



Wednesday, 22 January 2025

KBC Sunrise Market Commentary

Markets

- The first two days of the Trump administration as expected brought an avalanche of executive orders and new initiatives to mark a seizure with the policy from his predecessor. However, at least from a market point of view, **the start of the new Trump era didn't bring an outright moment of disruption yet**. For now, the new administration only releases its intentions on a step by step basis. This is particularly the case for way the new government will use trade tariffs as a policy instrument. For now, markets apparently feel comfortable with this approach, even as Trump keeps the pressure on his trading partners. In this respect, he yesterday suggested **that 10% tariffs might be imposed on China starting as early as on February 1**. This action won't be based on issues of trade policy, but as a reprieve from the country sending drugs to the US. The debate on trade will follow later. He also warned on Europe on its structural trade surplus with the US. **The step by step approach at least is no concern from (US) equity investors**. US indices resumed their uptrend rising up to 1.24% (Dow). Late yesterday, a group of tech firms including Softbank, OpenAI and Oracle with the support of the new government announced the set-up of a new joint venture to fund new AI infrastructure (starting \$100 bln). The announcement further supported sentiment in the US tech sector after hours. **On interest rate markets**, the actions of the new government also didn't change market expectations on Fed policy in any profound way. The market still discounts between 1 and 2 additional Fed interest rate cuts by the end of this year. US yields in a first reaction yesterday morning opened lower after Monday's holiday, but closed the session off the intraday lows (2y -0.8 bps, 30-y -5.7 bps). Change in German yields were limited (2-y -0.7 bps, 30-y -2.8 bps). **The dollar is still looking for direction after an initial correction on Monday** as Trump refrained from slapping tariffs in his first batch of measures. However, with this topic to continue hanging over the market for some time, the dollar is holding above first important support levels. **At 108.15, DXY stays above the recent lows in the 107.6/108 area. EUR/USD has the 1.0458 ST correction top within reach, but an outright test didn't occur yet**. In case of a break, the early December top of 1.0630 is the next reference. In the current context of persistent uncertainty, at least intentionally orchestrated by the Trump administration, we expect the downside in the dollar to be limited short-term. The rebound of the USD/CNY this morning after the threat of a 10% tariff on China imports next month (USD/CNY 7.2815) serves as a case in point.
- Todays** eco calendar is again very thin. There are no important data in the US and EMU. ECB governors today have a final opportunity to give their view on monetary policy before the black-out period in the run-up to next week's policy meeting starts. However, a 25 bps rate cut at next week's meeting is a done deal. The debate on the what a might be the neutral rate that the ECB has to go to later this year will continue in the run-up to the March meeting (2.25%, 2.0%?)

News & Views

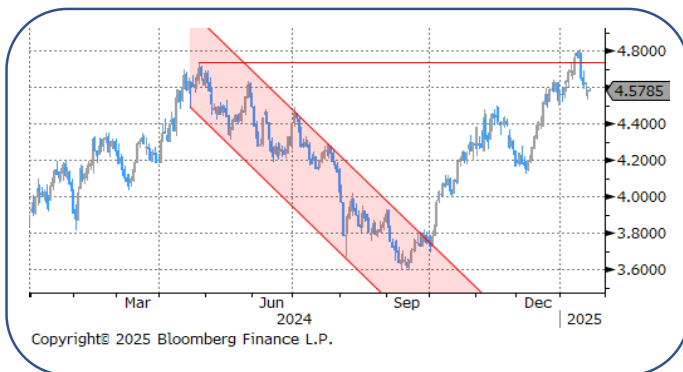
- New Zealand inflation rose by 0.5% Q/Q in the final quarter of last year, slightly down from the 0.6% pace in Q3 but matching expectations**. Prices for international transport (+6.6% Q/Q) were the main driver with lower prices for vegetables (-11.5% Q/Q) on the other side of the balance. **Details continue to show a split between tradeable CPI (+0.3% Q/Q) and more sticky, domestic, non-tradeable (services) CPI (+0.7% Q/Q)**. Annual inflation remained steady at 2.2%. It's the second consecutive quarter that this metric is **inside the RBNZ's target band** after three consecutive years of higher inflation (Q2 2021 – Q2 2024). The largest contributor to the annual inflation rate was rent (almost a fifth), up 4.2% Y/Y. Lower petrol prices (-9.2% Y/Y) helped offset rising prices. CPI would have stood at 2.7% Y/Y if you exclude them. **Inflation numbers didn't trigger any meaningful reaction on NZD markets**. If any, they strengthened market conviction that the RBNZ will implement a third consecutive 50 bps policy rate cut at its first meeting of 2025 (Feb 19). NZD/USD (0.5650) has difficulties to really get traction above the 0.55-0.56 support area..
- The **head of Japan's biggest business lobby added to BoJ rate hike calls by signaling that demand-led price growth is underway**. He spoke after meeting with the leader of the nation's biggest federation of trade unions, Rengo which is considered the official start of annual wage negotiations. Rengo's members last year achieved average wage hikes of more than 5%, the most in over 30 years, and are looking for a repeat by March of this year. Smaller firms are even targeting 6%.

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

Wednesday, 22 January		Consensus	Previous
UK			
08:00	Public Finances (PSNCR) (Dec)	--	13.0b
08:00	PSNB ex Banking Groups (Dec)	--	11.2b
Events			
Q4 earnings	Procter & Gamble (bef-mkt), Alcoa (aft-mkt) ...		
10:15	ECB's Villeroy Speaks in Davos		
11:30	Germany to Sell Bonds		
11:30	ECB's Knot Speaks in Davos		
13:30	ECB's Rehn Speaks on Economic Outlook		
16:05	ECB's Lagarde Speaks in Davos		
19:30	ECB's Nagel Speaks in Davos		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,58	-0,05		US	4,27	-0,01	DOW	44025,81	537,98
DE	2,51	-0,02		DE	2,22	-0,01	NASDAQ	19756,78	126,58
BE	3,06	-0,03		BE	2,35	-0,01	NIKKEI	39646,25	618,27
UK	4,59	-0,07		UK	4,33	-0,04	DAX	21042	51,69
JP	1,20	0,01		JP	0,70	0,02	DJ euro-50	5165,96	1,52
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2,34	4,11	4,15	€STR	2,9210	0,0020			
5y	2,38	4,10	4,06	Euribor-1	2,7740	-0,0110	SOFR-1	4,3064	0,0044
10y	2,46	4,12	4,09	Euribor-3	2,6810	0,0040	SOFR-3	4,2995	0,0075
				Euribor-6	2,6060	-0,0130	SOFR-6	4,2655	0,0102
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0428	0,0012		EUR/JPY	162,14	0,05	CRB	308,87	-2,21
USD/JPY	155,52	-0,10		EUR/GBP	0,8443	-0,0007	Gold	2759,20	10,50
GBP/USD	1,235	0,0022		EUR/CHF	0,9448	0,0006	Brent	79,29	-0,86
AUD/USD	0,6274	-0,0001		EUR/SEK	11,4536	-0,0281			
USD/CAD	1,4322	0,0012		EUR/NOK	11,7742	0,0070			

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