
**Tuesday, 11 March 2025**

# KBC Sunrise Market Commentary

## Market

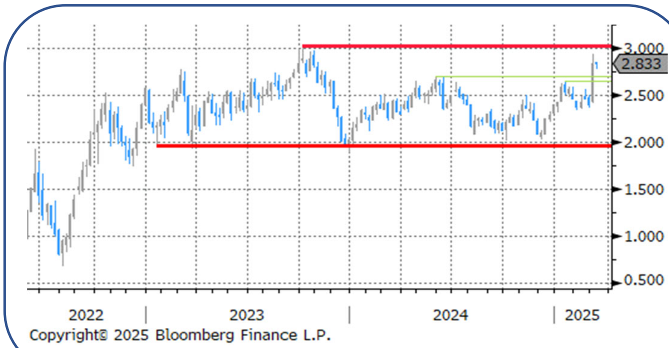
- There were **hardly any (US) data with market moving potential yesterday.** If anything, the NY Fed 1-year inflation gauge again drifted marginally higher (3.13%). US officials, including Donald Trump, also abstained from 'high profile' comments. **Still, it didn't change markets' assessment.** The **unwinding of the US exceptionalism trade continued and even intensified.** Major US equity indices declined between 2.08% (Dow) and 4.0% (Nasdaq). The latter cleared the 17468 support (23% retracement rally 2022/24) and reached the target of the ST multiple top formation (neckline 18831). **A clear warning signal.** Powell's 'guidance' last Friday, that the Fed won't be carried away by one or two softer data to remove its wait-and-see stance didn't impress markets. **US yields declined between 11.9 bps (5-y) and 5.7 bps (30-y).** The US 2-y yield revisited last week's correction low near 3.84%. Markets are moving further into 75 bps + territory regarding this year's Fed rate cut expectations. **Yields at longer maturities didn't really test the ST lows. The decline in US yields and steepening of the yield curve in the first place probably mirrors market uncertainty on the impact of the Trump chaos on ST growth and the need/hope for the Fed to come to the rescue at some point.** At the same time an **ongoing underperformance/bottoming out of yields at longer maturities at some point also might be an indication of the market questioning the LT US (economic and political) credentials.** Whatever one sees as the reason for yesterday's 'sell USA repositioning' (cyclical or structural) it also prevent the dollar from taking up its (usual/previous?) safe haven role. DXY closed little changed near 103.9. Idem for EUR/USD (close 1.0834). **The safe haven role, if any, was taken up by the Japanese yen,** with USD/JPY briefly dropping below the 147 big figure. Regarding the European side of the global repositioning, the German Greens 'rejecting' the proposed reform of the constitutional debt brake (cf infra) maybe to some extent tempered the rise in German/EU yields. Still German yields (2-y -3.1 bps; 30-y +0.7 bp) held up remarkably well given the sharp decline in the US.
- Asian equity indices this morning mostly show losses of up to 1.0%/1.5%, with trading still developing rather orderly given yesterday's WS sell-off US. US yields tentatively stabilize (minus 1/2 bps) , but nothing more than that. The dollar struggles to prevent further losses (DXY 103.7, EUR/USD 1.086, USD/JPY 147.3). Later today, **the eco calendar 'in normal times' would be assessed as containing only second tier releases with only the US NFIB small business confidence and the JOLTS job openings scheduled for release.** However, in current environment, **negative surprises might further fuel the reversal of the 'US exceptionalism trade'.** In Europe, the objections of German Greens at least isn't seen as profoundly changing the new framework of fiscal stimulus. The Bund future is again drifting lower. On FX markets, EUR/USD remains well bid. Las week's correction top (1.0889) stays within reach with only 1.0937 (Nov top) last intermediate resistance on the path to a complete reversal to the 1.1214 2024 top.

## News & Views

- The **German Green party presented a counter**-offer after indicating that they wouldn't support Chancellor-to-be **Merz's proposed constitutional reforms to raise deficit spending via the outgoing parliament** (new Bundestag gets seated on March 25). The Greens want to **raise the threshold for defense spending exemptions from debt rules to 1.5% of GDP instead of the 1% proposed by Merz.** They don't seem to have an issue with the two other pillars of the plan, setting up a €500bn infrastructure fund and loosing states' fiscal rules. The main bills are interconnected and probably need to pass together through parliament. Afterwards, **the Bundesrat,** representing the states also needs to approve proposed legislature with a 2/3rd majority. Some more horse-trading will be needed as CDU/CSU/SPD/Greens lack the numbers in two of the 16 states.

