



Wednesday, 15 January 2025

KBC Sunrise Market Commentary

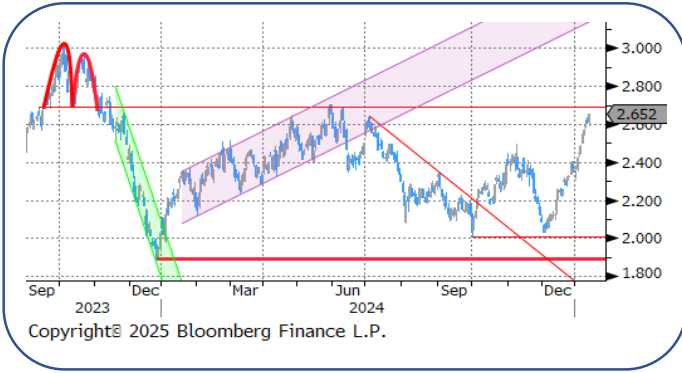
Markets

- US president-elect Trump so far didn't push back against rumours that any possible tariffs would be gradually installed.** European stock markets lost some intraday momentum but still managed a 0.5% positive close. The bear steepening of European yield curve continued as well with EU swap rates adding 3.7 bps (2-yr) to 5.5 bps (30-yr) and German yields rising by 2.6 bps (2-yr) to 4.6 bps (30-yr). EUR/USD rebounded from 1.0239 to 1.0309. **Apart from the euro-rebound story, USD lost some momentum as well after December producer prices rose less than feared** (0.2% M/M vs 0.4% M/M for headline figure). Core PPI gauges painted a similar picture and provided some hope that the feared acceleration in US CPI (release this afternoon) won't materialize. Daily changes on the US yield curve varied between -1.4 bps (2-yr) and +1.4 bps (10-yr). **Stakes going into the CPI release are still high. We see asymmetric risks after the strong sell-off in US Treasuries with the market more eager to respond/rebound on a lower figure.**
- Sterling extended its underperformance with EUR/GBP testing the October top at 0.8448** as UK Chancellor Reeves was unable to calm investor nerves over the government's fiscal trajectory. **December inflation numbers this morning don't make the GBP-equation any easier.** Headline, core and services inflation all slowed more than hoped in Y/Y-terms, respectively to 2.5%, 3.2% and 4.4%. Recent sterling weakness came on the back of rising risk premia. **Slowing inflation is welcome, but could deprive the UK currency faster from short-term interest rate support.**
- Bank of Japan governor Ueda** said that the central bank will **make a decision over whether to raise rates next week.** He also flagged the (strong) US economy and the momentum toward spring wage negotiations. Together with yesterday's similar **remarks from deputy governor Himino** – not ruling out a rate hike in January – and last week's **rumours about upward revision to inflation forecasts** in the new quarterly projections (linked to surge in cost of rice and weaker yen), **it's a signal that can't be ignored.** The market implied probability of a 25 bps (to 0.50%) rate hike, our base case, increased from 60% to 75%. By the end of the year, one more additional rate hike (to 0.75%) is currently discounted. **Japanese bond yields follow the global momentum.** The Japanese 10-yr yield trades above 1.25% for the first time since April 2011. The 2-yr yield crossed 0.7% for the first time since October 2008 in the wake of the Ueda-comments. **USD/JPY ticks lower to 157.50, but that move remains technically insignificant.** The pair remains attracted by last year's top at 161.95. Only a return below 148.65 would turn the picture more neutral.

News & Views

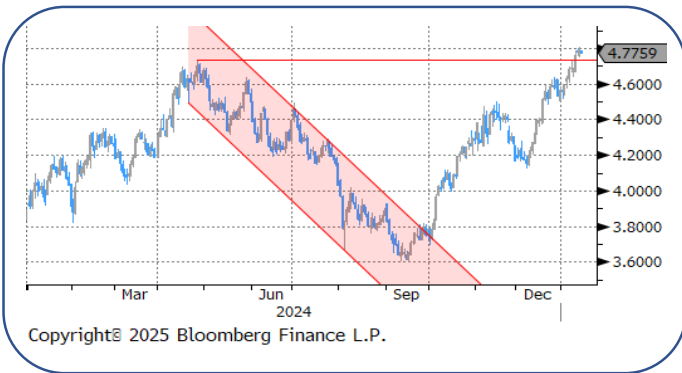
- The European Commission (EC) approved another delay to Belgium's submission of the budget plan covering the next couple of years.** This second extension comes after missing the end-of-2024 target as negotiations to form a new government are still ongoing. Bart De Wever (N-VA) is leading the talks and expressed hopes to have an Arizona-coalition (including MR, CD&V, Les Engagés and Vooruit) in place no later than January 31. But the EC's approval comes with some strings attached. **The new deadline for the plan is set at end-April and should by then explain in detail which reforms and measures Belgium will be taking to reduce oversized deficits.** If it doesn't, the country will no longer have the option to spread the fiscal effort over 7 years. Instead, it will be **locked in into the 4-year trajectory** during which Belgium's **primary budget deficit has to decline by 0.72% of GDP over 2025-2028.** Increases in expenses during that period are capped at 2.4% in 2025, 1.9% in 2026 and 2% in 2027.
- The British Retail Consortium (BRC) after surveying 52 large UK retailers said **about two-thirds of the CFOs warned they'll pass on the increase of employer national insurance contributions to consumers.** The increase of the payroll tax was part of the broader £40bn tax rises UK Chancellor Reeves presented during last year's Autumn budget. Retailers have been warning ever since that **it'll further stoke inflation** at a time when it is still well above the Bank of England's 2%-target. As an example, the BRC said that **food price inflation is expected to rise 3.5% this year,** compared with the 2.9% in 2024.

