



Thursday, 16 January 2025

## KBC Sunrise Market Commentary

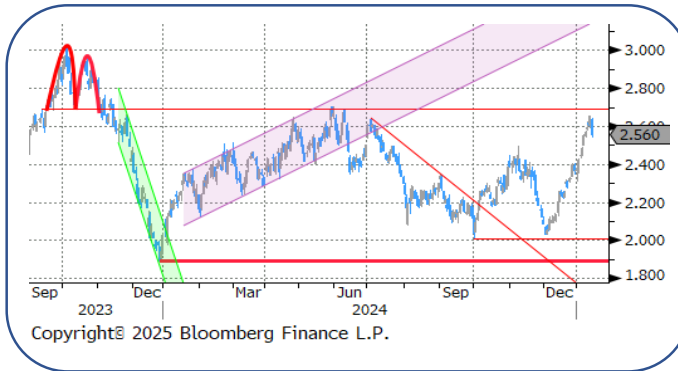
### Markets

- US December CPI numbers avoided a feared acceleration and triggered a cross-asset relief move.** The big reaction was more about repositioning rather than the actual data. Headline CPI (0.4% M/M, 2.9% Y/Y) was in line with consensus while core CPI (0.2% M/M, 3.2% Y/Y) was only just below expectations. US yields lost 9.6 bps (30-yr) to 15.2 bps (7-yr) with the belly of the curve outperforming the wings. **US money markets moved back to two rather than one more 25 bps Fed rate cut this year**, with a first one discounted by June. NY Fed Williams, Richmond Fed Barkin and Chicago Fed Goolsbee all welcomed the monthly price report, but added that this doesn't alter the story line set out back in December. It will take more time to bring inflation on a sustainable path to 2%, meaning restrictive policies are still necessary. **The goldilocks combo of (strong) payrolls, (slightly) lower CPI, lower real rates and strong Q4 (US banks) earnings propelled US stock markets** 1.65% (Dow) to 2.45% (Nasdaq) higher. **US retail sales** can today extend those positive market vibes. **The US dollar was the odd one out**, holding strong despite an initial move lower. EUR/USD closed at 1.0289 from 1.0308 and with an intraday top at 1.0354. Two elements are at play. First, **European bond yields followed the US move** with EU swap rates shedding up to 12 bps (belly). Second, **event risk looms large** with US markets enjoying a long weekend (MLK Day on Monday Jan 20) during which president-elect Trump will be inaugurated. **The Japanese yen continues outperforming** on more talk that the BoJ will effectively hike policy rates next week. USD/JPY approached 155 for the first time since mid-December.
- Bank of England rate-setter Alan Taylor stroke a dovish tone** in his first public speech since joining the central bank in September of last year. He sides with the more benign inflation cases made by the BoE in which **price pressures fade relatively quickly**. Under this view, **the economy might face adverse demand pressures** potentially on many fronts while supply is less perturbed. The BoE's reaction function should then be one of lowering policy rates rather **quickly to neutral, which Taylor estimates at around 2.75%** in this scenario: *"we are in the last half mile on inflation, but with the economy weakening it's time to get interest rates back toward normal to sustain a soft landing"*. **Accelerated rate cuts means perhaps 125 bps to 150 bps in the coming year**. This view **contrasts sharply with UK money markets** currently discounting a cumulative 50 bps of rate cuts by the end of the year. A first one could be implemented as soon as February given the 6-3 split vote in December and in the wake of yesterday's below-consensus inflation numbers. **BoE Taylor was one of the dissenters** at that December policy meeting together with his colleagues Ramsden and Dhingra. They voted in favour of a 25 bps rate cut rather than sticking with unchanged policy rates. UK Gilts yesterday outperformed with UK yields losing 14 to 16 bps across the curve. **EUR/GBP tested first resistance at 0.8448, but a break didn't happen**, at least not for now. GBP/USD holds near the sell-off lows (1.22) with support lingering around 1.2037 (Oct 2023 low). We stick to our bearish view against sterling.

### News & Views

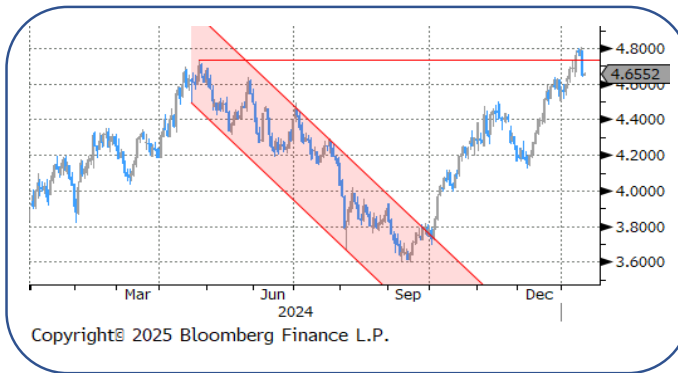
- Canada set up a draft list of some C\$150 bn of US-manufactured products eligible for import tariffs** in case President-elect Trump decides to impose levies on Canadian goods, Bloomberg reported citing an official familiar to the matter. The exact items on this initial list are not disclosed yet and it **would only come into force if the next US administration moves first**. But **its scope is in any case much bigger** than during Trump's previous term, when Canada slapped tariffs on some C\$17bn of US exports to the country. Canadian imports from the US in the 12 months to November amounted to C\$487bn, meaning the draft list covers **nearly a third of the products' value**.
- The central bank of South Korea unexpectedly kept its policy rate unchanged at 3%** this morning in a 6-1 vote. Governor Rhee said that **based on growth alone, the central bank would have cut rates**. Inflation at 1.9% is also close to the BoK's 2% target. All members except Rhee **kept the door open for reductions in the next couple of months**. But in considering all variables including **financial stability risks** the BoK today decided otherwise. Rhee was referring to **the dramatic slide in the South Korean currency** to the lowest level against since 2009 in the wake of president Yoon Suk Yeal's failed martial law attempt early December. **The economic fallout of the political crisis** is probably bigger than expected, the governor said, and downside risks to the 2025 outlook have increased. Today's status quo was also underpinned by **uncertainty surrounding Trump's first policy measures** after his inauguration next week. USD/KRW trades little changed around 1456.7. The multi-year high end-December stood at 1486.85.

