



Monday, 20 January 2025

## KBC Sunrise Market Commentary

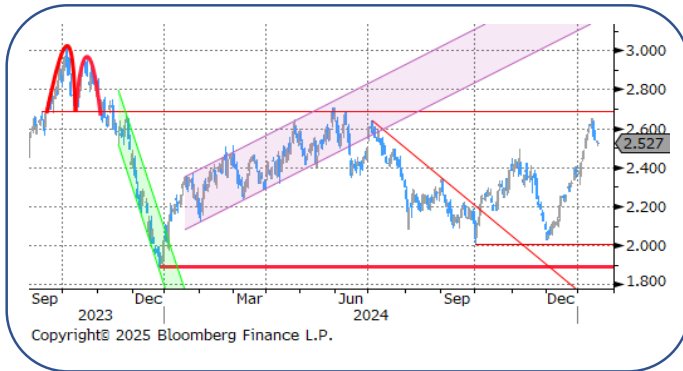
### Markets

- The correction in US yields that started** on (marginally) softer than expected US CPI data and comments from Fed Waller finally **met first support** on Friday as markets returned their focus to the new Trump era. Solid US housing and production data helped build this floor. US yields in a bear flattening move added between 5.3 bps (2-y) and 0.2 bps (30-y). EMU/German yields intraday also showed signs of bottoming but still closed the day in red (German 2-y -0.1 bp, 30-y -2.0 bps). Still, the yields' move didn't change the constructive bias on global equity markets. US indices closed the session up to 1.5% higher (Nasdaq). Europe this time slightly underperformed the US (EuroStoxx50 +0.81%), but the index still firmly confirmed the break above the cycle top. Last week's **setback in the USD** on lower US yields and the broader risk-on mostly **remained modest** and this dollar resilience basically remained in place at the end of last week. At 109.35, DXY still closed the week within striking distance of the correction top (110 area) reached on Monday. EUR/USD extended the short-term consolidation pattern (close 1.0273), but in this process last week failed to challenge any significant resistance level, suggesting that underlying USD strength/euro weakness still remained in place. **UK and sterling trailed** as weaker-than-expected retail sales confirmed a mediocre narrative on the economy as the government tries to convince the country and markets on the viability of its economic/budgetary policy. EUR/GBP (0.8442) closed the week near the 0.845 resistance area.
- Asian equity markets mostly open in positive territory.** Regional investors apparently take comfort from the headlines on a what was said to have been a good conversation between Donald Trump and Chinese leader Xi Jinping. ECB Board member **Isabel Schnabel** in an interview with Finanztip this weekend indicated that for now she sees no major risk that could prevent the bank from reaching the 2.0% target, allowing it to continue its easing cycle. However, after steep rate cuts executed of late, **she said that the point is coming closer for the bank to evaluate whether and to what extent the ECB can cut rates further.** Today's calendar in Europe is empty and US markets are closed in observance of Martin Luther King day. All eyes evidently will be on Washington as **Donald Trump will be sworn in as the 47<sup>th</sup> president of the US.** The president is expected to announce an avalanche of executive orders in the first hours/days after taking office, with sweeping measures to be announced on migration, tariffs, deregulation and American energy policy amongst others. The wide scope of potential surprises makes a consistent market reaction not evident, but **the focus likely will be on the pace and nature of the first import tariffs.** Visibility on longer-term market impact/reaction function stays low, but we assume that even 'disruptive' Trump measures won't be disruptive for the Trump trade in a first instance. **(US) yields might to look for a bottom after last week's correction.** The 4.20% area serves as a first support area for the US 2-y yield. The 1.0400/1.0450 area remains strong resistance for the EUR/USD cross rate.

