



Friday, 31 January 2025

KBC Sunrise Market Commentary

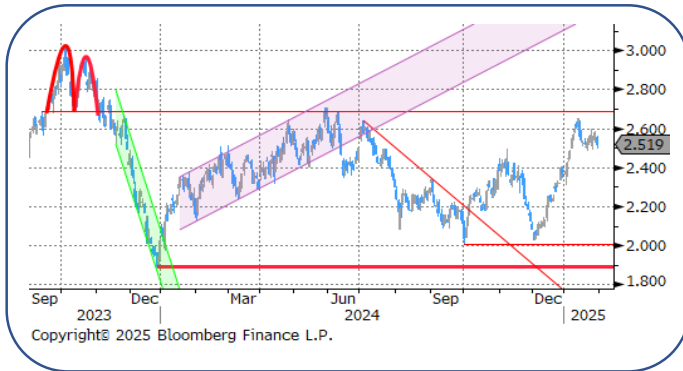
Markets

- The ECB lowered the policy rate to 2.75% (-25 bps) yesterday. While president Lagarde as usual refrained from giving guidance going forward, some subtle statement tweaks and not-so-subtle comments suggest Frankfurt is moving towards a fine-tuning phase. Among the most striking ones was Lagarde explicitly stressing the cumulative amount of cuts the ECB already delivered (purposely followed by a short moment of silence). She also flagged an upcoming staff report about the revision of the neutral rate, due February 7. The timing, ahead of the March 6 meeting when another rate cut brings the deposit rate to the upper bound of the current neutral rate estimates, is not a coincidence. Bloomberg citing officials reported afterwards that the ECB as soon as March may stop labeling its policy stance as “restrictive”. **Long story short: after the 25 bps cut in March, we expect the ECB to start skipping meetings from time to time with only one or two additional moves afterwards.** German rates eased 6-7 bps but those losses were related to earlier weaker-than-expected GDP readings in France, Germany and, as a result, the euro area (stagnation). US yields finished less than 2 bps lower across the curve. Q4 GDP growth was once again strongly consumer-powered and jobless claims remain low. Q4 PCE deflators missed the bar on a headline level. The dollar ended a tad higher thanks to a late-session sprint after president **Trump stuck to his Feb 1 (as in: tomorrow) deadline for tariffs on Mexico and Canada.** The Canadian dollar and Mexican peso took a hit intraday. EUR/USD finished sub 1.04. Sterling continues to grind higher. A six-day GBP winning streak brought EUR/GBP from +0.845 to around 0.836. The pound may soon be taking a breather ahead of **next week’s (Fed 7) looming Bank of England meeting** (including new forecasts) though. Today’s economic calendar features interesting data in the US, including the Q4 Employment Cost Index (expected to pick up from 0.8% to 0.9%) and the December PCE deflators. The latter, however, can be derived from yesterday’s Q4 print. Germany and France release inflation figures for January. The European figure is due on Monday (2.5% y/y). It could trigger some intraday volatility but we don’t expect any huge moves. From a broader perspective, we think both the ECB and Fed have supported the bottom below yields. The dollar could hold the upper hand, especially ahead of a weekend in which we will see whether Trump’s verbal show of force translates into actions as well. We’re particularly interested whether countermeasures will follow swiftly. Canada threatened to cut off oil exports to the US altogether, even as Trump considered excluding this sector from tariffs.

News & Views

- CPI inflation (ex-fresh food) in the Tokyo area in January rose 0.3% M/M lifting the Y/Y measure to 2.5%** (was 2.4% in December). As such, the Y/Y measure is reaching the **highest level in a year’s time**. The overall headline CPI even accelerated 0.5% M/M and 3.5% y/y, driven by a sharp rise in food prices (2.1% M/M, 7.7% Y/Y). Core inflation ex fresh food and energy rose slightly further from 1.8% to 1.9%. The Tokyo data are seen as a good pointer for the overall national figures that will be published on Feb 21. The further rise in inflation **comes after the BOJ last week raised its policy rate by 25 bps to 0.50%**, the highest level since 2008. Today’s data at least support the case for the BOJ to continue policy normalization later this year even as further interest rate hikes are in particular conditional to higher wages supporting domestic demand. In this respect, other Japanese eco data published this morning were mixed. **Labour market data suggest ongoing strength** with the unemployment rate declining to 2.4% from 2.5% and the job-to-applications ratio holding at 1.25. Preliminary January industrial production was reported at 0.3% M/M and -1.1% Y/Y. Retail sales declined 0.7% in December, but were 3.7% Y/Y. Both series are highly volatile.
- The Norwegian government coalition between the Labour Party of Prime Minister Jonas Gahr Store and the Center Party collapsed** as both groups failed to reach an agreement on approving a series of new EU energy laws. The euro-skeptic Center party rejected approving new regulation from the EU. **The rejection is part of a broader debate in Norway on relationship with the EU with respect to energy**, including the impact of the interconnection with the EU in exchanging providing/electricity and its impact on local prices. Parliamentary elections in Norway are scheduled for September 8. Until then, the Labour Party will continue with a minority government.

Graphs



GE 10y yield

The ECB lowered rates again in January but is **nearing a fine-tuning phase where back-to-back reductions are over**. A rate cut in March (to 2.5%) may be complemented by removing the label “restrictive” on its policy stance as the debate on the neutral interest rate kicks off. The imminent policy tweak, stubborn (domestic) inflation and growth slowly picking up (PMIs) provides a solid bottom below rates.



