



Monday, 16 December 2024

## KBC Sunrise Market Commentary

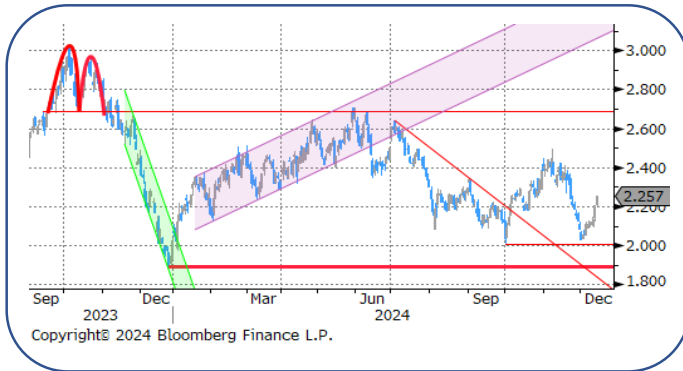
### Markets

- German and EMU yields on Friday initially only showed minor gains, but **finally extended the rebound that gradually developed earlier last week**. US yields added 5.4 bps (2-y) to 6.9 bps (10-y). There were no important US data, but markets apparently are pondering whether recent solid US activity data, slightly higher inflation and uncertainty on the inflationary impact of future (fiscal) policy, might cause the Fed to turn more conditional on the pace and timing of additional cuts. **The new (most likely upwardly revised) dot plot will be instructive on the MPC policy assessment going forward. German yields continued the 'technical' post-ECB rebound, rising about 5 bps across the curve;** the very long end slightly outperforming (30-y +3.4bps). First post-meeting comments from ECB policy makers showed the usual divide between 'hawks' and 'doves'. However, **for now gradualism is the greatest common denominator**. Despite a congruent interest rate move between the US and EMU, EUR/USD tried to leave recent lows, but the move lacked conviction (close 1.0501 from 1.0468). Sterling underperformed both the dollar and the euro after disappointing UK October production data and a negative monthly GDP reading (-0.1% M/M for the second consecutive month). Earlier last week, it looked like EUR/GBP was heading for a test of the key 0.8203 2022 low. On Friday, the pair closed north of 0.83(22). **The technical picture remains fragile, but there is some breathing space.** Equities in Europe and the US closed little changed.
- Asian markets mostly trade in negative territory **after China reported weak November retail sales (3% Y/Y vs 5% expected)**, indicating ongoing weak demand growth despite recent stimulus efforts. US yields decline marginally as does the dollar (DXY 106.85, EUR/USD 1.053). **Later today, the focus will be on the EMU preliminary PMI's**. Given ongoing political uncertainty in France and Germany and persistent negative headlines on all kinds of economic topics, it's probably too early to see any sustained improvement yet (consensus sees 49.5 unchanged composite PMI). **Weak data might already cap any further rise in short-term EMU yields.** 2.20%/2.25 % might provide resistance for the 2-y swap short-term. The picture at the longer end of the curve is more balanced. For the US, we look out whether the services PMI confirms the decline in the services ISM. There are often discrepancies between the two indicators. **For the euro (EUR/USD), the EMU data might be the dominant factor short-term.** First ST resistance at 1.063 is far away. **After Friday's poor UK data, sterling might become more sensitive to additional negative news (consensus expects composite PMI at 50.6 from 50.5).**

