



Tuesday, 07 January 2025

KBC Sunrise Market Commentary

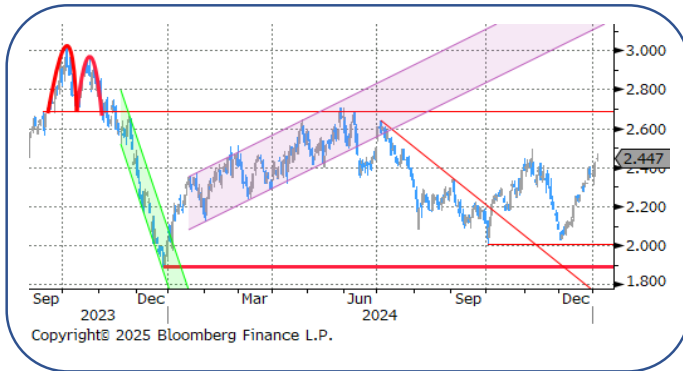
Markets

- Trump's (trade) policy ruffled markets yesterday, underscoring the importance of politics under a second term of the former POTUS. The Washington Post citing three people familiar with the matter ran an article saying Trump's aides are exploring tariff plans that would be applied to every country but only cover critical imports. It's a major change from the president-elect's campaign rhetoric, where he promised to slap duties on everything imported into the US. Trump later denied the report but that didn't stop the risk-on train. **It's a potential sign markets priced in much (if not all) of the bad (tariff) news.** European stocks excelled with the EuroStoxx50 rising 2.36%. Tech stocks on Wall Street took the lead (Nasdaq +1.24%). The dollar lost against all major peers except JPY. DXY eased from 108.97 to 108.25 and EUR/USD rebounded towards 1.04. USD/JPY eked out a small gain towards a former (JPY) intervention level of 158. The pair briefly jumped north of that in Asian dealings this morning before paring gains. Export-reliant currencies rose as well. The Aussie dollar tested AUD/USD 0.63 but eventually settled for less at 0.6246. Core bond yields rose but Europe showed a bear flattener compared to the US steeper. European swap yields added between 2.4 and 4.2 bps with front end underperformance following slightly better than expected final PMI's and a big beat in German CPI figures (0.7% m/m and 2.9% y/y vs 0.5% and 2.6% expected). The latter together with other national readings (eg. Spain) point to upside risks of the European number later today. A 0.4% m/m pace is expected to lift the yearly reading from 2.2% to 2.4%. The acceleration is driven by energy base effects and has been anticipated by the ECB for some time now, meaning it **shouldn't derail easing intentions later this month.** Core inflation is expected to match November's 2.7%. US rates were more or less flat at the front and rose 3.8 bps in the 30-yr sector. The first auction of the year - a \$58bn 3-year note sale - tailed >1 bps, putting the spotlights on tonight's \$39bn 10-yr one. The US economic calendar also features the **November JOLTS report and the December services ISM.** The latter is expected to undo some of the four-point November setback by rising from 52.1 to 53.5. Today's data is one of the first reality checks to the strong December core bond sell-off. As long as they do not disappoint, we think yield momentum could hold. Resistance in the US 10-yr is located between 4.68 and 4.73%. Yesterday's FX/dollar price action in our view suggests EUR/USD's bottom has become a bit better protected, regardless of the ISM outcome.

News & Views

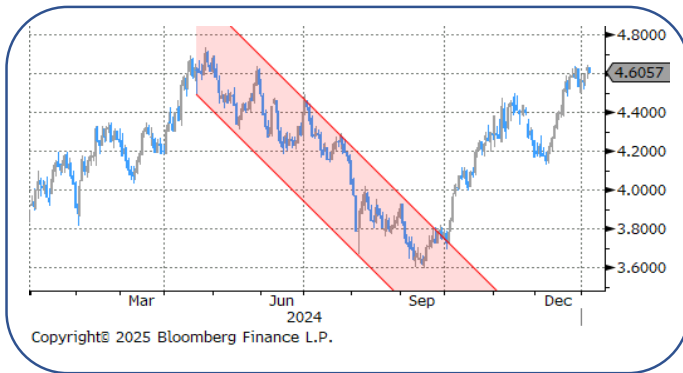
- The British Retail Consortium BRC reported **UK retail sales rising 3.2% Y/Y in December of last year**, rebounding from a 3.3% decline in the previous month. Some store sales showed a similar picture (3.1% Y/Y VS -3.4%). The sharp swings in the monthly measure were due to a **statistical distortion** as 2024 Back Friday sales were reported in the December figure compared to November for 2023. **Sales for Q4 as a whole showed only very modest growth of 0.4% in nominal terms, de facto resulting in negative volume growth compared to the same period last year.** "Following a challenging year marked by weak consumer confidence and difficult economic conditions, the crucial 'golden quarter' failed to give 2024 the send-off retailers were hoping for," BRC chief executive Helen Dickinson was quoted. Total 2024 retail sales rose 0.7% while like-for-like sales rose 0.5%. The Q4 sales at least suggest that the new UK budget including higher taxes, didn't help to support fragile domestic demand. This will remain an element in the BoE assessment when it reassesses monetary policy early February.
- The Czech Republic over 2024 realized a CZK 271.4 bln budget deficit**, down CZK 17.1 bln from the previous year, its Finance Ministry reported. The year-on-year improvement in the balance reflects an **increase in tax and insurance collections** on the revenue side and **moderate growth in total expenditures.** The Czech Republic's state debt grew to CZK 3 365 bln at the end of 2024 from CZK 3 111 bln the year before. The debt ratio rose to **42.8% of GDP** from 40.8% in 2023. The Fin Min yesterday also published the funding and Debt management strategy for 2025. For 2025, the **total state financing needs amount to CZK 563.5 bln**, i.e. approximately **6.7% of GDP.** In the medium-term outlook, the total financing needs will be stabilised at 5.9% and 5.4% of GDP for 2026 and 2027, respectively, which is caused by decreasing state budget deficits and stabilized state debt redemptions in these years.

