



**Friday, 20 December 2024**

Dear reader,

The next KBC Sunrise will be published on Monday, January 6.

Happy holidays!

KBC Economics - Markets

## KBC Sunrise Market Commentary

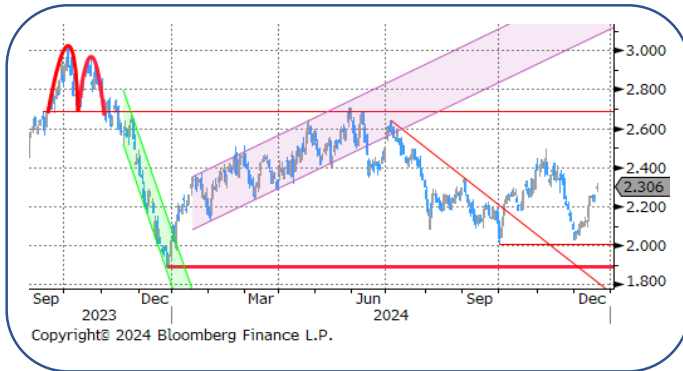
### Markets

- Front end US yields returned a few bps of the sharp Fed-induced gains yesterday but the long end extended its march higher. The 10-30-yr bucket added between 4.8 and 5.9 bps. Economic data, while second tier, again in most cases underscored the country's economic resilience. European swap rates gapped higher in a first response to the Fed. They ended up with net daily changes between 3 (2-yr) and 7 (10-yr) bps. The dollar pulled back but the euro did not seize the opportunity. EUR/USD closed stable around 1.035. JPY underperformed after the Bank of Japan kept rates steady. USD/JPY shot up from 154.8 to 157.44. The pound dropped from EUR/GBP 0.822 to 0.829. The Bank of England's 6-3 vote for a hold yesterday was a tighter call than it appeared. Conservative market pricing - only two cuts next year - made both sterling and short-term UK yields **vulnerable for a kneejerk move lower**. The Norwegian krone finishes the top three losers following the central bank readying to ease monetary policy in Q1 of next year.
- The economic calendar features some interesting data for key areas though we doubt they'll leave a significant mark on trading. Japan kicked off with inflation figures this morning (see News & Views). **UK retail sales** released just now were weaker than expected across all gauges, triggering some further GBP weakness. The **EC's consumer confidence** is due later today and after the US release of PCE inflation figures. The latter are expected to rise by 0.2% m/m, lifting the yearly measures for headline and core to 2.5% and 2.9% respectively. After Wednesday's Fed meeting, markets have drawn some hawkish conclusions that are unlikely to change with (outdated) PCE numbers though. If anything, the front end of the curve could be most vulnerable in case of a downside surprise given there's nothing more than one cut and a half priced in for all of 2025. We expect the dollar to hold near the recent strong levels. We keep a closer eye at the developments in US Congress. **A government shutdown suddenly and unexpectedly became a real possibility** this weekend after president-elect Trump and key advisor Musk helped torpedo a bipartisan stopgap bill to fund spending through March 14. A GOP plan backed by Trump, which included a suspension of the debt ceiling through 2027, later also stranded in the Republican-led House.

### News & Views

- Price pressure keeps building in Japan. **National inflation accelerated to 0.6% M/M in November with the annual headline figure rising from 2.3% to 2.9%**, the second fastest pace since October 2023. The Bank of Japan's preferred core measure (ex. fresh food), increased by 0.5% M/M to 2.7% Y/Y from 2.3%. Goods prices gained 0.9% M/M on a strong rise in utility prices (+3% M/M) after the government rolled back energy subsidies. Services costs were up 0.2% M/M. Today's inflation numbers should give the BoJ **more confidence that inflation will settle around its 2% inflation target**. Yesterday, the central bank kept its policy rate unchanged with BoJ governor Ueda remaining cautious on the timing of the next rate hike. That added JPY weakness to post-FOMC USD-strength, propelling USD/JPY to its highest level since mid-July (USD/JPY 158 from 155). It immediately prompted comments from Minister of Finance Kato: "The government is deeply concerned about recent currency moves, including those driven by speculators. We will take appropriate action if there are excessive moves in the currency market."
- **US president-elect Trump gave another sneak preview on how he will use tariffs as leverage during his tenure**. His first hit was at Mexico and Canada where tariffs could be installed if borders aren't strengthened to stop migration flows into the US. **Now he took aim at the EU**: "I told the European Union that they must make up their tremendous deficit with the United States by the large scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way!!!" Last year, the EU already bought more than half of US LNG deliveries. Up next: China? A stronger CNY or else TARIFFS all the way?!

# Graphs



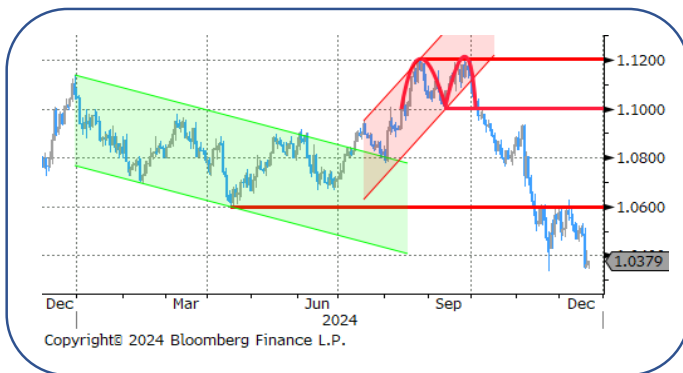
## GE 10y yield

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 eased policy rates by 25 bps in December but added that **“the extent and timing”** of further cuts depend on incoming data. Updated rate forecasts above an upwardly revised neutral rate (3%) and higher inflation forecasts with risks firmly skewed to the upside complete the Fed’s hawkish twist. **Higher for longer is back** and lifted both the front and long end of the curve. The 10-yr yield is on track for a test of the YTD high at 4.73%.