# 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.**



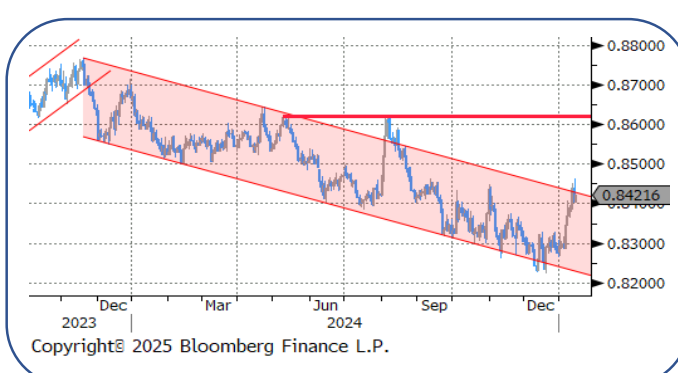
## US 10y yield

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

Thursday, 16 January		Consensus	Previous
<b>US</b>			
14:30	Philadelphia Fed Business Outlook (Jan)	-5	-10.9R
14:30	<b>Retail Sales Advance MoM (Dec)</b>	<b>0.60%</b>	<b>0.70%</b>
14:30	Retail Sales Ex Auto MoM (Dec)	0.50%	0.20%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.40%	0.20%
14:30	Retail Sales Control Group (Dec)	0.40%	0.40%
14:30	Import Price Index MoM/YoY (Dec)	-0.10%/-0.10%	0.10%/0.20%
14:30	Export Price Index MoM/YoY (Dec)	0.10%/1.60%	0.00%/0.80%
14:30	New York Fed Services Business Activity (Jan)	--	-5.2
14:30	<b>Initial Jobless Claims</b>	<b>210k</b>	<b>201k</b>
14:30	Continuing Claims	1870k	1867k
16:00	NAHB Housing Market Index (Jan)	45	46
<b>Japan</b>			
00:50	PPI MoM/YoY (Dec)	0.30%A/3.80%A	0.30%/3.80%R
<b>UK</b>			
01:01	RICS House Price Balance (Dec)	28%	24%R
08:00	Monthly GDP MoM/3M-3M (Nov)	0.20%/0.00%	-0.10%/0.10%
08:00	Industrial Production MoM/YoY (Nov)	0.10%/-0.90%	-0.60%/-0.70%
08:00	Manufacturing Production MoM/YoY (Nov)	-0.20%/-0.50%	-0.60%/0.00%
08:00	Index of Services MoM/3M-3M (Nov)	0.10%/0.10%	0.00%/0.10%
08:00	Construction Output MoM/YoY (Nov)	0.40%/0.10%	-0.40%/-0.70%
08:00	Trade Balance GBP/Mn (Nov)	-£3600m	-£3718m
<b>EMU</b>			
11:00	Trade Balance SA (Nov)	11.5b	6.1b
<b>Poland</b>			
16JAN	<b>Poland Base Rate Announcement</b>	<b>5.75%</b>	<b>5.75%</b>
14:00	CPI Core MoM/YoY (Dec)	0.20%/4.20%	0.20%/4.30%
<b>Events</b>			
Q4 earnings	Bank of America (12:45), Morgan Stanley (13:30) ...		
13:30	<b>ECB Releases Account of Dec. 11-12 Meeting</b>		
10:30	Bank of England Bank Liabilities/Credit Conditions Surveys		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.65	-0.14		US	4.26	-0.10	DOW	43221.55	703.27
DE	2.56	-0.09		DE	2.26	-0.06	NASDAQ	19511.23	466.84
BE	3.13	-0.11		BE	2.41	-0.08	NIKKEI	38572.6	128.02
UK	4.73	-0.16		UK	4.47	-0.14	DAX	20574.68	303.35
JP	1.20	-0.05		JP	0.69	-0.02	DJ euro-50	5032.31	51.84
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.37	4.12	4.24	€STR	2.9200	0.0010			
5y	2.41	4.14	4.17	Euribor-1	2.8430	-0.0090	SOFR-1	4.3005	-0.0020
10y	2.51	4.19	4.20	Euribor-3	2.7480	-0.0130	SOFR-3	4.2955	-0.0081
				Euribor-6	2.6570	-0.0280	SOFR-6	4.2640	-0.0255
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0289	-0.0019		EUR/JPY	160.99	-1.84	CRB	312.17	4.85
USD/JPY	156.47	-1.49		EUR/GBP	0.8405	-0.0033	Gold	2717.80	35.50
GBP/USD	1.2242	0.0027		EUR/CHF	0.9392	-0.0013	Brent	82.03	2.11
AUD/USD	0.6227	0.0032		EUR/SEK	11.4817	-0.0343			
USD/CAD	1.4341	-0.0008		EUR/NOK	11.6579	-0.0655			

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