Thursday, 09 January 2025

KBC Sunrise Market Commentary

Markets

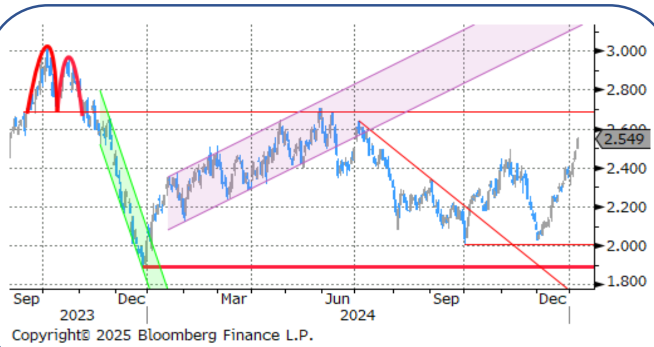
- Markets took aim at UK assets. **Both gilts and sterling suffered steep losses.** Yields soared another 4.5-11.3 bps. The 10-yr yield (+11.3 bps to 4.79%) surpassed the previous post-pandemic highs to hit the highest levels since '08. The 30-yr yield already smashed Tuesday's 27-yr high by adding another 10.9 bps to 5.35%. Such underperformance at the long end of the curve reveals **fiscal and inflation risks are the driving force.** This has been the case ever since UK Chancellor Reeves' presented her extremely loose fiscal plans in October. Because of the material yield increase, the **UK risks breaching its self-imposed fiscal rules** when the OBR (UK's budget watchdog) releases new forecasts March 26. If that were to be the case, Bloomberg reported citing people familiar that **Reeves would resort to spending cuts** rather than impose new taxes. The ones proposed in the October budget have already caused a corporate backlash and dented sentiment. **Higher risk premia explain why the pound fails to profit from otherwise juicy rates.** EUR/GBP shot up from 0.828 towards 0.835 and is extending gains in Asian trading this morning. Rates in Europe climbed higher as well. Germany added between 0.5 and 6.6 bps. Its 10-yr yield hit a 7-month high north of 2.5%. US rates were little changed on the day with moves varying between -0.8 bps and +1.8 bps. Lower than expected weekly jobless claims contrasted with the ADP job report undershooting consensus. The closely watched 30-yr auction went smooth. The minutes of the hawkish Fed's December policy meeting carried a similar tone. They triggered little intraday volatility. The dollar appreciated against most majors. EUR/USD closed around 1.032, down from 1.034 but off intraday lows. USD/JPY isn't planning to leave the 158 big figure anytime soon, despite the verbal warnings over the last couple of days from Japanese officials. USD/CNY (7.331) continues to grind higher with the 2023 multi-year high (7.35) ever coming closer. GBP/USD (cable) underperformed and is currently testing April 2024 support at 1.23. The general trend of a strong(er) USD and higher core bond yields is obvious. It could take a breather today though given the empty economic calendar, proximity of important resistance levels and the partial absence of US investors. **US stock markets are closed and its bond markets leave early due to a national day of mourning for ex-president Carter.**

News & Views

- **China December inflation data published this morning showed that deflationary tendencies remain in place** despite multiple government efforts to revive domestic demand. CPI inflation was unchanged in November (0.0% m/m), lowering the y/y measure from 0.2% to 0.1%. Goods prices declined 0.2% Y/Y, services inflation rose slightly (0.4% from 0.5%). Core inflation (ex food and energy) also rose slightly from 0.3% Y/Y to 0.4%. **Factory gate prices (PPI) remain negative for the 27th consecutive month** at -2.3 Y/Y (from -2.5% in November). The 'rise' in core inflation and the slowdown in producer price deflation **might be a first indication that support measures have some stabilization effect**, but there is still a long way to go to restart a protracted reflation spiral. At 1.61%, China's 10-yr government bond yields stabilizes near record low levels. Ongoing low inflation justifies a weak currency, but the **PBOC continues to take action for this process to develop in an orderly fashion.** At USD/CNY 7.331, the onshore yuan trades near its 2023 low against the dollar. The PBOC this morning announced the launch of a 60 bln yuan sale of 6-month bills in Hong Kong to increase demand for the offshore currency.

