 1.77%**. The US \$39bn 10-yr Note auction met with stellar demand, but couldn't prevent more selling pressure into the bell. Daily changes on the US yield curve ranged between +0.9 bps (2-yr) and +6.3 bps (30-yr). We recently stressed **the nascent bottoming out process at the (very) long end on (global) yield curves** and find more evidence in Europe as well. German yield changes varied between -1.1 bp (2-yr) and +2.3 bps (30-yr) yesterday. **The single currency abides to the rules of gravity** going into today's ECB decision with EUR/USD changing hands around 1.05 and EUR/GBP closing in on the post-brexit low of 0.8203.
- The ECB will conduct a third consecutive** (and 4<sup>th</sup> in total) **25 bps rate cut**. A lower GDP and CPI outlook will be covered by uncertainty (and downside risks). It will prompt a different tone in the policy statement, erasing the expressed need to keep policy restrictive for as long as necessary to bring inflation sustainably back to 2%. Returning to forward looking decision making instead of data dependence **allows the ECB early next year to ignore any possible hick-ups in a still bumpy inflation path, instead arguing that price stability will be achieved in the longer run**. We expect those dovish twists to hold end of 2025 money market rates below neutral levels (+/- 2.25%) even if we don't think that this will eventually materialize. Apart from the most dovish governors, no ECB official suggested moving back below neutral. As (hawkish) ECB Schnabel pointed out, a stimulative monetary policy can help overcome cyclical economic weakness but doesn't fix the structural issues Europe is struggling with. More curve steepening and a lower euro are today's likely way forward.

### News & Views

- Brazil went big yesterday by raising the policy rate a more-than-anticipated 100 bps to 12.25%**. The central bank (BCB) went even further and clearly indicated **similar hikes over the next two meetings** if the scenario unfolds as expected. The domestic economy keeps on booming and (underlying) inflation has increased further above the 3% (+/- 1.5ppt) target. Inflation expectations rose significantly to hover around 4.8% and 4.6% for this year and 2025 respectively. The central bank notes that the **upside inflation risks** mentioned last time **have now materialized, turning the inflation scenario more adverse. Risks remain tilted to the upside** and include **a more prolonged period of deanchoring inflation expectations, a stronger economy and currency depreciation**. The Brazilian real slid against USD with the latest downleg spanning from USD/BRL 5.4 mid-September to a record low around 6, fanning the inflation fire. The real has yet to react to yesterday's monetary policy decision. The Brazilian central bank does not take a formal stand on the fiscal policy developments, including some spending cuts announced end of November, but concluded that market's perceptions of it have only contributed to more adverse inflation dynamics.
- Australian employment rose 35.6k in November**, more than the 15.9k in October and above the 25k consensus estimate. **Full time employment carried the headline figure** by adding 52.6k jobs. The unemployment rate unexpectedly fell to 3.9%. The participation rate ease to 67%, be it from a historical high 67.1% in October. The Bureau of Statistics said that *"Compared with outcomes before the COVID-19 pandemic, the unemployment and underemployment measures are still low, while trend employment and participation measures are around all-time highs. This suggests the labour market continues to be relatively tight."* The strong labour market report follows a dovish RBA-twist earlier this week. The RBA brought life in the December rate cut expectations. Such a move was priced in for two-thirds up until this morning. **A first full rate cut is now only seen in April next year**. Australian swap rates soar 11 bps at the front end of the curve. AUD/USD rebounds from recent lows sub 0.64 to 0.642.

# Graphs



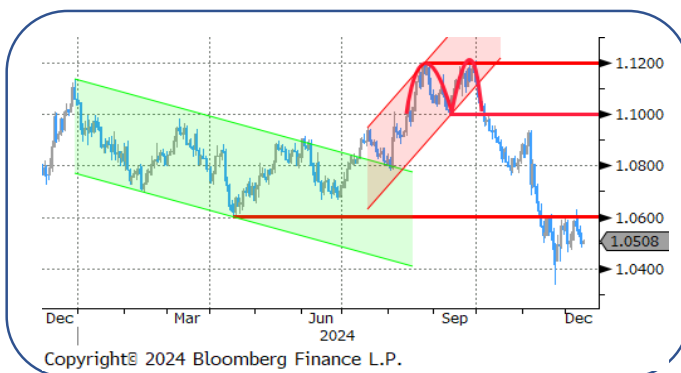
## GE 10y yield

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**. EUR/GBP sets new YTD lows and is heading to the post-brexite low of 0.8203.

# Calendar & Table

Thursday, 12 December		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM/YoY (Nov)	0.20%/2.60%	0.20%/2.40
14:30	PPI Ex Food and Energy MoM/YoY (Nov)	0.20%/3.20%	0.00%/3.10%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Nov)	0.20%/--	0.00%/3.50%
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>220k</b>	<b>224k</b>
14:30	Continuing Claims	1877k	1871k
18:00	Household Change in Net Worth (3Q)	--	\$2760b
<b>Japan</b>			
03:00	Tokyo Avg Office Vacancies (Nov)	4.16%A	4.48%
<b>UK</b>			
01:01	RICS House Price Balance (Nov)	25%A	16%
<b>EMU</b>			
<b>14:15</b>	<b>ECB Deposit Facility Rate</b>	<b>3.00%</b>	<b>3.25%</b>
14:15	ECB Main Refinancing Rate	3.15%	3.40%
14:15	ECB Marginal Lending Facility	3.40%	3.65%
<b>Switzerland</b>			
<b>09:30</b>	<b>SNB Policy Rate</b>	<b>0.75%</b>	<b>1.00%</b>
<b>Events</b>			
<b>10:00</b>	<b>SNB's Schlegel Speaks After Rate Decision</b>		
10:30	Spain to Sell Bonds		
10:50	Italy to Sell Bonds		
<b>14:45</b>	<b>ECB President Christine Lagarde Holds Press Conference</b>		
19:00	U.S. To Sell USD22 Bln 30-Year Bond		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.27	0.04	US	4.15	0.01	DOW	44148.56	-99.27	
DE	2.13	0.00	DE	1.95	-0.01	NASDAQ	20034.89	347.65	
BE	2.69	0.02	BE	2.07	0.02	NIKKEI	39849.14	476.91	
UK	4.32	-0.01	UK	4.25	-0.03	DAX	20399.16	70.00	
JP	1.05	-0.02	JP	0.58	-0.02	DJ euro-50	4959.35	7.61	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.05	3.89	3.97	€STR	3.1640	0.0010			
5y	2.06	3.80	3.85	Euribor-1	2.8890	0.0020	SOFR-1	4.4210	-0.0355
10y	2.15	3.78	3.85	Euribor-3	2.8880	0.0160	SOFR-3	4.3678	-0.0282
				Euribor-6	2.6540	-0.0010	SOFR-6	4.2770	-0.0154
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0496	-0.0031	EUR/JPY	160.01	0.04	CRB	293.68	3.21	
USD/JPY	152.45	0.50	EUR/GBP	0.8232	-0.0011	Gold	2756.70	38.30	
GBP/USD	1.2751	-0.0020	EUR/CHF	0.9281	-0.0015	Brent	73.52	1.33	
AUD/USD	0.6369	-0.0008	EUR/SEK	11.5202	-0.0300				
USD/CAD	1.4159	-0.0022	EUR/NOK	11.6987	-0.0417				

## 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
CSOB Economics – Markets Prague		Hong Kong	+852 2525 9232
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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