## EUR/USD

**Solid October US data started an impressive USD comeback. Trump’s election victory later added to by default USD strength through fiscal and trade expectations.** Money markets significantly reduced Fed rate cut bets as a result and saw their view validated by a hawkish central bank in December. With the euro on the ropes, the November correction low of 1.0335 is at risk.



## EUR/GBP

The BoE’s hawkish cut in November was followed by a dovish hold in December where one of the status quo voters is close in switching sides. We think current market pricing of only two rate cuts in 2025 is too conservative. That’s making **both UK yields at the front end and sterling vulnerable** for downside eco data misses. EUR/GBP’s bottom around 0.823 looks a bit better protected.

# Calendar & Table

Friday, 20 December		Consensus	Previous
<b>US</b>			
14:30	Personal Income/Spending (Nov)	0.40%/0.50%	0.60%/0.40%
14:30	Real Personal Spending (Nov)	0.30%	0.10%
<b>14:30</b>	<b>PCE Price Index MoM/YoY (Nov)</b>	<b>0.20%/2.50%</b>	<b>0.20%/2.30%</b>
14:30	Core PCE Price Index MoM/YoY (Nov)	0.20%/2.90%	0.30%/2.80%
17:00	Kansas City Fed Services Activity (Dec)	--	9
<b>Japan</b>			
<b>00:30</b>	<b>Natl CPI YoY (Nov)</b>	<b>2.90%A</b>	<b>2.30%</b>
00:30	Natl CPI Ex Fresh Food YoY (Nov)	2.70%A	2.30%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Nov)	2.40%A	2.30%
<b>UK</b>			
08:00	Public Finances (PSNCR) (Nov)	--	11.1b
08:00	PSNB ex Banking Groups (Nov)	--	17.4b
<b>08:00</b>	<b>Retail Sales Ex Auto Fuel MoM/YoY (Nov)</b>	<b>0.50%/0.90%</b>	<b>-0.90%/2.00%</b>
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Nov)	0.50%/1.00%	-0.70%/2.40%
12:00	CBI Total Dist. Reported Sales (Dec)	--	-17
12:00	CBI Retailing Reported Sales (Dec)	-10	-18
<b>EMU</b>			
<b>16:00</b>	<b>Consumer Confidence (Dec P)</b>	<b>-14.0</b>	<b>-13.7</b>
<b>Germany</b>			
08:00	PPI MoM/YoY (Nov)	0.30%/-0.30%	0.20%/-1.10%
<b>France</b>			
08:45	PPI MoM/YoY (Nov)	--/--	0.90%/-5.70%
<b>Italy</b>			
10:00	Consumer Confidence Index (Dec)	97.0	96.6
10:00	Economic Sentiment (Dec)	86.0	93.1
11:00	Industrial Sales MoM/WDA YoY (Oct)	--/--	-0.30%/-5.70%
12:00	PPI MoM/YoY (Nov)	--/--	1.00%/-3.80%
<b>Belgium</b>			
15:00	Business Confidence (Dec)	-11.8	-11.1
<b>China</b>			
02:00	5-Year Loan Prime Rate	3.60%A	3.60%
02:00	1-Year Loan Prime Rate	3.10%A	3.10%
<b>Norway</b>			
08:00	Unemployment Rate SA (Dec)	2.10%	2.10%
<b>Sweden</b>			
08:00	Retail Sales MoM/WDA YoY (Nov)	--/--	0.40%/0.90%
<b>Events</b>			
13:30	Fed's Daly Appears on Bloomberg TV		
14:30	Fed's Williams Appears on CNBC		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.56	0.05	US	4.32	-0.04	DOW	42342.24	15.37	
DE	2.31	0.06	DE	2.05	0.02	NASDAQ	19372.77	-19.92	
BE	2.91	0.06	BE	2.22	0.02	NIKKEI	38701.9	-111.68	
UK	4.58	0.02	UK	4.42	-0.04	DAX	19969.86	-272.71	
JP	1.07	-0.01	JP	0.58	-0.02	DJ euro-50	4879	-78.28	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.20	4.12	4.21	€STR	2.9190	0.0020			
5y	2.23	4.09	4.10	Euribor-1	2.7950	0.0330	SOFR-1	4.3445	-0.0133
10y	2.32	4.07	4.10	Euribor-3	2.8390	-0.0130	SOFR-3	4.3345	-0.0125
				Euribor-6	2.6370	-0.0150	SOFR-6	4.2877	-0.0217
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0363	0.0010	EUR/JPY	163.14	2.88	CRB	290.21	-1.80	
USD/JPY	157.44	2.64	EUR/GBP	0.8289	0.0055	Gold	2608.10	-45.20	
GBP/USD	1.2502	-0.0072	EUR/CHF	0.9315	-0.0014	Brent	72.88	-0.51	
AUD/USD	0.6239	0.0021	EUR/SEK	11.4314	-0.0915				
USD/CAD	1.4398	-0.0049	EUR/NOK	11.8608	0.0714				

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