



Wednesday, 05 March 2025

KBC Sunrise Market Commentary

Market

- German Chancellor-to-be Merz vowed to do “whatever it takes” to fend off threats to freedom and peace in Europe.** In a reference to ECB Draghi’s 2012 speech that turned the tide in the EMU debt crisis, Merz now pledges to go all-in fiscally. At a joint press conference between CDU/CSU and SPD leaders, Merz said that future coalition partners will use the outgoing parliament to set up **a €500bn fund for infrastructure** (which will run for 10 years) via a constitutional amendment, **loosen debt rules for states** and **exempt defense spending above 1% of GDP from the debt brake**. The latter is actually **a blank cheque** to raise debt to strengthen the army and provide assistance to Ukraine. The bills will be brought to parliament next week and need a two-thirds majority which in the old constellation is possible with the support of the Greens. They have been in favour of changing the constitutional debt brake rule (keeping the structural deficit at 0.35% of GDP) for longer. The official German U-turn on fiscal spending comes on the eve of **a EU Council Summit** at which European leaders will explore more options to Re-arm Europe as EC von der Leyen labelled it. In a letter to EU leaders, she outlines five potential measures to massively boost defense spending. They include a new €150bn loan instrument to finance joint defense investments and €650bn from individual member states increasing defense spending by 1.5% of GDP on average and for which fiscal discipline rules will be once again lifted.
- Germany’s change of heart on expansive budgetary politics triggers more spectacle on financial markets.** European equity futures point to opening gains in excess of 1.5% with German Bunds massively selling off with the long end of the curve obviously underperforming. **Resistance for the German 10-yr yield stands at 2.65% (2025 top) and 2.71% (2024 top).** **The euro succeeded a technical break through first resistance levels at 1.0533 (previous YTD top) and 1.0551 (38% retracement on Sep24-Feb25 decline)** as spending efforts will boost growth. The dollar shows more signs of weakness (US recession fears) as Trump’s explosive policy mix risks backfiring. **The US government seems to be playing playing good cop, bad cop on topics like tariffs and Ukraine.** Most recent messages are again somewhat more positive with Trump signaling a potential revival of the mineral-deal after receiving a letter from Ukrainian president Zelensky and Commerce secretary Lutnick saying that the administration may soon announce a pathway to tariff relief for Mexico and Canada. **US Treasuries seem to be losing steam after their stellar run since mid-February.** Today’s ADP employment report and US services ISM will be interesting in this respect. Failure to take out yesterday’s highs in US Treasuries on soft data suggests that the short-term repositioning went far enough. This could also help US risk assets finding some composure.

News & Views

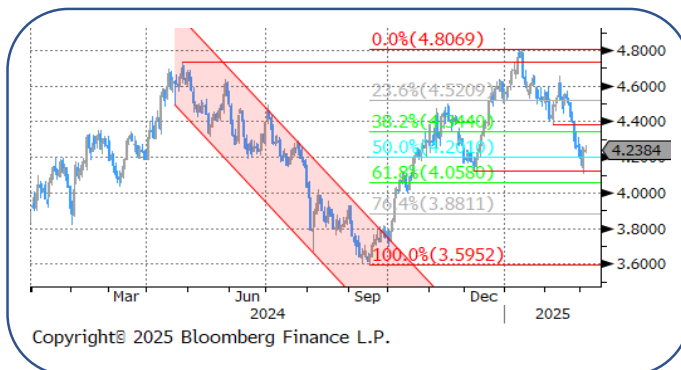
- China’s PM Li Qiang** during today’s National Party Congress **turned the long-rumoured 5% growth target for this year into an official one.** It will be the third year straight the country seeks to grow by this much. Circumstances this time around make the goal even more ambitious. US president Trump’s import tariffs (currently standing at 20%) will bite into Chinese exports, which contributed around a third to last year’s GDP growth. China as a result turns the focus towards its domestic market. **It has raised the budget deficit target to around 4% of GDP, the highest in more than three decades, and increased the amount of special sovereign bonds it plans to issue by CNY 300bn to CNY 1.3tn.** The proceeds will be used **to fund greater public spending** in areas including infrastructure as well as to finance a subsidy program for consumer goods. The unemployment rate goal remains at last year’s 5.5%. Following the long streak of weak inflation or even deflation, **China lowered the CPI goal from around 3% to around 2%.** Li said **the central bank will cut interest rates and the reserve requirement ratio “at an appropriate time”,** meaning monetary policy will flank the fiscal side in stimulating demand. The Chinese yuan strengthens marginally this morning to USD/CNY 7.256. Chinese stocks trade in the green, along with most other Asian-Pacific peers.
- IMF Georgieva warned that trade will no longer be driving global economic growth the way it used to.** *“The new US administration is rapidly reshaping its policies on trade, taxation, public spending, deregulation and digital assets, and other governments are also recalibrating their approaches and adjusting their policies.”* She called on the typically trade-reliant Asian nations specifically to adjust to these changing norms by shifting towards more service-led growth, digitalization and AI. She also promoted regional integration as an answer to the deglobalization trend.

