



Wednesday, 26 February 2025

KBC Sunrise Market Commentary

Market

- Same dynamics were at play for a third session straight with US assets starting to discount the possibility of a stagflation rather than a goldilocks scenario for the US economy.** Key US stock markets lost 0.50% for the S&P 500 and 1.35% for the Nasdaq. EUR/USD tested the YtD top at 1.0533 again, but failed to break beyond. **US Treasuries extended their rally with US yields losing around 10 bps across the curve, falling below YtD support levels.** The US Treasury's \$70bn 5-yr Note auction copied the success of Monday's \$69bn sale, stopping through the 1:0 pm WI and producing strong bidding metrics. **A significant deterioration of US consumer confidence** (February) highlighted current worries. The Conference Board gauge fell from 105.3 to 98.3 with especially the forward looking expectations index suffering. In particular, pessimism intensified about future employment prospects (DOGE?!), while a growing number of consumers see a recession is likely over the next 12 months. German Bunds outperformed US Treasuries with yields slipping a more modest 2 bps across the curve. **ECB data showed negotiated wage growth in Europe slowing from a record 5.4% Y/Y pace in Q3 to 4.1% in Q4.** This level remains very uncomfortable and probably **strengthens hands of policy hawks to argue in favour of a rate cut pause** after the ECB lowers its policy rate from 2.75% to 2.5% in March.
- US Treasuries lose some ground this morning after House Republicans passed a budget blueprint** (see News & Views). It's an important step towards extending tax cuts and avoiding bumping into the debt ceiling early next month. US equity futures and the dollar equally trade somewhat stronger. **European news centers around the Ukrainian agreement to a mineral-rights deal with the US** which Ukrainian president Zelensky would sign in Washington on Friday. It would be a first face-to-face meeting between the two after the US initially started brokering a peace deal with Russia. The deal doesn't include US security guarantees (yet). It only suggests that Ukraine would pay some proceeds from future mineral resource development into a fund that would invest in projects in Ukraine. The size of the US stake in the fund and joint ownership deals need to be specified later on. Today's eco calendar only contains second tier numbers, **leaving more room for general risk sentiment to set the overall tone.** We'd continue to err on the side of caution despite this morning's signs of improvement. **Nvidia earnings (after market close) are a wildcard.**

News & Views

- The US House of Representatives passed a budget resolution** in a tight 217-215 vote that could pave the way for huge spending and tax cuts. The resolution offers the broad framework for Trump's "big beautiful bill" and proposes **around \$2tn of reduced expenses but a much bigger \$4.5tn of lower taxes.** The resolution is now headed to the Senate. While the GOP there has a larger majority, **Senate republicans favor even larger tax cuts, making amendments to the resolution highly likely.** That would mean it the House needs to vote on the altered version again. Once the House and Senate do agree on the same budget, the subsequent bill can be pushed through faster and more easy than usual through the so-called **reconciliation process** (which avoids the 60-vote threshold in the Senate required for most bills). The US non-partisan Committee for a Responsible Federal Budget estimated that the current House-approved bill would add at least \$2.8tn (or \$3.4tn including interest costs) to deficits through 2034. **Deficits would then average 6.8% of GDP over the decade instead of 5.8% under current law.** That pushes up the debt ratio to 125% (compared to 117% if no bill passes).
- The Hungarian central bank (MNB) delivered kept the policy rate at 6.5% yesterday. Both headline and core CPI of 5.5% and 5.8% are well above the central bank's target. **"Incoming data provide evidence that the risk of a higher inflation path this year has increased further."** The MNB now thinks inflation will return to the 3% +/- 1 ppt tolerance band later than projected in December. The technical recession in Hungary came to an end in 2024Q4 (+0.5% Q/Q) and growth should strengthen further on the back of consumption. Budapest noted that investor sentiment has improved (i.e. the forint has strengthened), a.o. due to the geopolitical developments. However, "the uncertain international environment and the outlook for inflation warrant the maintenance of tight monetary conditions." The forint came close to the symbolical EUR/HUF 400 barrier yesterday but stayed shy from testing.

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. 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 provided some support with the US yield corrections weighing on the dollar.



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

Tuesday, 25 February		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Feb)	--	-9.1
15:00	FHFA House Price Index MoM (Dec)	--	0.30%
15:00	S&P CoreLogic CS 20-City MoM/YoY SA (Dec)	0.40%/4.41%	0.41%/4.33%
16:00	Conf. Board Consumer Confidence (Feb)	102.5	104.1
16:00	Conf. Board Present Situation (Feb)	--	134.3
16:00	Conf. Board Expectations (Feb)	--	83.9
16:00	Richmond Fed Manufact. Index (Feb)	-3	-4
16:00	Richmond Fed Business Conditions (Feb)	--	7
Japan			
00:50	PPI Services YoY (Jan)	3.10%A	3.00%R
UK			
12:00	CBI Total Dist. Reported Sales (Feb)	--	-32
12:00	CBI Retailing Reported Sales (Feb)	-20	-24
EMU			
06:00	EU27 New Car Registrations (Jan)	-2.60%A	5.10%
Hungary			
14:00	Central Bank Rate Decision	6.50%	6.50%
Events			
Q4 earnings	Home Depot (bef-mkt) ...		
10:20	Fed's Logan Speaks at Balance Sheet Conference		
11:00	Euro Area Indicator of Negotiated Wage Rates		
14:00	ECB's Schnabel Speaks in London		
15:00	BOE's Pill Speaks		
17:45	Fed's Barr Gives Remarks on Financial Stability With Q&A		
19:00	Fed's Barkin Speaks on Inflation		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.29	-0.11		US	4.09	-0.08	DOW	43621.16	159.95
DE	2.46	-0.02		DE	2.07	-0.02	NASDAQ	19026.39	-260.54
BE	3.04	-0.03		BE	2.20	-0.02	NIKKEI	38142.37	-95.42
UK	4.51	-0.05		UK	4.17	-0.05	DAX	22410.27	-15.66
JP	1.37	0.00		JP	0.80	0.00	DJ euro-50	5447.9	-5.86
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	2.21	3.87	3.98	€STR	2.6660	0.0000			
5y	2.26	3.84	3.93	Euribor-1	2.5650	-0.0350	SOFR-1	4.3239	-0.0001
10y	2.38	3.89	4.01	Euribor-3	2.5300	0.0090	SOFR-3	4.3160	-0.0002
				Euribor-6	2.4070	-0.0140	SOFR-6	4.2554	-0.0100
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0514	0.0046		EUR/JPY	156.69	-0.03	CRB	306.50	-1.95
USD/JPY	149.03	-0.69		EUR/GBP	0.8301	0.0010	Gold	2918.80	-44.40
GBP/USD	1.2666	0.0041		EUR/CHF	0.9389	-0.0002	Brent	73.02	-1.76
AUD/USD	0.6344	-0.0006		EUR/SEK	11.1417	-0.0191			
USD/CAD	1.4313	0.0053		EUR/NOK	11.686	0.0484			

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