### News & Views

- Rating agency Moody's downgraded both France (Aa2 to Aa3, stable outlook) and Slovakia (A2 to A3, stable outlook) after Friday's market close.** The decision to downgrade **France** reflects the view that **the country's public finances will be substantially weakened over the coming years because political fragmentation** is more likely to impede meaningful fiscal consolidation. A negative feedback loop between higher deficits, a higher debt load and higher financing costs, against the backdrop of significant annual borrowing needs, could be the unwanted outcome. Moody's expect the deficit to stand at 6.3% of GDP in 2025, before gradually decreasing to around 5.2% in 2027. Debt-to-GDP would increase from 113.3% in 2024 to around 120% in 2027. **The decision to downgrade Slovakia's ratings reflects the country's broad institutional challenges amid political tensions.** A comprehensive reform programme on the judiciary and the media will weaken the country's checks and balances, amplifying a deteriorating trend already captured in governance indicators. At the same time, increased political fragmentation challenges policymaking in particular on the fiscal front.
- The German CDU's election manifesto will be formally unveiled tomorrow, but the Financial Times in an article comments on a draft it has seen from the poll-leading Christian Democrats.** The want to run amongst others on a **platform of tougher immigration** – “we must decide ourselves once again who comes to us and who can stay” – and **an agenda for hard-workers**. Proposals include cuts to income tax for people on low- and middle-incomes, a reduction in social security contributions, a gradual decline in corporate taxation from about 30% now to 25% and abolishing the “Soli” surcharge on income tax that was introduced to pay for German reunification. It's unclear how they would fund these rebates with the CDU staying committed to the debt brake. “The debts of today are the taxes of tomorrow.”

# Graphs



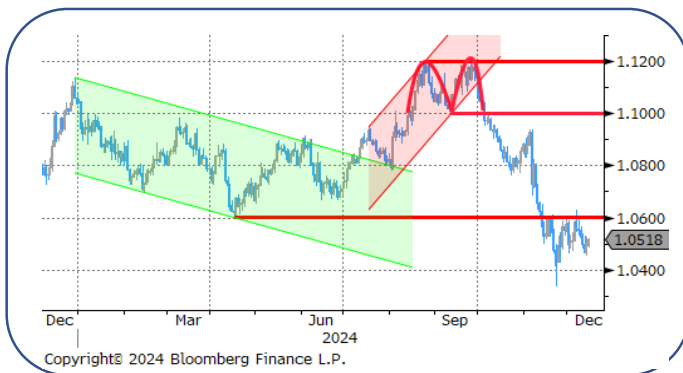
## GE 10y yield

The ECB delivered a fourth rate cut in December and dropped the reference to keeping policy restrictive. Updated inflation forecasts barely changed while the growth outlook deteriorated. Sticking with a data-dependent approach, **we think the ECB eyes back-to-back 25 bps rate cuts in January and March** after which a proper evaluation on neutral interest rates is necessary. Money market positions remains too dovish. **The German 10-yr yield is bottoming out.**



