



CIO OFFICE MORNING MARKET WRAP

29 November 2024

As US cash markets were closed for Thanksgiving Day all price action was in Asia and Europe, with indices in the Asia-Pacific region mixed and European equities broadly in positive territory. Futures contracts on US indices were slightly positive, while trading on Treasuries was shut. Chips stocks led European benchmark gains on hopes that US curbs on sales of chip equipment to China would prove to be lighter than feared. The Stoxx 600 Index rose 0.4% boosted by semiconductor shares including toolmaker ASML Holding. Political turmoil in France weighed both on stocks and bond. Yields on the 10-year French note, traditionally the safest in the euro area, briefly rose just above 3%, a level on a par with that on Greek bonds, a country once bailed out by the EU. And French equities showed their worst underperformance against European peers since 2010 on a budget standoff that risks toppling the government. The dollar Index was steady but looks set to break an eight-week winning streak, with the threat of tariffs and the higher level of yields now discounted to a good degree. The major commodities traded in very tight ranges in a thin holiday market. Crude oil traders found themselves short of catalysts, with OPEC+ delaying the online meeting on oil output curbs to December 5.

Credit data published monthly by the ECB indicated expanding lending activity that started to boost the economy after being a drag on spending for a long period. Yet, the much-awaited euro area recovery may still be muted given the caution expressed in the latest business and households' surveys. And with the disinflation process well advanced and risks to the outlook now higher following Trump's victory in the presidential elections, the ECB is seen likely to continue cutting at every meeting through 1Q25. The unchanged Germany's CPI in November and likely to fall throughout next year only reinforces the picture.

Tokyo's November inflation beat consensus estimates, pointing to building consumer price pressures, in line with the Bank of Japan's outlook. A self-feeding wage-price cycle may have started after decades of deflation, as service prices heated up and companies continued to pass on higher wage costs. Conditions are falling into place for the bank of Japan to resume tightening throughout 2025. The BOJ could wait till January to get more clarity on the US economy and Japan's political situation, while discussing its next move at the Dec. 18-19 meeting. Yen gains are unwelcome for Japanese equity investors, as stocks have tended to track moves in the dollar-yen cross. And Trump's tariff rhetoric may have put a damper on the prospect for a year-end rally. The yield curve will tend to flatten, as upward pressure at the shorter end will intensify from expectations of future tightening, while the longer end will remain sensitive to safe-haven purchases from investors reducing their risk assets.

Markets this morning:

Asian stocks fluctuated this morning, while the yen strengthened on Tokyo's inflation exceeding estimates. US equity futures climbed, and traders prepared for cash activity to resume in a shortened trading session. Australia, Japan, and South Korea fell, while mainland China and Hong Kong gained. The US dollar closed below the key 150 level against the yen, while slipping against the major currencies. On resumption of cash trading in Asia after the Thursday break Treasury yields fell. According to the Australia Reserve Bank governor core inflation remains too high, and his pushing back on expectations of near-term rate cuts prompted Australian bond yields to rise. The Brazilian real tumbled on disappointment on a plan to cut spending, and Mexico's peso rallied amidst thin trading.

Upcoming Key events/data:

On occasion of Black Friday trading activity will be shortened. The main highlight for today is the release of the Europe-wide CPI.

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