



Tuesday, 14 January 2025

KBC Sunrise Market Commentary

Markets

- Friday's stellar payrolls** and **possible consequences for the direction of future US (and global) monetary policy** continued to set the tone at the start of this trading week amid an empty eco calendar, tightening financial conditions. US Treasuries lost some further ground in Asian trading and stuck near the intraday lows for most of the European and US session. In the end, US yields added up to 2 bps across the curve. Technical resistance levels came into play at longer tenors. The US dollar faced similar fatigue, though not without **setting a fresh correction low at EUR/USD 1.0178**. The pair nevertheless ended the session above key support (1.0201; 62% retracement on 2022-2023 comeback). Both European and US stock markets finished off the intraday lows with the Brent crude rally topping off around \$81/b for now.
- Market settings improved further overnight** on talk that members of president-elect Trump's incoming economic team are discussing **a gradual approach in lifting tariffs** aimed at boosting negotiating leverage while avoiding a spike in inflation. One idea would be to **gradually increase tariffs by 2% to 5% each month** instead of installing the floated minimum tariff of 10% to 20% on all imported goods and 60% or higher on shipments from China by stealth. Last week, the Washington Post ran an article suggesting that tariffs would only apply to critical sectors. Markets rallied in response, but **rapidly retraced after president-elect Trump called the report false**. Given that the economic team didn't pitch the idea with Trump himself and with comments on social media expected within the next couple of hours, **it'd be fair to err on the side of caution for now** when it comes to this kind of stories. In general, we do believe that the worst of the tariff treat is by and large discounted, suggesting **asymmetric risks when they will eventually be applied especially if watered-down**. From next week on, the uncertainty factor could rapidly shrink as Trump finally takes office. Today's eco agenda is interesting with US producer price inflation as amuse-gueule ahead of tomorrow's CPI numbers. An upward surprise could bring back Friday's chilly market vibes. **It's too soon to fight the reigning market trends**.

News & Views

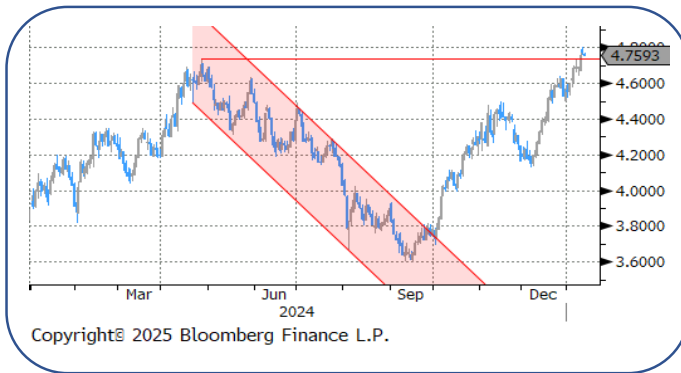
- Consumer inflation expectations** for the year ahead were at an unchanged 3%, the **NY Fed's December survey** showed yesterday. Those for the 3-yr and 5-yr horizon picked up to 3% (from 2.6%) and declined to 2.7% (from 2.9%) respectively. Home price growth stayed firmly within the 3-3.3% range in place since August 2023 by increasing 0.1 ppts to 3.1% last month. **Turning to the labor market**, US households believe earnings growth to slow down to its 12-month trailing average of 2.8% in the upcoming year. The probability of a higher unemployment rate over the same time frame fell to 34.6%. Respondents saw the smallest chance since January 2024 of losing their job in the next 12 months (11.9%) while simultaneously believing that, if it were to happen, finding a new one would be less easy (probability fell sharply from 54.1% to 50.2%). US households expect income growth to decline 0.3 ppts to 2.8%, the lowest since May 2021 but above the pre-pandemic level. **Spending growth would accelerate to 4.8% nevertheless**. Fewer reported being worse off and more reported being better off in terms of their current financial situations. The year-ahead expectations were more or less unchanged.
- The head of the **Brazilian central bank's economic policy department** Diogo Guillen said the fiscal outlook of its country still requires attention, despite having met the 2024 primary budget target. The government had set a zero-deficit goal (+/- 0.25 ppts tolerance range on either side). But Guillen said **the uncertainties related to achieving the fiscal targets in the next years remain**. Fiscal deterioration was perhaps the key reason for the central bank's decisive 100 bps rate hike and strong guidance of follow-up moves on the next meetings through March. Looking ahead, Guillen said it's **important to assess the impact of upcoming US president Trump's policies on the economy, exchange rate, expectations and inflation dynamics**. Since mid-September when Trump made his comeback in the election polls and combined with the domestic developments, the Brazilian real lost sharply against the USD. USD/BRL hit a record high around 6.3 end-December before paring some gains to 6.09 currently.