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

Wednesday, 15 January		Consensus	Previous
US			
14:30	Empire Manufacturing (Jan)	3.0	0.2
14:30	CPI MoM/YoY (Dec)	0.40%/2.90%	0.30%/2.70%
14:30	CPI Ex Food and Energy MoM (Dec)	0.30%/3.30%	0.30%/3.30%
14:30	Real Avg Hourly/Weekly Earning YoY (Dec)	--/--	1.30%/1.00%
UK			
08:00	CPI MoM/YoY (Dec)	0.40%/2.60%	0.10%/2.60%
08:00	CPI Core YoY (Dec)	3.40%	3.50%
08:00	CPI Services YoY (Dec)	4.80%	5.00%
08:00	PPI Output NSA MoM/YoY (Dec)	0.10%/0.00%	0.30%/-0.60%
08:00	PPI Input NSA MoM/YoY (Dec)	0.20%/-1.30%	0.00%/-1.90%
10:30	House Price Index YoY (Nov)	--	3.40%
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Nov)	0.00%/-1.90%	0.00%/-1.20%
Germany			
10:00	GDP NSA YoY (2024)	-0.20%	-0.30%
10:00	Budget Maastricht % of GDP (2024)	-2.30%	-2.00%
Events			
Q4 earnings	Blackrock (bef-mkt), Wells Fargo (13:00), JPMorgan Chase (13:30), Citigroup (14:00) ...		
09:30	ECB's Villeroy speaks in Paris		
09:35	ECB's Vujcic, Hungary's Matolcsy Speak in Vienna		
11:30	Germany to Sell EU1.5 Billion of 2.5% 2054 Bonds, EU1 Billion of 1.8% 2053 Bonds		
15:30	Riksbank's Thedeen on economic situation, monetary policy		
17:30	BOE's Taylor Speaks		
15:20	Fed's Barkin Speaks in Annapolis		
16:00	Fed's Kashkari Participates in Q&A		
17:00	Fed's Williams Gives Keynote Remarks		
18:00	Fed's Goolsbee Speaks at Midwest Economic Forecast Forum		
20:00	Federal Reserve Releases Beige Book		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.79	0.01	US	4.37	-0.01	DOW	42518.28	221.16	
DE	2.65	0.04	DE	2.32	0.03	NASDAQ	19044.39	-43.71	
BE	3.24	0.03	BE	2.49	0.03	NIKKEI	38444.58	-29.72	
UK	4.89	0.00	UK	4.61	0.00	DAX	20271.33	138.48	
JP	1.26	0.01	JP	0.71	0.02	DJ euro-50	4980.47	26.26	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.47	4.25	4.42	€STR	2.9190	0.0010			
5y	2.52	4.29	4.34	Euribor-1	2.8520	0.0020	SOFR-1	4.3025	-0.0046
10y	2.62	4.32	4.35	Euribor-3	2.7610	-0.0240	SOFR-3	4.3036	-0.0043
				Euribor-6	2.6850	0.0300	SOFR-6	4.2895	-0.0052
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0308	0.0063	EUR/JPY	162.83	1.51	CRB	307.32	-1.70	
USD/JPY	157.96	0.48	EUR/GBP	0.8439	0.0044	Gold	2682.30	3.70	
GBP/USD	1.2215	0.0013	EUR/CHF	0.9405	0.0013	Brent	79.92	-1.09	
AUD/USD	0.6195	0.0018	EUR/SEK	11.516	-0.0081				
USD/CAD	1.4349	-0.0030	EUR/NOK	11.7234	0.0221				

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
		Shanghai	+86 21 68236128
CSOB Economics – Markets Prague		Hong Kong	+852 2525 9232
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
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		

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