



Wednesday, 18 December 2024

KBC Sunrise Market Commentary

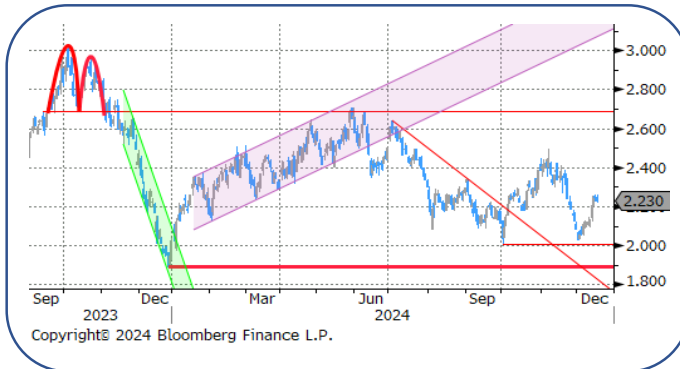
Markets

- Retail sales for November were solid on face value though the details offered a more balanced picture. That was enough to cap the intraday rise in US yields. Net daily changes varied in a tight range between -1 bps and +0.7 bps in an otherwise uneventful session. German rates eased up to 1.7 bps (10-yr) but finished off the intraday lows set following a disappointing IFO indicator. UK gilts hugely underperformed with yields adding almost 10 bps at the front end of the curve. That came after yesterday's labour market report which showed a sharper-than-expected increase in wage growth. The Bank of England's room to cut rates is shrinking rapidly and that's **not changing with this morning's November CPI release**. While falling below expectations, accelerating headline CPI of 2.6%, core CPI of 3.5% and services inflation of 5% should not comfort the central bank in any way. UK money markets expect less than three rate cuts next year. Due to the slight CPI miss, sterling does give back some of yesterday's gains. EUR/GBP is trading around 0.827. The pair remains in the technical danger zone.
- Today's going to be a drawn out countdown to the Fed decision. **A rate cut from 4.5-4.75% to 4.25-4.5% is all but certain**. Markets have more or less fully discounted such a scenario since the lack of an upward CPI surprise last week. After three consecutive rate cuts (50-25-25) we expect the Fed to **steer the market to a pause in January**. Chair Powell last month referring the strong economy said there's no hurry in lowering the policy rates. It also offers the Fed a moment to assess president-elect **Trump's first policy announcements** when entering the office on January 20. **The updated dot plot will show fewer rate cuts for 2025** with three reductions instead of the current four the most plausible scenario. We think that the long-term estimate, a proxy for the neutral rate, will have **shifted further north from 2.875% to 3%**. It was already a close call in September. Since US money markets price in only 50 bps of cuts in 2025, we may see a kneejerk downleg in US (front-end) yields and the dollar after the dot plot release. It won't stretch very far though if Powell strikes a generally hawkish tone in the presser afterwards by keeping the onus on the solid state of the economy. That should offer solid support to both yields and the dollar, the latter especially against an ongoing ailing euro. First meaningful support in EUR/USD is at 1.0335 (November correction low).

News & Views

- The National Bank of Hungary (MNB) kept its policy rate unchanged at 6.5% yesterday, citing inflationary risks coming from volatile global investor sentiment and ongoing political tensions.** Looking ahead, a careful and patient approach to monetary policy is warranted with the central bank **referring to a further pause in cutting interest rates**. Restrictive monetary policy contributes to the maintenance of financial market stability and the achievement of the inflation target in a sustainable manner by ensuring positive real interest rates. Updated inflation forecasts show that the **3% inflation target will now only be sustainably met in 2026** instead of 2025 as suggested in September. The MNB plots an inflation path of 3.65%-3.7%-3% for the 2024-2026 policy horizon, coming from 3.7%-3.15%-3% in September. The in-depth analysis will be published in tomorrow's inflation report. The new growth path faced a downward revision for this year, but was broadly stable afterwards: 0.4%-3.1%-4% from 1.4%-3.2%-4%. The volatility around the MNB-verdict was limited for once. EUR/HUF was broadly unmoved around 409.
- The International Energy Agency's annual coal report shows that the global use of coal is poised to rise to 8.77bn tonnes in 2024, a record.** Moreover, demand is set to stay close to this level (even slightly higher) through 2027. While coal use has plummeted in Europe and the US, **rising demand in India and China** is more than enough to offset that. The new forecast breaks with last year's view that we would be heading for a decade of lower coal demand as renewable energy sources play a greater role in generating power and as coal consumption levels off in China. The speed at which electricity demand grows will be very important over the medium term, the IEA added.

