



Monday, 17 February 2025

## KBC Sunrise Market Commentary

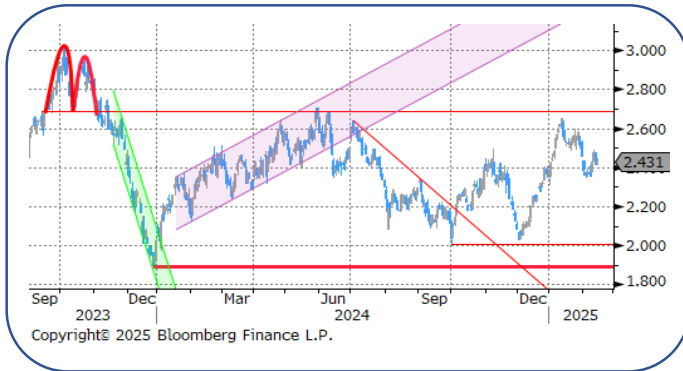
### Market

- Weaker-than-expected US retail sales triggered a rally in Treasuries. Yields declined between 4.1 and 6.2 bps in what was otherwise a dull trading session. German rates still finished marginally in the green, adding up to 2.5 bps at the front. UST outperformance dragged the dollar lower against all major peers. The trade-weighted USD index tumbled to the lowest level since mid-December (106.71). EUR/USD's winning streak entered its fourth day with the pair closing just south of 1.05. Stock markets struggled for direction ahead of what is a long weekend for the US. Financial markets over there are closed for President's Day. Lack of US investors usually means uninspired, muted trading but things could turn out different this time. The European session may be a very interesting one. **Last week's phone call between US president Trump and Russian counterpart Putin has served as a wake-up call.** Both agreed to kickstart the peace talks with Trump aiming a ceasefire by Easter. Being left out of the negotiations and the US already having met Putin halfway before they even started – US Defense Secretary Hegseth suggested Ukraine should not join NATO and forfeit the areas currently under Russian control - European and Ukrainian officials fear for any future US-made deal. US VP Vance's speech at the Munich Conference which according to watchers was an implicit tear-up of the transatlantic (military) alliance last Friday added to the sense of urgency. French president Macron summoned a handful of European leaders including from Germany and Italy but also the UK for a summit in Paris. The talks will be focused on what kind of security guarantees the EU can give to Ukraine now that US appetite for continued backing is sharply decreasing. For the outgoing German minister of Foreign Affairs Baerbock it means **"We will launch a large package that has never been seen in this dimension before. Similar to the euro or the corona crisis, there is now a financial package for security in Europe. That will come in the near future."** A significant uptick in defense spending is underway, so much is clear. Bund futures point to higher yields at the open later today. The euro isn't sure which side to pick just yet. EUR/USD is hovering near Friday's closing levels. The geopolitical narrative alternates with the tariff one, illustrated by Trump considering reciprocal tariffs end last week, making direction FX trading tricky. For Europe, though, the conclusion of the new US administration's military and economic view is clear (cf. infra). This week's eco calendar features the February PMIs (Friday) and the UK labour market report (tomorrow) and CPI figures (Wednesday). **German elections** take place on Sunday.

### News & Views

- Economic activity in Japan in Q4 of 2024 grew 0.7% Q/Q (2.8% annualized)**, materially faster than expected (about 1.0%). The details of the report were a bit mixed. Consumption grew a modest 0.1% Q/Q, but still this was higher than expectations for a decline of 0.3% (after a strong 0.7% in Q3). Business investment grew 0.5% Q/Q, slightly less than expected. Inventories made a negative contribution to growth of -0.2%. At the same time, there was a strong positive contribution of net exports (0.7%). Admittedly, this was due to a substantial decline in imports (-2.1% Q/Q). Even as the domestic part of the Q4 growth story was a bit mixed, **the data support the case for gradual further policy BoJ policy normalization** after the bank raised its policy rate from 0.25% to 0.50% at the January meeting. The Japanese 10-y government bond yield this morning extends the established uptrend, touching 1.38%, the highest level since 2010. The yen also (slightly) outperforms this morning with USD/JPY easing to 151.55.
- In an interview with the Financial Times on Friday, former ECB governor and Italian Prime Minister, Mario Draghi, gave a harsh analysis the vulnerabilities of EU economic growth. In particular, he sees two factors that need to be changed profoundly to raise the prospect of European growth going forward. Firstly, **Draghi analyses that the EU faces a long-standing inability to tackle its supply constraints which he mainly sees from high internal barriers and regulatory hurdles. He considers them as far more damaging for growth than any tariffs that the US might impose.** According to Draghi, the failure to lower internal barriers also contributed to Europe's unusually high trade openness, that currently proves to be a vulnerability. As a second factor holding back EU growth, he mentions the region's persistently weak demand, resulting in a recurring EU current account surplus. According to Draghi, **weak demand has fed back into exceptionally weak total factor productivity.** He also sees a **significant deviation in the fiscal policy stance** between the US and Europe as an important factor behind the relative weak EU/stronger US demand.

