KBC Economics – Markets, Havenlaan 2, 1080 Brussel


**Monday, 24 February 2025**

# KBC Sunrise Market Commentary

## Market

- **US stock markets suffered a late swoon last Friday.** They **started on a bad footing,** loosing around 0.5% in the first trading hour with **disappointing US eco data** triggering an orderly correction. The February US composite PMI unexpectedly fell to its lowest level since March 2023 (50.4) from 52.7 in January (vs 53.2 expected). The first sub-50 reading in the services sector since January 2023 was accountable for the setback. **Details showed a darkening picture of stalling business activity, heightened uncertainty, pessimism on the outloook and rising prices.** The latter also featured in European and UK PMI's released earlier on the day and also showed up in **a significant upward revision to long term (5-10y) US inflation expectations in the Michigan consumer survey (3.5% from 3.3%, highest since early '90s).** The first print of that February survey already pointed at elevated short term inflation expectations (4.3% from 3.3%).

- **The mood on US stock markets soured after European close** with key indices ending 1.7% (Dow) to 2.2% (Nasdaq) lower. An article in the South China Morning Post spooked investors going into the weekend. **A Chinese team found a new bat coronavirus that could infect humans the same way as Covid-19.** Safe haven flows ignited a rally in US Treasuries into the close with daily yield losses of around 7 bps across the curve. The US dollar got stock in between the risk climate and the loss of interest rate support with EUR/USD ending the week at 1.0458.

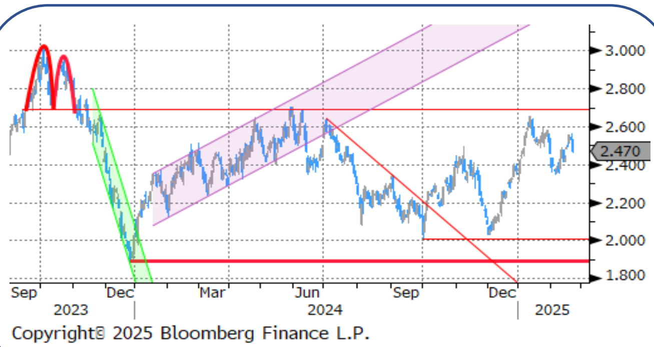
- The German CDU/CSU won parliamentary elections yesterday, receiving 28.52% of the vote share (+4.38%pts). The liberal FDP (4.33%) and far-left Sahra Wagenknecht Alliance (4.97%) fail to make the 5% threshold to enter parliament, opening the way for a grand coalition between the CDU/CSU and Social Democrats (16.41%; -9.29%pts). **That's the most market-friendly election outcome. European stock futures are up this morning with EUR/USD approaching first resistance at 1.0533 (YTD top). German Bunds lose ground.** Should BSW in final counting manage to get over 5%, the Greens (11.61%; -3.11%pts) come into play, toughening the coalition process and weakening the government. Extreme left (Die Linke 8.77% + BSW) and extreme right (AfD 20.80%) together gather over a third of votes. Voter turnout was high at 84%. News on a March 6 emergency EU Defense Summit this morning also boosts sentiment. **Belgian central bank governor Wunsch warned in the FT that the eurozone risks sleepwalking into too many rate cuts.** He's not (yet) pleading for a pause in April, but the option should be kept open. ECB Schnabel was the first to hint in that direction last week. Wunsch thinks that downside and upside inflation risks are relatively limited this year. Towards year-end, he felt relatively comfortable of market expectations of a 2% ECB policy rate.

## News & Views

- **The European Union estimated that Trump's first salvo of tariffs that impacts the bloc may be a hit of as much as EUR28bn of its exports.** The US president has announced a 25% import levy on steel and aluminum that could take effect as soon as March 12, including in finished products and with no exceptions. Trump also vowed to slap reciprocal tariffs based on trade policies by US partners. **The impact is fourfold the hit in 2018,** when the US introduced 25% tariffs on selected steel goods and 10% on aluminum. The EU's response back then was suspended after Biden came to power and the two sides reached an agreement but said it could quickly reactive them if needed.

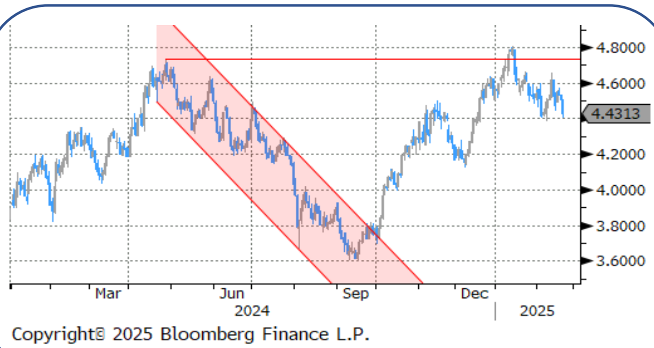
- **US Treasury Secretary Bessent** in an op-ed for the Financial Times **explained in more detail the deal US president Trump is seeking with Ukraine in developing its natural resources and minerals.** He is responding to what he is saying is a misrepresentation or just plain wrong information. *"The US would not be taking ownership of physical assets in Ukraine. Nor would it be saddling Ukraine with more debt.",* Bessent said. Instead the *"terms of our partnership propose that revenue received by the government of Ukraine from natural resources, infrastructure and other assets is allocated to a fund focused on the long-term reconstruction and development of Ukraine where the US will have economic and governance rights in those future investments."* The Treasury Secretary says such a structure brings the necessary transparency, accountability, corporate governance and legal framework and leaves no room for corruption and insider deals. The agreement is still in draft form and negotiations continued during the weekend.