Graphs



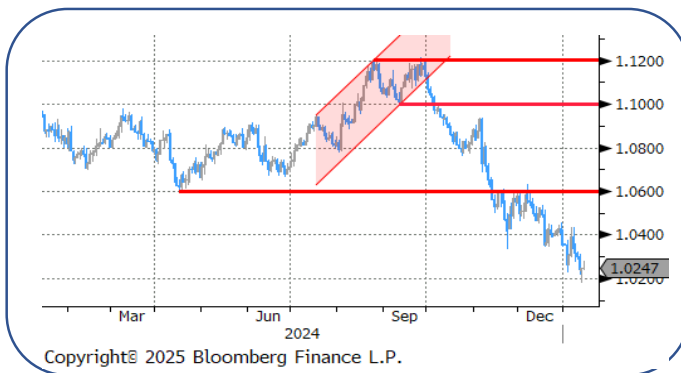
GE 10y yield

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.**



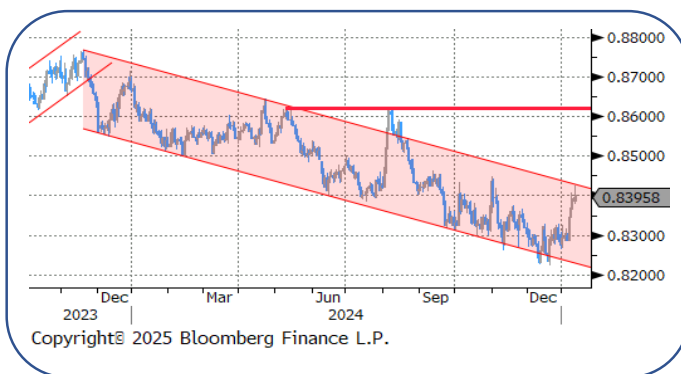
US 10y yield

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 including 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 closed above the 2024 high (4.73%) on stellar December payrolls.



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.** EUR/USD eyes key support at 1.0201 (62% retracement on 2022/2023 comeback).



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 to 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.

Calendar & Table

Tuesday, 14 January		Consensus	Previous
US			
12:00	NFIB Small Business Optimism (Dec)	102.1	101.7
14:30	PPI Final Demand MoM/YoY (Dec)	0.40%/3.50%	0.40%/3.00%
14:30	PPI Ex Food and Energy MoM (Dec)	0.30%/3.80%	0.20%/3.40%
14:30	PPI Ex Food, Energy, Trade MoM (Dec)	0.30%/--	0.10%/3.50%
Japan			
00:50	BoP Current Account Adjusted (Nov)	¥3033.4bA	¥2408.8b
00:50	Trade Balance BoP Basis (Nov)	¥97.9A	-¥155.7b
00:50	Bank Lending Ex-Trusts YoY (Dec)	3.40%A	3.20%R
06:00	Eco Watchers Survey Current SA (Dec)	49.9A	49.4
06:00	Eco Watchers Survey Outlook SA (Dec)	49.8A	49.4
Italy			
10:00	Industrial Production MoM/WDA YoY (Nov)	-0.10%/2.30%	0.00%/-3.60%
Hungary			
08:30	CPI MoM/YoY (Dec)	0.30%/4.30%	0.50%/3.70%
Events			
14JAN	French PM Francois Bayrou to lay out new policy agenda to parliament		
14JAN	World Bank to release semi-annual Global Economic Prospects report		
09:00	ECB's Holzmann Speaks		
09:30	BOE's Breeden Speaks		
11:30	Germany to Sell EU5 Billion of 2030 Bonds		
16:00	Fed's Schmid Gives Remarks in Kansas City		
21:05	Fed's Williams Gives Opening Remarks		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.78	0.02	US	4.38	0.00	DOW	42297.12	358.67	
DE	2.61	0.02	DE	2.29	0.01	NASDAQ	19088.1	-73.53	
BE	3.21	0.03	BE	2.46	0.01	NIKKEI	38474.3	-716.10	
UK	4.89	0.05	UK	4.60	0.06	DAX	20132.85	-81.94	
JP	1.25	0.05	JP	0.68	0.03	DJ euro-50	4954.21	-23.05	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.43	4.25	4.36	€STR	2.9180	0.0010			
5y	2.48	4.28	4.28	Euribor-1	2.8500	0.0110	SOFR-1	4.3071	-0.0005
10y	2.57	4.30	4.30	Euribor-3	2.7850	0.0190	SOFR-3	4.3079	0.0032
				Euribor-6	2.6550	0.0140	SOFR-6	4.2947	0.0084
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0245	0.0001	EUR/JPY	161.32	-0.27	CRB	309.02	3.05	
USD/JPY	157.48	-0.25	EUR/GBP	0.8395	0.0005	Gold	2678.60	-36.40	
GBP/USD	1.2202	-0.0005	EUR/CHF	0.9393	0.0004	Brent	81.01	1.25	
AUD/USD	0.6177	0.0030	EUR/SEK	11.5241	0.0289				
USD/CAD	1.4379	-0.0044	EUR/NOK	11.7013	-0.0577				

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