Graphs



GE 10y yield

The ECB 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. For the long end of the curve, upward yield pressure stems from a massive defense investment wave that’s on the way. A test of the 2025 & 2024 tops might be in the cards.



US 10y yield

After three consecutive cuts, the Fed installed a pause in January which we expect to last at least 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 prolonged Fed rates status quo provides a solid bottom beneath front-end US yields. The long end is more vulnerable on how the explosive policy mix could backfire to the US economy as well.



EUR/USD

Trump’s explosive policy mix (DOGE, tariffs) triggered uncertainty on future US economic growth with markets starting to discount the possibility of a US recession, weighing on the dollar. The euro profits from growth-lifting fiscal spending and the process towards peace in Ukraine. EUR/USD took out the 1.0533/51 resistance zone, with 1.0804 being the next high profile mark (62% retracement).



EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on the UK currency at the start of the year. EUR/GBP tested first resistance near 0.845. Return action occurred after US president Trump seemed to be more forgiving towards the UK than the EU when it comes to tariffs. The Bank of England cut its policy rate from 4.75% to 4.50% at its February meeting with accompanying stagflationary message not boding well for the UK currency.

Calendar & Table

Wednesday, 5 March		Consensus	Previous
US			
14:15	ADP Employment Change (Feb)	140k	183k
16:00	Factory Orders (Jan)	1.70%	-0.90%
16:00	Cap Goods Ship Nondef Ex Air (Jan F)	-0.30%	-0.30%
16:00	ISM Services Index (Feb)	52.5	52.8
16:00	ISM Services Prices Paid (Feb)	60.4	60.4
16:00	ISM Services New Orders (Feb)	51.5	51.3
16:00	ISM Services Employment (Feb)	51.6	52.3
UK			
10:30	S&P Global UK Services PMI (Feb F)	51.1	51.1
10:30	S&P Global UK Composite PMI (Feb F)	50.5	50.5
EMU			
10:00	HCOB Eurozone Services PMI (Feb F)	50.7	50.7
10:00	HCOB Eurozone Composite PMI (Feb F)	50.2	50.2
11:00	PPI MoM/YoY (Jan)	0.30%/1.30%	0.40%/0.00%
France			
08:45	Industrial Production MoM/YoY (Jan)	0.40%/-0.20%	-0.40%/-1.70%
Italy			
09:45	HCOB Italy Services PMI (Feb)	51.0	50.4
09:45	HCOB Italy Composite PMI (Feb)	50.0	49.7
11:00	Retail Sales MoM/YoY (Jan)	0.00%/0.50%	0.60%/0.60%
China			
02:45	Caixin China PMI Composite (Feb)	51.5A	51.1
02:45	Caixin China PMI Services (Feb)	51.4A	51
Czech Republic			
09:00	CPI MoM/YoY (Feb P)	0.20%/2.70%	1.30%/2.80%
Spain			
09:15	HCOB Spain Composite PMI (Feb)	54.8	54
09:15	HCOB Spain Services PMI (Feb)	55..5	54.9
Sweden			
08:30	Swedbank/Silf PMI Services (Feb)	--	50.1
08:30	Swedbank/Silf PMI Composite (Feb)	--	50.9
Events			
05MAR	China's National People's Congress		
05MAR-07MAR	RBNZ Hosts Inflation Research Conference		
15:30	BOE's Bailey, Pill, Greene and Taylor Speak		
20:00	Federal Reserve Releases Beige Book		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.24	0.09		US	3.99	0.04	DOW	42520.99	-670.25
DE	2.50	0.00		DE	2.04	-0.03	NASDAQ	18285.16	-65.03
BE	3.08	0.02		BE	2.19	-0.02	NIKKEI	37418.24	87.06
UK	4.53	-0.02		UK	4.18	-0.03	DAX	22326.81	-820.21
JP	1.44	0.01		JP	0.83	0.00	DJ euro-50	5387.31	-153.38
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	2.16	3.77	3.96	€STR	2.6640	0.0010			
5y	2.24	3.76	3.92	Euribor-1	2.4710	0.0050	SOFR-1	4.3220	0.0087
10y	2.41	3.82	4.01	Euribor-3	2.4910	0.0270	SOFR-3	4.3040	0.0101
				Euribor-6	2.3420	0.0110	SOFR-6	4.2116	0.0130
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0626	0.0139		EUR/JPY	159.17	2.38	CRB	301.24	0.96
USD/JPY	149.79	0.29		EUR/GBP	0.8304	0.0046	Gold	2920.60	19.50
GBP/USD	1.2795	0.0094		EUR/CHF	0.9452	0.0047	Brent	71.04	-0.58
AUD/USD	0.6272	0.0047		EUR/SEK	11.0743	0.0535			
USD/CAD	1.4395	-0.0087		EUR/NOK	11.7862	0.0468			

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