### News & Views

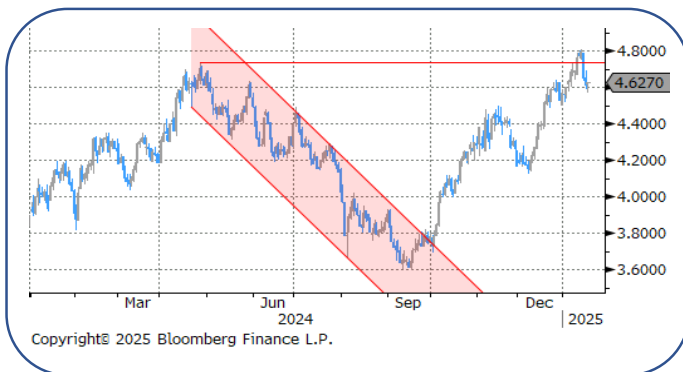
- Average asking prices for newly listed UK homes rose by 1.7% M/M in January to be 1.8% higher compared with the same period last year.** The nominal average price of £366 189 is only £9k below the peak hit in May of last year. Other **signs of momentum** come from increases in agreed sales (+11% Y/Y), the number of buyers contacting agents about properties (+9% Y/Y) and the number of new properties coming to the market (+11% Y/Y). Property website **Rightmove, who conducted the survey, said that current drive could rapidly peter out should hopes on BoE rate cuts not materialize** as they are key in reducing mortgage rates. April's expiry of a lower rate of property purchase tax on less expensive homes is seen as currently boosting demand but equally represents a risk from Q2 onwards for momentum to be sustained.
- The **German conservative opposition block CDU/CSU polled a first time below 30% since April** in the run-up to February 23 parliamentary elections. They maintained their lead over the far-right AfD though which also dropped a point to 21%. Support for social Democrats of Chancellor Scholz (16%) and greens (13%) was unchanged with relative gains going to smaller parties. With centre-left and centre-right all refusing a tie-up with AfD, election night will decide on whether CDU/CSU-leader Merz will be able to set-up his preferred two-way coalition or whether he'll have to explore the three-way alliance.

## 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. Given recent weak UK data, market pricing on only two BoE rate cuts in 2025 was/is too conservative. Meanwhile, **long end underperformance due to fiscal risks** is beating the UK currency down. EUR/GBP's left the 0.823 lows and is testing first resistance near 0.845. A break would further deteriorate the picture on the UK currency.

## Calendar & Table

Monday, 20 January		Consensus	Previous
<b>Canada</b>			
16:30	BoC Business Outlook Future Sales (4Q)	--	13
16:30	BoC Overall Business Outlook Survey (4Q)	--	-2.3
<b>Japan</b>			
00:50	Core Machine Orders MoM/YoY (Nov)	3.40%A/10.30%A	2.10%/5.60%
05:30	Capacity Utilization MoM (Nov)	-1.90%A	2.60%
05:30	Tertiary Industry Index MoM (Nov)	0.30%A	0.10%R
<b>UK</b>			
01:01	Rightmove House Prices MoM/YoY (Jan)	1.70%/1.80%	-1.70%/1.40%
<b>EMU</b>			
11:00	Construction Output MoM/YoY (Nov)	--/--	1.00%/0.20%
<b>Germany</b>			
08:00	PPI MoM/YoY (Dec)	0.30%A/1.10%A	0.50%/0.10%
<b>China</b>			
02:00	1-Year Loan Prime Rate	3.10%A	3.10%
02:00	5-Year Loan Prime Rate	3.60%A	3.60%
<b>Events</b>			
20JAN	US financial markets closed for Martin Luther King Jr.		
20JAN	Donald Trump to be sworn in as 47th president of US		
20-24JAN	Annual World Economic Forum in Davos		
15:00	ECB's Vujcic Speaks		
15:30	ECB's Holzmann Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,63	0,01		US	4,28	0,05	DOW	43487,83	334,70
DE	2,54	-0,01		DE	2,23	0,00	NASDAQ	19630,2	291,91
BE	3,10	-0,02		BE	2,37	-0,01	NIKKEI	38902,5	451,04
UK	4,66	-0,02		UK	4,38	0,00	DAX	20903,39	248,00
JP	1,20	0,00		JP	0,68	0,00	DJ euro-50	5148,3	41,37
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,34	4,13	4,16	€STR	2,9200	0,0000			
5y	2,38	4,13	4,09	Euribor-1	2,7980	-0,0260	SOFR-1	4,3031	0,0006
10y	2,48	4,17	4,14	Euribor-3	2,7040	-0,0400	SOFR-3	4,2925	-0,0006
				Euribor-6	2,6420	-0,0260	SOFR-6	4,2595	0,0060
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0273	-0,0028		EUR/JPY	160,56	0,71	CRB	311,08	-0,27
USD/JPY	156,3	1,14		EUR/GBP	0,8442	0,0026	Gold	2748,70	-2,20
GBP/USD	1,2169	-0,0070		EUR/CHF	0,9400	0,0018	Brent	80,79	-0,50
AUD/USD	0,6193	-0,0020		EUR/SEK	11,499	0,0108			
USD/CAD	1,4477	0,0082		EUR/NOK	11,7607	0,0562			

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