# Graphs



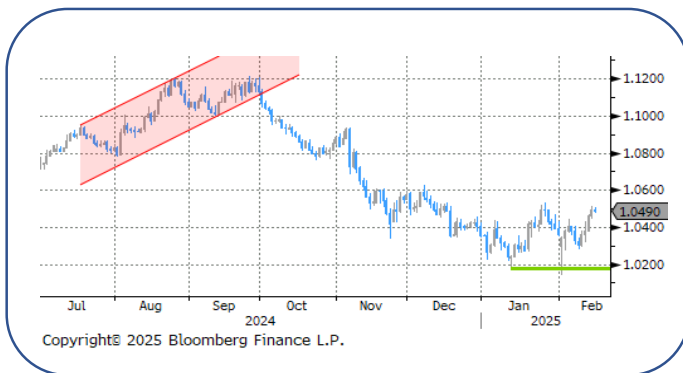
## GE 10y yield

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 escalating US trade war adds a layer of uncertainty and volatility in the mix with risk aversion/growth worries currently the dominant factor.



## 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 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

**Solid US data, reduced Fed rate cut bets and Trump’s election victory introduced and sustained USD strength during Q4 2024. The dollar dominated but tests of the key support at 1.0201 (62% retracement on 2022/2023 comeback) failed so far.** It is still too soon for the euro to take over given the wide range of uncertainty elements. Positive headlines on the war in Ukraine might start providing some support.



## 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 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

Monday, 17 February		Consensus	Previous
<b>Japan</b>			
00:50	GDP SA QoQ / Annualized SA QoQ (4Q P)	0.70%A/1.30%A	0.40%R/1.70%R
00:50	GDP Deflator YoY (4Q P)	2.80%A	2.40%
<b>UK</b>			
01:01	Rightmove House Prices MoM / YoY (Feb)	0.50%/1.40%	1.70%/1.80%
<b>EMU</b>			
11:00	Trade Balance SA (Dec)	14.5b	12.9b
<b>China</b>			
17FEB-25FEB	1-Yr Medium-Term Lending Facilities Volume	300.0b	200.0b
17FEB-25FEB	1-Yr Medium-Term Lending Facility Rate	2%	2%
<b>Sweden</b>			
08:00	Unemployment Rate SA (Jan)	8.5%	8.5%
<b>Events</b>			
17FEB	US Markets are closed for Presidents' Day		
11:00	Slovakia to Sell 3% 2028, 3.75% 2034, 3.75% 2035 & 2% 2047 Bonds		
12:00	ECB's Nagel Speaks on German Economy		
15:30	Fed's Harker Speaks on the Economic Outlook		
16:20	Fed's Bowman Speaks to American Bankers Association		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.48	-0.05	US	4.26	-0.05	DOW	44546.08	-165.35	
DE	2.43	0.01	DE	2.11	0.02	NASDAQ	20026.77	81.13	
BE	3.00	0.02	BE	2.25	0.03	NIKKEI	39174.25	24.82	
UK	4.50	0.01	UK	4.20	0.02	DAX	22513.42	-98.60	
JP	1.39	0.03	JP	0.82	0.02	DJ euro-50	5493.4	-7.10	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.28	4.07	4.01	€STR	2.6660	-0.0010			
5y	2.32	4.04	3.97	Euribor-1	2.6040	-0.0150	SOFR-1	4.3150	0.0014
10y	2.42	4.08	4.05	Euribor-3	2.5220	-0.0340	SOFR-3	4.3261	0.0026
				Euribor-6	2.5140	0.0070	SOFR-6	4.2977	-0.0113
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0492	0.0027	EUR/JPY	159.83	-0.07	CRB	312.08	-1.11	
USD/JPY	152.31	-0.49	EUR/GBP	0.8336	0.0008	Gold	2900.70	-44.70	
GBP/USD	1.2586	0.0020	EUR/CHF	0.9439	-0.0011	Brent	74.74	-0.28	
AUD/USD	0.6352	0.0035	EUR/SEK	11.2203	-0.0120				
USD/CAD	1.4182	-0.0011	EUR/NOK	11.67	0.0052				

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