



Monday, 06 January 2025

KBC Sunrise Market Commentary

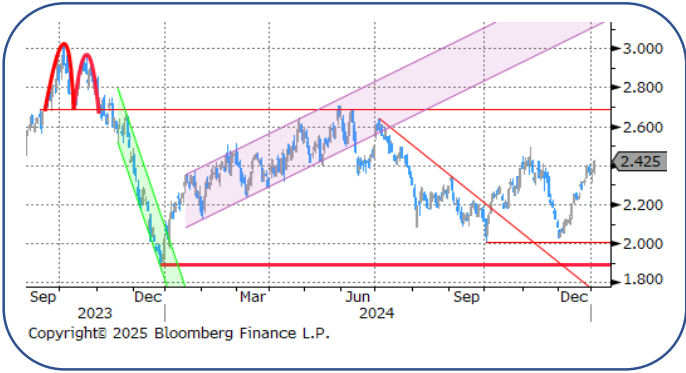
Markets

- The dollar was talk of the town during the holiday period. **We expect the greenback to remain in the center of attention in the run-up to president-elect Trump's inauguration January 20.** The US currency appreciated since the hawkish Fed policy meeting, resulting in a mere 40 bps of cuts expected in 2025, and got another boost at the start of the new year. Economic data remains solid with last week's jobless claims and manufacturing ISM (new orders) case in point. EUR/USD end last week came close to the critical 1.0201 support zone. This 61.8% dollar recovery on the September 2022 – July 2023 decline is the **final hurdle towards parity.** EUR/USD recouped some of the losses over the last two trading sessions, including this morning's, but that doesn't change the technical picture. The trade-weighted dollar index hovers around 109, its best level since November 2022. USD/JPY has been trading just shy of 158 since the December 18 Fed meeting. JPY investors, fearing FX interventions, are wary to push it even further. It could be just a matter of time though. Other Asian currencies have suffered more, China's yuan in particular. **CNY broke above the USD/CNY 7.3 last Friday** to 7.3288 this morning after state banks briefly stopped defending this psychologically important level. It may be a sign that China allows a weaker currency to support the ailing economy. The PBOC's strong fixing rate this morning – from which CNY may deviate 2% in a daily perspective – does suggest that it won't stand rapid, disorderly depreciation. In any case, the 16-year low of 7.3499 seen in August 2023 is just an inch away now. **Core bonds have remained under pressure since yields started bottoming out around the start of December** to either hit (Germany) or move beyond (US) the late 2024-highs. Friday's (mostly European) bear flattening was an exception to the broader steepening trend. US yields rose between 3.3 and 4.4 bps across the curve. German rates added 3.2 (30-yr) to 6.1 bps (2-yr). We wouldn't row against the tide, both for the dollar and for (long-term) rates, from a momentum perspective. The **eco calendar** this week does offer some important input for markets going forward. The US kicks off its first auction of the year with a \$58bn 3-yr one tonight, followed by a 10-yr sale tomorrow and a 30-yr one on Wednesday. US November job openings & the December services ISM are scheduled for release tomorrow, along with European inflation data. Wednesday's Fed meeting minutes and ADP job report are followed by the December payrolls on Friday.

News & Views

- In an interview with CNN Prima news channel this weekend, Czech central bank (CNB) governor Ales Michl kept a (guarded) hawkish tone. **He continues advocating a restrictive bias for both monetary and fiscal policy** as inflation continues running somewhat above the 2.0% inflation target (2.8% in December). Michl in particular mentioned the fiscal gap as a source of persistent price pressures even as economic growth was subdued of late. As the Czech economy is currently not in a crisis modus, the CNB governor indicated that **a balanced budget is the best way to fight inflation.** Aside from the impact of fiscal policy, the CNB governor also mentioned ongoing services inflation and a potential recovery in the housing market as risks to containing inflation. CNB at the December meeting paused its easing cycle leaving the policy rate unchanged at 4.0% as it assessed the recent **disinflation process as being incomplete.** The Czech koruna recently found a new short-term equilibrium in the EUR/CZK 25.10/25 area.
- China's services activity in December expanded at the quickest pace since May of last year** with the Caixin PMI rebounding from 51.1 to 52.2. According to the Caixin press release, the acceleration in business activity growth was supported by **greater new business inflows.** Quicker new business growth resulted in another accumulation of backlogged work. On the other hand, export business declined and services firms also **lowered employment levels amid a reduction in business optimism.** Finally, **selling prices rose for the first time in six months** as cost pressures intensified. The China composite index slowed from 52.3 to 51.4. Last week, **the manufacturing gauge was reported at 50.5 (from 51.5 in November).** The rise in services activity might be a first indication that domestic demand is improving after plenty of stimulus measures announced by the government at the end of last year, but more convincing confirmation is needed. The release at least didn't prevent a further weakening of the yuan to USD/CNY 7.328, even as the PBOC kept the daily fixing at a stronger than expected level below USD/CNY 7.20 (7.1876).