## 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

Monday, 16 December		Consensus	Previous
<b>US</b>			
14:30	Empire Manufacturing (Dec)	10.0	31.2
15:45	S&P Global US Manufacturing PMI (Dec P)	49.5	49.7
15:45	S&P Global US Services PMI (Dec P)	55.8	56.1
<b>15:45</b>	<b>S&amp;P Global US Composite PMI (Dec P)</b>	<b>55.1</b>	<b>54.9</b>
<b>Japan</b>			
00:50	Core Machine Orders MoM/YoY (Oct)	A 2.10%/5.60%	-0.70%/-4.80%
<b>01:30</b>	<b>Jibun Bank Japan PMI Composite (Dec P)</b>	<b>A 50.8-</b>	<b>50.1</b>
01:30	Jibun Bank Japan PMI Mfg (Dec P)	A 49.5	49
01:30	Jibun Bank Japan PMI Services (Dec P)	A 51.4-	50.5
05:30	Tertiary Industry Index MoM (Oct)	A 0.30%	-0.20%
<b>UK</b>			
01:01	Rightmove House Prices MoM/YoY (Dec)	A -1.7%/1.4%	-1.40%/-1.20%
10:30	S&P Global UK Manufacturing PMI (Dec P)	48.5	48
10:30	S&P Global UK Services PMI (Dec P)	51.0	50.8
<b>10:30</b>	<b>S&amp;P Global UK Composite PMI (Dec P)</b>	<b>50.6</b>	<b>50.5</b>
<b>EMU</b>			
<b>10:00</b>	<b>HCOB Eurozone Composite PMI (Dec P)</b>	<b>48.2-</b>	<b>48.3</b>
10:00	HCOB Eurozone Manufacturing PMI (Dec P)	45.3	45.2
10:00	HCOB Eurozone Services PMI (Dec P)	49.5	49.5
11:00	Labour Costs YoY (3Q)	--	4.70%
<b>Germany</b>			
09:30	HCOB Germany Manufacturing PMI (Dec P)	43.1	43
09:30	HCOB Germany Services PMI (Dec P)	49.3-	49.3
<b>09:30</b>	<b>HCOB Germany Composite PMI (Dec P)</b>	<b>47.5</b>	<b>47.2</b>
<b>France</b>			
09:15	HCOB France Manufacturing PMI (Dec P)	43.0	43.1
09:15	HCOB France Services PMI (Dec P)	46.9	46.9
<b>09:15</b>	<b>HCOB France Composite PMI (Dec P)</b>	<b>46.0</b>	<b>45.9</b>
<b>China</b>			
02:30	New Home Prices MoM (Nov)	A-0.2%	-0.51%
02:30	Used Home Prices MoM (Nov)	A-0.35%	-0.48%
<b>03:00</b>	<b>Industrial Production YoY/YTD YoY (Nov)</b>	<b>A 5.40%/5.80%</b>	<b>5.30%/5.80%</b>
<b>03:00</b>	<b>Retail Sales YoY/YTD YoY (Nov)</b>	<b>A 3.00%/3.50%</b>	<b>4.80%/3.50%</b>
03:00	Fixed Assets Ex Rural YTD YoY (Nov)	A 3.30%	3.40%
<b>03:00</b>	<b>Property Investment YTD YoY (Nov)</b>	<b>A -10.4%-</b>	<b>-10.30%</b>
03:00	Residential Property Sales YTD YoY (Nov)	A -22.0-	-22.00%
03:00	Surveyed Jobless Rate (Nov)	A 5.00%	5.00%
16DEC-25DEC	1-Yr Medium-Term Lending Facility Rate	2.00%	2.00%
16DEC-25DEC	1-Yr Medium-Term Lending Facilities Volume	900.0b	900.0b
<b>Poland</b>			
14:00	CPI Core MoM/YoY (Nov)	0.20%/4.30%	0.40%/4.10%
<b>Events</b>			
08:15	ECB's Simkus Speaks		
<b>08:30</b>	<b>ECB's Lagarde Speaks</b>		
09:10	ECB's Lagarde, Simkus Speak		
09:45	ECB's Guindos Speaks in Madrid		
13:00	ECB's Wunsch Speaks in Brussels		
13:30	ECB's Escriva Speaks in Madrid		
<b>17:30</b>	<b>ECB's Schnabel Speaks in Paris</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,40	0,07		US	4,24	0,05	DOW	43828,06	-86,06
DE	2,26	0,05		DE	2,07	0,05	NASDAQ	19926,72	23,88
BE	2,85	0,06		BE	2,22	0,09	NIKKEI	39457,49	-12,95
UK	4,41	0,05		UK	4,31	0,04	DAX	20405,92	-20,35
JP	1,07	0,03		JP	0,58	0,02	DJ euro-50	4967,95	2,42
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,17	3,99	4,05	€STR	3,1670	0,0030			
5y	2,19	3,92	3,93	Euribor-1	2,8710	-0,0310	SOFR-1	4,3931	-0,0080
10y	2,27	3,90	3,93	Euribor-3	2,8430	-0,0430	SOFR-3	4,3623	0,0060
				Euribor-6	2,6390	-0,0170	SOFR-6	4,2862	0,0162
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0501	0,0033		EUR/JPY	161,37	1,59	CRB	293,96	0,69
USD/JPY	153,65	1,02		EUR/GBP	0,8322	0,0063	Gold	2675,80	-33,60
GBP/USD	1,2619	-0,0054		EUR/CHF	0,9373	0,0034	Brent	74,49	1,08
AUD/USD	0,6362	-0,0007		EUR/SEK	11,5306	-0,0026			
USD/CAD	1,4234	0,0014		EUR/NOK	11,705	0,0051			

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