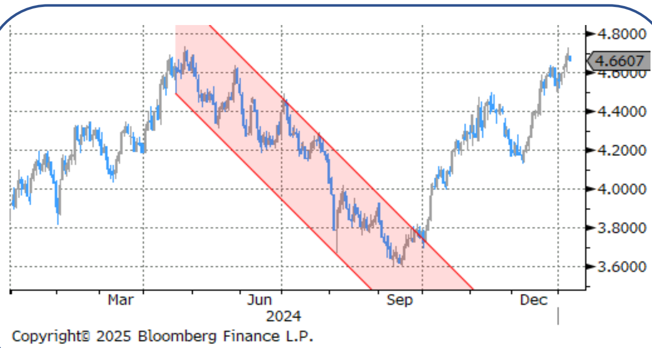
- **Permanent placements and vacancies fell at accelerated rates in December, the KPMG and REC UK report on jobs revealed.** Firms were reported to be further considering the employment cost **implications of the late October government Budget**, and as such placements fell to the greatest degree since August 2023. Despite a drop in permanent placements, the report signals an **acceleration in the rate of starting salary inflation** as firms remained willing to raise pay for high quality staff. Even so, **vacancies in December also declined at the fastest pace in well over 4 years.** At the same time, the availability of staff increased at the steepest pace since June. The combination of a slowdown in labour demand on the one hand and at the same time ongoing wage rises is **another illustration of the policy paradox** for the Bank of England as it ponders the pace of further easing going into 2025.

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 7-month 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 is under test.

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. Meanwhile, **long end underperformance due to fiscal risks** is beating the UK currency down. EUR/GBP's attempt to leave the 0.823 lows is gaining traction.

Thursday, 09 January 2025

Calendar & Table

Thursday, 9 January		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Dec)	--	26.80%
Japan			
00:30	**Labor/Real Cash Earnings YoY (Nov)**	**3.00%A/-0.30%A**	**2.20%R/-0.40%R**
00:30	Cash Earnings-Same Sample Base YoY (Nov)	3.50%A	2.80%R
00:30	Scheduled Full-Time Pay-Same Base YoY (Nov)	2.80%A	2.90%R
UK			
01:01	BRC Shop Price Index YoY (Dec)	-1.00%A	-0.60%
10:30	DMP 3M Output Price Expectations (Dec)	3.70%	3.70%
10:30	DMP 1 Year CPI Expectations (Dec)	2.80%	2.80%
EMU			
11:00	Retail Sales MoM/YoY (Nov)	0.30%/1.70%	-0.50%/1.90%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Nov)	0.50%/-4.50%	-1.00%/-4.50%
08:00	Exports/Imports SA MoM (Nov)	2.00%/0.70%	-2.80%/-0.10%
China			
02:30	**CPI YoY (Dec)**	**0.10%A**	**0.20%**
02:30	PPI YoY (Dec)	-2.30%A	-2.50%
09JAN-15JAN	New Yuan Loans CNY YTD (Dec)	17846.1b	17100.0b
Events			
09JAN	US stock markets closed, bond markets close early in observance of a national day of mourning for ex-president Carter		
10:00	ECB Publishes Economic Bulletin		
15:00	Fed's Harker Speaks on Economic Outlook		
17:00	BOE's Breeden Speaks		
18:40	Fed's Barkin Speaks to Virginia Bankers Association		
19:30	Fed's Schmid Speaks to Economic Club of Kansas City		
19:35	Fed's Bowman Reflects on 2024 in Speech		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.69	0.00		US	4.28	-0.01	DOW	42635.2	106.84
DE	2.55	0.07		DE	2.20	0.00	NASDAQ	19478.88	-10.80
BE	3.12	0.04		BE	2.36	0.00	NIKKEI	39605.09	-375.97
UK	4.80	0.11		UK	4.52	0.04	DAX	20329.94	-10.63
JP	1.18	0.00		JP	0.65	0.00	DJ euro-50	4996.39	-15.43
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.34	4.12	4.32	€STR	2.9170	-0.0010			
5y	2.39	4.15	4.24	Euribor-1	2.8620	0.0220	SOFR-1	4.3030	0.0001
10y	2.52	4.21	4.28	Euribor-3	2.7820	-0.0030	SOFR-3	4.2930	-0.0005
				Euribor-6	2.6390	0.0080	SOFR-6	4.2600	-0.0020
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0318	-0.0022		EUR/JPY	163.4	-0.02	CRB	297.39	-1.89
USD/JPY	158.35	0.30		EUR/GBP	0.8346	0.0058	Gold	2672.40	7.00
GBP/USD	1.2363	-0.0114		EUR/CHF	0.9402	-0.0005	Brent	76.16	-0.89
AUD/USD	0.6216	-0.0014		EUR/SEK	11.5069	0.0089			
USD/CAD	1.4376	0.0006		EUR/NOK	11.7664	0.0375			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		**Bratislava**	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		**Budapest**	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at www.kbceconomics.be