US 10y yield

After three consecutive cuts, **the Fed installed a pause in January which we expect to last through June**. The Fed wants to see “serial readings” suggesting inflation is progressing towards target. A pause simultaneously offers time to a clearer view on president Trump’s policies. The **long rates status quo** provides a solid bottom beneath front-end US yields. Longer maturities have corrected from their recent highs but are near first support zones.



EUR/USD

Solid US data, reduced Fed rate cut bets and Trump’s election victory introduced and sustained USD strength. The dollar dominated but a test of the key support at 1.0201 (62% retracement on 2022/2023 comeback) was rejected. It is still too soon for the euro to take over given the wide range of uncertainty elements but recent data and the January ECB decision have strengthened its downside.



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 but requires euro strength as well.

Calendar & Table

Friday, 31 January		Consensus	Previous
US			
14:30	Employment Cost Index (4Q)	0.90%	0.80%
14:30	Personal Income/Spending (Dec)	0.40%/0.50%	0.30%/0.40%
14:30	Real Personal Spending (Dec)	0.30%	0.30%
14:30	PCE Price Index MoM/YoY (Dec)	0.30%/2.60%	0.10%/2.40%
14:30	Core PCE Price Index MoM/YoY (Dec)	0.20%/2.80%	0.10%/2.80%
15:45	MNI Chicago PMI (Jan)	40.0	36.9
Japan			
00:30	Jobless Rate (Dec)	2.40%A	2.50%
00:30	Tokyo CPI YoY (Jan)	3.40%A	3.10%R
00:30	Tokyo CPI Ex-Fresh Food YoY (Jan)	2.50%A	2.40%
00:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Jan)	1.90%A	1.80%
00:50	Retail Sales MoM/YoY (Dec)	-0.70%A/3.70%A	1.90%R/2.80%
00:50	Industrial Production MoM/YoY (Dec P)	0.30%A/-1.1%A	-2.20%/-2.70%
00:50	Dept. Store, Supermarket Sales YoY (Dec)	2.90A	3.50%
06:00	Housing Starts YoY (Dec)	-2..50%A	-1.80%
UK			
01:01	Lloyds Business Barometer (Jan)	37A	39
01:01	Lloyds Own Price Expectations (Jan)	59A	62
EMU			
10:00	ECB 3 Year CPI Expectations (Dec)	2.40%	2.40%
10:00	ECB 1 Year CPI Expectations (Dec)	2.70%	2.60%
Germany			
09:55	Unemployment Change (000's) (Jan)	15.0k	10.0k
09:55	Unemployment Claims Rate SA (Jan)	6.10%	6.10%
14:00	CPI MoM/YoY (Jan P)	0.10%/2.60%	0.50%/2.60%
14:00	CPI EU Harmonized MoM/YoY (Jan P)	-0.20%/2.80%	0.70%/2.80%
France			
08:45	CPI EU Harmonized MoM/YoY (Jan P)	-0.10%/1.90%	0.20%/1.80%
08:45	CPI MoM/YoY (Jan P)	-0.10%/1.50%	0.20%/1.30%
08:45	PPI MoM/YoY (Dec)	--/--	3.20%/-5.20%
Italy			
11:00	PPI MoM/YoY (Dec)	--/--	1.80%/-0.70%
Czech Republic			
09:00	GDP QoQ/YoY (4Q A)	0.50%/1.60%	0.50%/1.40%
Norway			
08:00	Unemployment Rate SA (Jan)	2.10%	2.10%
Spain			
09:00	Retail Sales SA YoY (Dec)	2.00%	1.00%
Events			
Q4 earnings	Exxon Mobil (12:30) ...		
10:00	ECB Survey of Professional Forecasters		
14:30	Fed's Bowman Speaks on Economy, Banks		
15:30	ECB's Villeroy Speaks at OMFIF Event		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.52	-0.01	US	4.21	-0.01	DOW	44882.13	168.61	
DE	2.52	-0.06	DE	2.21	-0.07	NASDAQ	19681.75	49.43	
BE	3.13	-0.06	BE	2.38	-0.06	NIKKEI	39572.49	58.52	
UK	4.56	-0.06	UK	4.26	-0.07	DAX	21727.2	89.67	
JP	1.25	0.03	JP	0.73	0.01	DJ euro-50	5282.21	51.55	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.35	4.03	4.05	€STR	2.9230	0.0000			
5y	2.39	4.02	3.98	Euribor-1	2.7290	0.0040	SOFR-1	4.3150	0.0020
10y	2.47	4.06	4.03	Euribor-3	2.6060	-0.0060	SOFR-3	4.3040	0.0001
				Euribor-6	2.5930	-0.0050	SOFR-6	4.2534	0.0004
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0391	-0.0030	EUR/JPY	160.32	-1.44	CRB	306.39	-1.20	
USD/JPY	154.29	-0.93	EUR/GBP	0.8368	-0.0001	Gold	2845.20	51.70	
GBP/USD	1.2419	-0.0033	EUR/CHF	0.9453	0.0004	Brent	76.87	0.29	
AUD/USD	0.6209	-0.0022	EUR/SEK	11.4862	0.0235				
USD/CAD	1.4486	0.0067	EUR/NOK	11.771	0.0064				

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