- **UK consumer spending lost momentum in February after a bounce in January.** Sales at member stores of the **British Retail Consortium rose by 1.1% Y/Y,** down from 2.6% Y/Y in January. BRC CEO Dickinson said that **the weak performance makes many retailers uneasy,** especially as they brace for GBP 7bn of new costs from the Budget and packaging levy in 2025, as well as the potential impact of the Employment Rights bill. The industry is already doing all it can to absorb existing costs, but they will be **left with little choice but to increase prices or reduce investment in jobs and shops, or both.**

# Graphs




## GE 10y yield

**The** ECB is **nearing a fine-tuning phase where back-to-back reductions are over.** The March rate cut (to 2.5%) was complemented by labelling the policy stance as meaningfully less restrictive, opening the door for a potential pause in April, our preferred scenario. 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 2023 top just above 3% is 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. Front-end US yields question recent Fed guidance on a rates status quo. The long end is also vulnerable on how the explosive policy mix could backfire to the US economy.


## 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 **1.0804 resistance (62% retracement), opening the way for a full retracement to 1.1214 (2024 top).**


## 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. EUR-strength entered the equation as well.

# Calendar & Table

| Tuesday, 11 March | | Consensus | Previous |
|---|---|---|---|
| **US** | | | |
| **11:00** | **NFIB Small Business Optimism (Feb)** | **101.0** | **102.8** |
| **15:00** | **JOLTS Job Openings (Jan)** | **7600k** | **7600k** |
| 15:00 | JOLTS Job Openings Rate (Jan) | 4.50k | 4.50% |
| 15:00 | JOLTS Quits Level (Jan) | 3176k | 3197k |
| 15:00 | JOLTS Quits Rate (Jan) | -- | 2.00% |
| 15:00 | JOLTS Layoffs Level (Jan) | 1806k | 1771k |
| 15:00 | JOLTS Layoffs Rate (Jan) | -- | 1.10% |
| **Japan** | | | |
| 00:30 | Household Spending YoY (Jan) | 0.80%A | 2.70% |
| 00:50 | Money Stock M3 YoY (Feb) | 0.70%A | 0.80% |
| 07:00 | Machine Tool Orders YoY (Feb P) | -- | 4.70% |
| **UK** | | | |
| 01:01 | BRC Sales Like-For-Like YoY (Feb) | 0.90%A | 2.50% |
| **Czech Republic** | | | |
| 09:00 | CPI MoM/YoY (Feb F) | 0.20%/2.70% | 0.20%/2.70% |
| **Hungary** | | | |
| **08:30** | **CPI MoM/YoY (Feb)** | **0.50%/5.30%** | **1.50%/5.50%** |
| **Events** | | | |
| 10:00 | ECB's Rehn Speaks on Economic Outlook, Monetary Policy | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|---|---|---|---|---|---|---|---|---|---|
| **US** | 4,21 | -0,09 | | **US** | 3,88 | -0,12 | **DOW** | 41911,71 | -890,01 |
| **DE** | 2,83 | 0,00 | | **DE** | 2,22 | -0,03 | **NASDAQ** | 17468,32 | -727,90 |
| **BE** | 3,39 | -0,01 | | **BE** | 2,35 | -0,03 | **NIKKEI** | 36793,11 | -235,16 |
| **UK** | 4,64 | 0,01 | | **UK** | 4,20 | -0,01 | **DAX** | 22620,95 | -387,99 |
| **JP** | 1,52 | -0,06 | | **JP** | 0,84 | -0,04 | **DJ euro-50** | 5386,98 | -81,43 |

| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
|---|---|---|---|---|---|---|---|---|---|
| **3y** | 2,38 | 3,65 | 3,99 | **€STR** | 2,6630 | -0,0020 | | | |
| **5y** | 2,50 | 3,66 | 3,98 | **Euribor-1** | 2,4710 | 0,0150 | **SOFR-1** | 4,3240 | -0,0041 |
| **10y** | 2,70 | 3,77 | 4,10 | **Euribor-3** | 2,5470 | 0,0180 | **SOFR-3** | 4,2854 | -0,0208 |
| | | | | **Euribor-6** | 2,3900 | -0,0180 | **SOFR-6** | 4,1543 | -0,0530 |

| Currencies | Close | -1d | Currencies | Close | -1d | Commodities | Close | -1d |
|---|---|---|---|---|---|---|---|---|
| **EUR/USD** | 1,0834 | 0,0001 | **EUR/JPY** | 159,54 | -0,82 | **CRB** | 302,32 | -0,72 |
| **USD/JPY** | 147,27 | -0,77 | **EUR/GBP** | 0,8413 | 0,0031 | **Gold** | 2899,40 | -14,70 |
| **GBP/USD** | 1,2879 | -0,0041 | **EUR/CHF** | 0,9545 | 0,0012 | **Brent** | 69,28 | -1,08 |
| **AUD/USD** | 0,6278 | -0,0027 | **EUR/SEK** | 10,9707 | 0,0430 | | | |
| **USD/CAD** | 1,444 | 0,0068 | **EUR/NOK** | 11,6674 | -0,0931 | | | |

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