



Friday, 17 January 2025

KBC Sunrise Market Commentary

Markets

- All eyes were on **December US retail sales** yesterday, **but a CNBC interview with Fed governor Waller turned out to be the key market-moving event**. The hawk-turned-dove copied tactics of BoE Taylor on Wednesday, by pointing out that **the central bank could have more room to lower rates during 2025 than stretched valuations** (especially after Friday's payrolls) **suggest(ed)**. He didn't go as far as Taylor by putting 125-150 bps on the table, but put **rate cuts in the first half of the year on the table** if the Fed continued to get inflation data like Wednesday. A January pause is a done deal, but Waller wouldn't entirely rule out action in March. Following the Fed's hawkish tilt in December and in anticipation of growth (and inflation) boosting fiscal policies by US president Trump, **we still think that March will be out of the equation. Especially given ongoing strength in the US labour market and the economy**. That brings us back to yesterday's **retail sales which increased by 0.4% M/M in December** on a headline level (after an upwardly revised +0.8% M/M in November) with the control group (used as a proxy for consumption in GDP calculations) even growing by 0.7% M/M. **A huge surge in the January Philly Fed business outlook** to the 2nd best level since January 1984 is also worth mentioning. Surging new orders, shipments, employment and average workweek **all bode well for a further recovery in the manufacturing sector**. The US Treasury market ignored the data, but **extended the post-CPI repackaging rally**. US yields eventually lost 2.4 bps to 5.1 bps with the belly of the curve outperforming the wings. EU swap rates corrected a more modest 1 to 2 bps across the curve. The US dollar switched small intraday gains for losses. EUR/USD closed at 1.0301 up from 1.0289. US stock markets failed to profit with key indices losing 0.2% (Dow and S&P 500) to 0.9% (Nasdaq). European stock indices outperformed gaining up to 2.15% for the (luxury-heavy) French CAC 40. The EuroStoxx 50 gained 1.5% and is now 0.3% away from taking out the 2024 top to the best level since 2000. Today's eco calendar is uneventful. Markets are counting down to **US president-elect Trump's return to office**. A flurry of (executive) orders and policy directives could create quite some nervousness and volatility next week suggesting to err on the side of caution going into the long weekend. **US markets are closed on Monday for Martin Luther King Day**.

News & Views

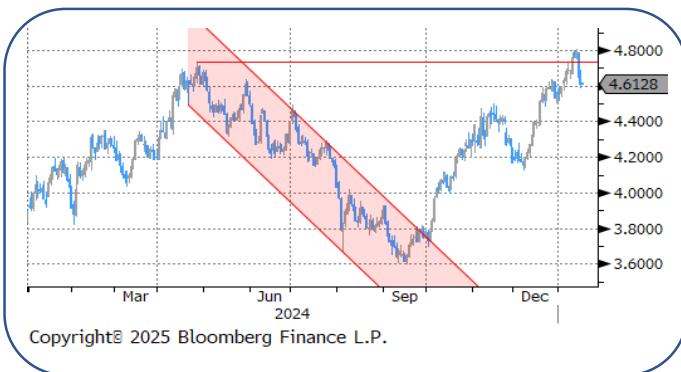
- China hit its growth target of "around 5%" in 2024 on the mark**. GDP expanded 5% last year, exceeding the 4.9% consensus estimate slightly. **The quarterly pace picked up from an upwardly revised 1.3% to 1.6% in Q4**. Growth was supported by **a surge in exports late last year** amid companies frontloading potential tariff increases on Chinese goods by the incoming US administration. The accompanying monthly data set also showed **retail sales picking up from 3% to 3.7% y/y in December**. The resulting 3.8% y/y increase for the whole Q4 was the quickest in 2024. **Industrial production accelerated from 5.4% to 6.2% y/y in the final month of the year**. China's property market remains under pressure with **home prices again dropping on a monthly basis**. But the drop in residential property sales continues to decelerate in December (-17.6% YtD YoY). The data suggest China's **barrage of stimulus over the last couple of months is gradually filtering through**. The statistics bureau does warn though that they "*must be aware that the adverse effects brought by external environment are increasing, the domestic demands are insufficient, some enterprises have difficulties in production and operation, and the economy is still facing difficulties and challenges.*" Both Chinese stocks and the yuan catch a tiny bid this morning. USD/CNY eases to 7.328.
- Bulgaria's parliament yesterday approved the next government coalition**, consisting of the Gerb party of former PM Borisov, the **pro-Russian BSP** and a populist-labeled group called There is Such a People. It's **another minority administration** that got a majority backing in parliament with the support of an ethnic Turkish party. Bulgaria has gone through a range of caretaker governments and minority governments over the last couple of years. **Seven straight elections failed to produce a ruling majority**. The new centre-right PM Zhelyazkov of Gerb sought to ease concerns of taking BSP on board with a spokesperson by stressing that "*The Euro-Atlantic agenda is among the main priorities.*" The goal after bringing back (political) stability is to **join the Eurozone as well as strengthening its fiscal position**. Bulgaria fulfilled the last criteria on inflation for euro membership. After the expected positive assessment by the ECB, a date could be set, **probably the start of next year**.