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 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 in a steepening trend.**



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 was tested but survived for now.



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

Tuesday, 7 January		Consensus	Previous
US			
14:30	Trade Balance (Nov)	-\$78.3b	-\$73.8b
16:00	JOLTS Job Openings (Nov)	7740k	7744k
16:00	JOLTS Job Openings Rate (Nov)	4.60%	4.60%
16:00	JOLTS Quits Level (Nov)	--	3326k
16:00	JOLTS Quits Rate (Nov)	--	2.10%
16:00	JOLTS Layoffs Level (Nov)	--	1633k
16:00	JOLTS Layoffs Rate (Nov)	--	1.00%
16:00	ISM Services Index (Dec)	53.5	52.1
16:00	ISM Services Prices Paid (Dec)	57.5	58.2
16:00	ISM Services New Orders (Dec)	54.2	53.7
16:00	ISM Services Employment (Dec)	51.4	51.5
UK			
01:01	BRC Sales Like-For-Like YoY (Dec)	3.10%A	-3.40%
10:30	S&P Global UK Construction PMI (Dec)	54.4	55.2
EMU			
10:00	ECB 1 Year CPI Expectations (Nov)	--	2.50%
10:00	ECB 3 Year CPI Expectations (Nov)	--	2.10%
11:00	CPI MoM/YoY (Dec P)	0.40%/2.40%	-0.30%/2.20%
11:00	CPI Core YoY (Dec P)	2.70%	2.70%
11:00	Unemployment Rate (Nov)	6.30%	6.30%
Switzerland			
08:30	CPI MoM/YoY (Dec P)	-0.10%/0.60%	-0.10%/0.70%
France			
08:45	CPI EU Harmonized MoM/YoY (Dec P)	0.40%/1.90%	-0.10%/1.70%
08:45	CPI MoM/YoY (Dec P)	0.30%/1.50%	-0.10%/1.30%
Italy			
10:00	Unemployment Rate (Nov)	5.80%	5.80%
11:00	CPI EU Harmonized MoM/YoY (Dec P)	0.30%/1.60%	0.00%/1.50%
Belgium			
11:00	Unemployment Rate (Nov)	--	5.80%
Sweden			
08:30	Swedbank/Silf PMI Services (Dec)	52.0	50.9
08:30	Swedbank/Silf PMI Composite (Dec)	--	51.7
Events			
14:00	Fed's Barkin Speaks to Raleigh Chamber		
19:00	U.S. To Sell USD39 Bln 10-Year Notes		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.63	0.03	US	4.27	0.00	DOW	42706.56	-25.57	
DE	2.45	0.02	DE	2.19	0.03	NASDAQ	19864.98	243.30	
BE	3.03	-0.03	BE	2.36	0.02	NIKKEI	40083.3	776.25	
UK	4.61	0.02	UK	4.43	0.01	DAX	20216.19	310.11	
JP	1.14	0.00	JP	0.64	0.01	DJ euro-50	4986.64	115.19	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.31	4.12	4.20	€STR	2.9170	-0.0020			
5y	2.34	4.11	4.09	Euribor-1	2.8350	0.0430	SOFR-1	4.3008	-0.0068
10y	2.44	4.15	4.10	Euribor-3	2.7570	0.0260	SOFR-3	4.2891	-0.0018
				Euribor-6	2.5850	0.0310	SOFR-6	4.2531	0.0014
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0390	0.0082	EUR/JPY	163.77	1.69	CRB	298.93	2.16	
USD/JPY	157.62	0.36	EUR/GBP	0.8299	0.0002	Gold	2647.40	-7.30	
GBP/USD	1.252	0.0097	EUR/CHF	0.9399	0.0034	Brent	76.30	-0.21	
AUD/USD	0.6246	0.0030	EUR/SEK	11.4815	0.0276				
USD/CAD	1.4332	-0.0115	EUR/NOK	11.7335	0.0179				

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