Graphs



GE 10y yield

The ECB delivered a fourth rate cut in December and dropped the reference to keeping policy restrictive. 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 rebounded to recent highs.**



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. **The dollar dominates.** The November correction low of 1.0335 broke. EUR/USD 1.0201 is the final hurdle for a return to parity.



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 about 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

Monday, 6 January		Consensus	Previous
US			
16:00	Factory Orders (Nov)	-0.40%	0.20%
16:00	Durable Goods Orders (Nov F)	-0.40%	-1.10%
16:00	Cap Goods Ship Nondef Ex Air (Nov F)	0.30%	0.50%
Japan			
01:30	Jibun Bank Japan PMI Composite (Dec F)	--	50.8
01:30	Jibun Bank Japan PMI Services (Dec F)	--	51.4
UK			
10:00	New Car Registrations YoY (Dec)	--	-1.90%
10:30	S&P Global UK Services PMI (Dec F)	51.4	51.4
10:30	S&P Global UK Composite PMI (Dec F)	50.5	50.5
EMU			
10:00	HCOB Eurozone Composite PMI (Dec F)	49.5	49.5
10:00	HCOB Eurozone Services PMI (Dec F)	51.4	51.4
10:30	Sentix Investor Confidence (Jan)	-17.9	-17.5
Germany			
14:00	CPI MoM/YoY (Dec P)	0.30%/2.40%	-0.20%/2.20%
14:00	CPI EU Harmonized MoM (Dec P)	0.50%/2.60%	-0.70%/2.40%
France			
09:50	HCOB France Services PMI (Dec F)	48.2	48.2
09:50	HCOB France Composite PMI (Dec F)	46.7	46.7
Italy			
09:45	HCOB Italy Composite PMI (Dec)	50.2	47.7
09:45	HCOB Italy Services PMI (Dec)	50	49.2
China			
02:45	Caixin China PMI Composite (Dec)	51.4A	52.3
02:45	Caixin China PMI Services (Dec)	52.2A	51.5
Spain			
09:15	HCOB Spain Composite PMI (Dec)	54.3	53.2
09:15	HCOB Spain Services PMI (Dec)	54.1	53.1
Events			
15:15	Fed's Cook Speaks on Economic Outlook, Financial Stability		
19:00	U.S. To Sell USD58 Bln 3-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.60	0.04	US	4.28	0.04	DOW	42732.13	339.86	
DE	2.43	0.05	DE	2.16	0.06	NASDAQ	19621.68	340.89	
BE	3.06	0.06	BE	2.34	0.06	NIKKEI	39307.05	-587.49	
UK	4.59	0.00	UK	4.42	0.01	DAX	19906.08	-118.58	
JP	1.14	0.03	JP	0.63	0.03	DJ euro-50	4871.45	-46.43	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.27	4.09	4.19	€STR	2.9190	-0.0010			
5y	2.31	4.07	4.08	Euribor-1	2.7920	0.0070	SOFR-1	4.3076	-0.0054
10y	2.41	4.09	4.10	Euribor-3	2.7310	-0.0050	SOFR-3	4.2909	-0.0024
				Euribor-6	2.5540	-0.0080	SOFR-6	4.2517	0.0074
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0308	0.0043	EUR/JPY	162.08	0.37	CRB	296.77	-2.21	
USD/JPY	157.26	-0.24	EUR/GBP	0.8297	0.0004	Gold	2654.70	-14.30	
GBP/USD	1.2423	0.0043	EUR/CHF	0.9365	-0.0002	Brent	76.51	0.58	
AUD/USD	0.6216	0.0013	EUR/SEK	11.4539	0.0028				
USD/CAD	1.4447	0.0044	EUR/NOK	11.7156	0.0208				

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