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

Friday, 17 January		Consensus	Previous
US			
14:30	Housing Starts Total/MoM (Dec)	1327/3.00%	1289k/-1.80%
14:30	Building Permits Total/MoM (Dec P)	1460k/-2.20%	1493k/5.20%
15:15	Industrial Production MoM (Dec)	0.30%	-0.10%
15:15	Capacity Utilization (Dec)	77.00%	76.80%
15:15	Manufacturing (SIC) Production (Dec)	0.20%	0.20%
22:00	Net Long-term TIC Flows (Nov)	--	\$152.3b
UK			
08:00	Retail Sales Ex Auto Fuel MoM/YoY (Dec)	0.30%/4.00%	0.30%/0.10%
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Dec)	0.40%/4.90%	0.20%/0.50%
EMU			
11:00	CPI YoY (Dec F)	2.40%	2.40%
11:00	CPI MoM/YoY (Dec F)	0.40%/2.70%	0.40%/2.70%
China			
02:30	New Home Prices MoM (Dec)	-0.08%	-0.20%
02:30	Used Home Prices MoM (Dec)	-0.31%	-0.35%
03:00	GDP YTD YoY/YoY (4Q)	5.00%/5.40%	4.80%/4.60%
03:00	GDP SA QoQ (4Q)	1.60%	0.90%
03:00	Industrial Production YTD YoY/YoY (Dec)	6.20%/5840%	5.80%/5.40%
03:00	Retail Sales YTD YoY/YoY (Dec)	3.70%/3.50%	3.50%/3.00%
03:00	Fixed Assets Ex Rural YTD YoY (Dec)	3.20%	3.30%
03:00	Property Investment YTD YoY (Dec)	-10.60%	-10.40%
03:00	Residential Property Sales YTD YoY (Dec)	-17.60%	-20.00%
03:00	Surveyed Jobless Rate (Dec)	5.10%	5.00%
Events			
11:00	ECB's Nagel Gives Speech in Frankfurt		
11:30	ECB's Escriva, Centeno Speak in Madrid		
22:00	BOE's Bailey Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.61	-0.04		US	4.23	-0.03	DOW	43153.13	-68.42
DE	2.55	-0.01		DE	2.23	-0.03	NASDAQ	19338.29	-172.94
BE	3.11	-0.02		BE	2.38	-0.03	NIKKEI	38451.46	-121.14
UK	4.68	-0.05		UK	4.38	-0.08	DAX	20655.39	80.71
JP	1.21	0.00		JP	0.69	-0.01	DJ euro-50	5106.93	74.62
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.35	4.09	4.19	€STR	2.9200	0.0000			
5y	2.39	4.10	4.12	Euribor-1	2.8240	-0.0190	SOFR-1	4.3025	0.0020
10y	2.49	4.16	4.16	Euribor-3	2.7440	-0.0040	SOFR-3	4.2931	-0.0024
				Euribor-6	2.6680	0.0110	SOFR-6	4.2535	-0.0105
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0301	0.0012		EUR/JPY	159.85	-1.14	CRB	311.35	-0.82
USD/JPY	155.16	-1.31		EUR/GBP	0.8416	0.0011	Gold	2750.90	33.10
GBP/USD	1.2239	-0.0003		EUR/CHF	0.9382	-0.0010	Brent	81.29	-0.74
AUD/USD	0.6213	-0.0014		EUR/SEK	11.4882	0.0065			
USD/CAD	1.4395	0.0054		EUR/NOK	11.7045	0.0466			

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