



Wednesday, 29 January 2025

KBC Sunrise Market Commentary

Markets

- US tech stocks rebounded sharply with the likes of Nvidia surging 9% after losing market capitalization +/- the size of Belgium's economy. The Nasdaq's 2% gain almost wiped out Monday's 3% drop. US Treasuries marginally outperformed Bunds with rates closing slightly lower in the former and about 2-3 bps higher in the latter. The risk-on nor UST outperformance hindered a USD comeback. Trump's hawkish trade comments that downplayed the gradual tariff approach favoured by UST Secretary Bessent jolted the greenback against all G10 peers. EUR/USD retreated to 1.043 while USD/JPY and the DXY reclaimed the 155 and attacked the 108 respectively.
- Yesterday's moves were more of a (technical) countermove than they were inspired by major news. Today, though, there's a lot more in store for markets, Bloomberg's article this morning covering an interview with the European Commissioner for financial services Albuquerque to name just one. **She's open to the idea of a coalition of the willing to move forward with a capital markets union in an attempt to break the long-running deadlock at the EU-wide level.** Draghi's report of last September appears to have put something in motion. Trump's return to the White House has expedited things further. The EU faces a massive financing gap to fund defense spending as well as the green transition. The Financial Times end last year reported a similar coalition of the willing initiative for the former. Regarding the latter, EC president von der Leyen is expected to announce major legislative changes today to cut red tape (mostly ESG reporting rules) dramatically. The eco calendar is really heating up today with policy meetings in Sweden, Canada and the US. **The Fed will hold rates steady against the backdrop of a healthy economy and still-above target inflation.** Economic data since the Fed's and chair Powell's hawkish pivot in December has been outright strong and offered no reason to scale down the rhetoric. That should place a bottom below US yields and the dollar. Trump is a wildcard. Powell will probably keep his cards close to his chest in terms of what the central bank expects of his (yet-to-be-announced) policies going forward. Given the state of the economy the Fed has and will use the time at the sidelines. But **POTUS will surely have a say on the Fed's decision** not to cut rates after doing so three times straight, triggering perhaps more market volatility than the decision itself. US tech remains at the center stage as well with Microsoft, Tesla and Meta all reporting, be it after-market. Belgium and Spain are among the first to report Q4 GDP numbers ahead of the euro area figure tomorrow.

News & Views

- In an interview with the Financial Times (FT) this morning, Ales Michl, head of the Czech National Bank (CNB) said that he will present to the Bank board on Thursday **a plan to invest in Bitcoin as a way of asset diversification.** If approved, **it could lead the bank to hold 5% of its reserves (approx. €140 bln) in Bitcoin.** Michl acknowledges the extreme volatility and limited record of the Bitcoin but also pointed at growing investor interest since the launch of several ETFs. He also refers to US president Trump's pledges on deregulation with respect to Bitcoin and growing influence of cryptocurrency executives in the US administration. Michl 'defends' his different approach compared to peers, who are more reluctant towards crypto, as he takes more of an approach similar to running an investment fund. The CNB's €140 bln currency reserves are equivalent to about 45 % of GDP. **Some 22% is already invested in equities.** Michl also **aims the raise the part of US stocks to about 50% from 30% currently in a three year horizon.** On monetary policy, **he indicated that its very likely the CNB will cut rates by 25 bps at the February meeting.**
- **Australian inflation in the final quarter of last year slowed to 0.2% Q/Q and 2.4% Y/Y.** The 0.2% quarterly rise matched the September quarter, which was the **lowest since June 2020.** The Y/Y measure declined from 2.8% in Q3. The underlying trimmed mean (ex. volatile components such as electricity) also slowed to 0.5% M/M to 3.2% (from 3.6%). Electricity prices fell by 9.9% in the December 2024 quarter, following a fall of 17.3% 2024Q3. Without the rebates, electricity prices would have risen 0.2% this quarter, the Australian Bureau of Statistics indicated. Annual goods inflation was 0.8%, down from 1.4% in Q3. Annual services inflation was 4.3% down from 4.6%. The slowdown of inflation dynamics in the second half of last year is seen **opening the door for the Reserve Bank of Australia staring its easing cycle as soon as the February 18 meeting** (policy rate currently 4.35%). The Aussie dollar this morning is ceding modest ground to trade near AUD/USD 0.625.

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 cut rates by 25 bps in December but added that **“the extent and timing”** of further cuts depend on data. Updated forecasts including an upwardly revised neutral rate (3%) and higher inflation forecasts with risks skewed to the upside completed the Fed’s hawkish twist. **Higher for longer is back.** The 10-yr yield tested the 2024 high (4.73%) on stellar December payrolls, but took a pause assessing the policy of the new US government.



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 dominated but a test of the key support at 1.0201 (62% retracement on 2022/2023 comeback) was rejected.**



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, 29 January		Consensus	Previous
US			
14:30	Advance Goods Trade Balance (Dec)	-\$105.5b	-\$102.9b
14:30	Wholesale Inventories MoM (Dec P)	0.20%	-0.20%
14:30	Retail Inventories MoM (Dec)	0.20%	0.30%
20:00	FOMC Rate Decision	4.25%/4.50%	4.25%/4.50%
Canada			
15:45	Bank of Canada Rate Decision	3.00%	3.25%
Japan			
06:00	Consumer Confidence Index (Jan)	35.2A	36.2
EMU			
10:00	M3 Money Supply YoY (Dec)	3.90%	3.80%
Italy			
10:00	Consumer Confidence Index (Jan)	96.5	96.3
10:00	Economic Sentiment (Jan)	85.8	95.3
Belgium			
11:00	GDP SA QoQ (4Q P)	--	0.30%
Spain			
09:00	GDP QoQ/YoY (4Q P)	0.60%/3.20%	0.80%/3.30%
Sweden			
08:00	GDP Indicator SA QoQ/WDA YoY (4Q)	0.30%/1.10%	-0.10%/-0.10%
09:30	Riksbank Policy Rate	2.25%	2.50%
Events			
Q4 earnings	Super Micro Computer (tba), IBM (aft-mkt), Tesla (aft-mkt), Microsoft (aft-mkt), Meta Platforms (aft-mkt) ...		
11:30	Germany to Sell EU4.5 Billion Bonds		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.53	0.00	US	4.19	0.00	DOW	44850.35	136.77	
DE	2.57	0.03	DE	2.27	0.02	NASDAQ	19733.59	391.76	
BE	3.16	0.08	BE	2.41	0.02	NIKKEI	39414.78	397.91	
UK	4.61	0.03	UK	4.31	0.02	DAX	21430.58	148.40	
JP	1.20	0.00	JP	0.70	0.01	DJ euro-50	5195.71	7.26	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.40	4.02	4.10	€STR	2.9210	0.0000			
5y	2.43	4.02	4.03	Euribor-1	2.7440	0.0090	SOFR-1	4.3125	-0.0022
10y	2.52	4.07	4.08	Euribor-3	2.6150	-0.0260	SOFR-3	4.2908	-0.0022
				Euribor-6	2.5910	-0.0090	SOFR-6	4.2350	-0.0013
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0430	-0.0062	EUR/JPY	162.24	0.12	CRB	306.23	0.89	
USD/JPY	155.54	1.03	EUR/GBP	0.8383	-0.0012	Gold	2794.60	28.40	
GBP/USD	1.2443	-0.0056	EUR/CHF	0.9431	-0.0032	Brent	77.49	0.41	
AUD/USD	0.6253	-0.0040	EUR/SEK	11.467	-0.0069				
USD/CAD	1.4399	0.0025	EUR/NOK	11.7649	-0.0314				

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