# 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, the escalating US trade war through risk aversion/growth worries conflict with upward yield pressures stemming from a massive defense investment wave that's on the way.




## 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

**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 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

| Monday, 24 February | | Consensus | Previous |
|---|---|---|---|
| **US** | | | |
| 14:30 | Chicago Fed Nat Activity Index (Jan) | -0.05 | 0.15 |
| 16:30 | Dallas Fed Manf. Activity (Feb) | 6.4 | 14.1 |
| **EMU** | | | |
| 11:00 | CPI MoM/YoY (Jan F) | -0.30%/2.50% | -0.30%/2.50% |
| 11:00 | CPI Core YoY (Jan F) | 2.70% | 2.70% |
| **Germany** | | | |
| **10:00** | **IFO Business Climate (Feb)** | **85.8** | **85.1** |
| 10:00 | IFO Current Assessment (Feb) | 86.3 | 86.1 |
| 10:00 | IFO Expectations (Feb) | 85.0 | 84.2 |
| **Belgium** | | | |
| 15:00 | Business Confidence (Feb) | -13.0 | -13.6 |
| **China** | | | |
| 21FEB-25FEB | 1-Yr Medium-Term Lending Facilities Volume | 300.0b | 200.0b |
| 21FEB-25FEB | 1-Yr Medium-Term Lending Facility Rate | 2.00% | 2.00% |
| **Events** | | | |
| Q4 earnings | Domino's Pizza (bef-mkt) … | | |
| 10:00 | BOE's Lombardelli Speaks | | |
| 11:30 | Belgium to Sell 1.9% 2038 Bonds, 2.7% 2029 Bonds, 3% 2034 Bonds | | |
| 14:15 | BOE's Ramsden Speaks | | |
| 19:00 | BOE's Dhingra Speaks | | |
| 19:00 | U.S. To Sell USD69 Bln 2-Year Notes | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|---|---|---|---|---|---|---|---|---|---|
| **US** | 4.43 | -0.07 | | **US** | 4.20 | -0.07 | **DOW** | 43428.02 | -748.63 |
| **DE** | 2.47 | -0.06 | | **DE** | 2.11 | -0.05 | **NASDAQ** | 19524.01 | -438.35 |
| **BE** | 3.06 | -0.05 | | **BE** | 2.24 | -0.04 | **NIKKEI** | 38776.94 | 0.00 |
| **UK** | 4.57 | -0.04 | | **UK** | 4.23 | -0.04 | **DAX** | 22287.56 | -27.09 |
| **JP** | 1.43 | 0.00 | | **JP** | 0.82 | 0.00 | **DJ euro-50** | 5474.85 | 13.82 |

| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
|---|---|---|---|---|---|---|---|---|---|
| **3y** | 2.24 | 4.00 | 4.03 | **€STR** | 2.6660 | -0.0010 | | | |
| **5y** | 2.30 | 3.99 | 3.99 | **Euribor-1** | 2.5950 | -0.0580 | **SOFR-1** | 4.3195 | -0.0007 |
| **10y** | 2.41 | 4.04 | 4.08 | **Euribor-3** | 2.5210 | -0.0130 | **SOFR-3** | 4.3135 | -0.0085 |
| | | | | **Euribor-6** | 2.4470 | -0.0130 | **SOFR-6** | 4.2670 | -0.0248 |

| Currencies | Close | -1d | Currencies | Close | -1d | Commodities | Close | -1d |
|---|---|---|---|---|---|---|---|---|
| **EUR/USD** | 1.0458 | -0.0043 | **EUR/JPY** | 156.15 | -1.01 | **CRB** | 311.22 | -5.36 |
| **USD/JPY** | 149.27 | -0.37 | **EUR/GBP** | 0.8279 | -0.0010 | **Gold** | 2953.20 | -2.90 |
| **GBP/USD** | 1.2632 | -0.0037 | **EUR/CHF** | 0.9396 | -0.0034 | **Brent** | 74.43 | -2.05 |
| **AUD/USD** | 0.6357 | -0.0043 | **EUR/SEK** | 11.1387 | -0.0254 | | | |
| **USD/CAD** | 1.4224 | 0.0049 | **EUR/NOK** | 11.667 | 0.0178 | | | |

# Contacts

| KBC Economics – Markets Brussels | | Global Sales Force | |
|---|---|---|---|
| Mathias Van der Jeugt | +32 2 417 51 94 | Corporate Desk(Brussels) | +32 2 417 45 82 |
| Peter Wuyts | +32 2 417 32 35 | Institutional Desk(Brussels) | +32 2 417 46 25 |
| Mathias Janssens | +32 2 417 51 95 | CBC Desk (Brussels) | +32 2 547 19 51 |
| | | France | +32 2 417 32 65 |
| | | London | +44 207 256 4848 |
| | | Singapore | +65 533 34 10 |
| **CSOB Economics – Markets Prague** | | Shanghai | +86 21 68236128 |
| Jan Cermak | +420 2 6135 3578 | Hong Kong | +852 2525 9232 |
| Jan Bures | +420 2 6135 3574 | **Prague** | +420 2 6135 3535 |
| Petr Baca | +420 2 6135 3570 | | |
| **CSOB Economics – Markets Bratislava** | | **Bratislava** | +421 2 5966 8820 |
| Marek Gabris | +421 2 5966 8809 | | |
| **K&H Economics – Markets Budapest** | | **Budapest** | +36 1 328 99 85 |
| David Nemeth | +36 1 328 9989 | | |

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