Graphs



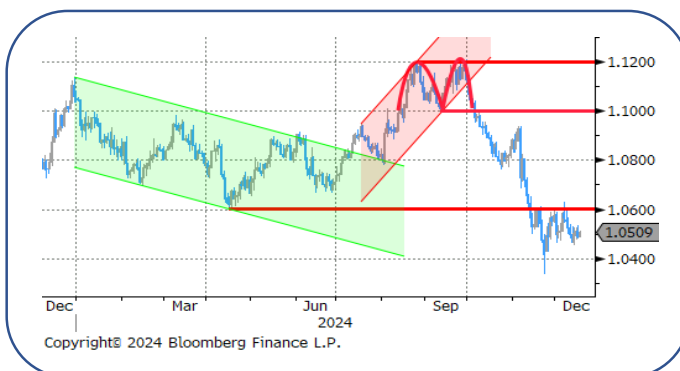
GE 10y yield

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-brexit low of 0.8203.

Calendar & Table

Wednesday, 18 December		Consensus	Previous
US			
14:30	Building Permits Total/MoM (Nov P)	1430k/1.00%	1416k/-0.40%R
14:30	Housing Starts Total/MoM (Nov)	1345k/2.60%	1311k/-3.10%
20:00	FOMC Rate Decision	4.25%/4.50%	4.50%/4.75%
20:00	Fed Interest on Reserve Balances Rate	4.40%	4.65%
Japan			
00:50	Trade Balance Adjusted (Nov)	-¥384.2bA	-¥229.2bR
00:50	Exports/Imports YoY (Nov)	3.80%A/-3.80%A	3.10%/0.40%
UK			
08:00	CPI MoM/YoY (Nov)	0.10%/2.60%	0.60%/2.30%
08:00	CPI Core YoY (Nov)	3.60%	3.30%
08:00	CPI Services YoY (Nov)	55.10%	5.00%
08:00	RPI MoM/YoY (Nov)	0.20%/3.70%	0.50%/3.40%
08:00	PPI Output NSA MoM/YoY (Nov)	0.20%/-0.60%	0.00%/-0.80%
08:00	PPI Input NSA MoM/YoY (Nov)	0.20%/-1.60%	0.10%/-2.30%
10:30	House Price Index YoY (Oct)		2.90%
12:00	CBI Trends Total Orders (Dec)	-22	-19
12:00	CBI Trends Selling Prices (Dec)	13	11
EMU			
11:00	CPI MoM/YoY (Nov F)	-0.30%/2.30%	-0.30%/2.00%
11:00	CPI Core YoY (Nov F)	2.70%	2.70%
Events			
08:35	ECB's Muller Speaks in Tallinn		
10:00	ECB's Lane Speaks in MNI Webcast		
10:30	ECB's Nagel Speaks in Karlsruhe		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.40	0.00		US	4.24	0.00	DOW	43449.9	-267.58
DE	2.23	-0.02		DE	2.05	0.00	NASDAQ	20109.06	-64.83
BE	2.84	-0.01		BE	2.22	0.00	NIKKEI	39081.71	-282.97
UK	4.52	0.08		UK	4.45	0.10	DAX	20246.37	-67.44
JP	1.08	0.00		JP	0.60	0.01	DJ euro-50	4942.58	-4.45
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.16	4.00	4.21	€STR	3.1640	-0.0010			
5y	2.16	3.94	4.07	Euribor-1	2.7750	-0.0700	SOFR-1	4.3810	-0.0015
10y	2.23	3.92	4.03	Euribor-3	2.8650	0.0020	SOFR-3	4.3579	-0.0009
				Euribor-6	2.6640	0.0090	SOFR-6	4.2843	-0.0018
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0491	-0.0021		EUR/JPY	161	-1.03	CRB	290.93	-2.29
USD/JPY	153.46	-0.69		EUR/GBP	0.8254	-0.0034	Gold	2662.00	-8.00
GBP/USD	1.271	0.0027		EUR/CHF	0.9366	-0.0036	Brent	73.19	-0.72
AUD/USD	0.6337	-0.0034		EUR/SEK	11.5008	0.0581			
USD/CAD	1.431	0.0068		EUR/NOK	11.7481	0.0215			

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