



Friday, 14 March 2025

KBC Sunrise Market Commentary

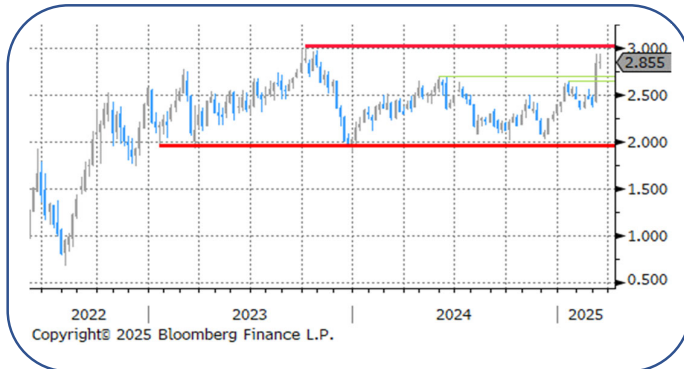
Market

- In a not that distant past EMU (equity) markets often were dominated by caution/reluctance, awaiting guidance from the US. Especially risk-on moves mostly originated from the US. This isn't how things are working out these days. **Optimism, if any, often is initiated in Europe, just to be overthrown in US dealings.** This was also the case yesterday. US president Trump suggesting an escalation in the US-EMU trade war (potential 200% retaliation tariffs on wine, champagne and other alcoholic beverages) didn't help to support a bottoming out process in US equity markets. US indices again closed with losses of up to 2.0% (Nasdaq). The EuroStoxx reversed early intraday gains to close 0.58% lower. **The story-line on a potential end to the war in Ukraine didn't yield a clear pointer for trading yet.** Russia as expected wants additional issues to be discussed/addressed. **In this developing risk-off context, yields gradually eased throughout the session, but in the end the overall picture didn't change.** US yields declined between 3.0 bps (2-y) and 4.4 bps (10-y). As was the case for US CPI data Wednesday, US PPI prices also printed softer than expected, but the immediate impact on US yields was limited. Yields were driven by risk sentiment. **EMU yields also took a breather, but the curve again steepened.** The German 2-y yield declined 4.2 bps. The 30-y didn't succumb (+0.9 bps). Overall growth concerns evidently also remain a factor for EMU markets. Even so, we see next week's political developments (outcome of the negotiations between CDU-SPD and the greens on the German constitutional budget rules) and the EU summit as potentially at least as important to assess the trajectory for EMU interest rate markets. Despite the ongoing (US-driven) risk-off, the dollar got some relief. DXY closed at 103.8 to be compared with a week low just below 104 earlier this week. EUR/USD also corrected further off the 1.09 area (close 1.085). Bent oil continues to hover around the \$70 p/b pivot.
- Sentiment in Asia turned positive again. **The positive U-turn in market comments is attributed to the US likely avoiding a government shutdown** as at least some Democratic Senators are expected to support the Republican funding bill. This indeed removes a source of short-term uncertainty. Still we're not convinced it is a major driver, especially for markets outside the US. In this respect, (regional) markets hoping for additional measures to be announced in China to support domestic demand/consumption might be at least as important going forward. US yields rise modestly this morning as does the dollar. **Later today, the data/economic sentiment storyline** also again comes into play with the **U. of Michigan Consumer confidence in the US.** A further decline again might rekindle the potentially recessionary impact of the uncertainty created by the Trump administration. At the same time, markets also will look forward to what the weekend might bring with respect to the Russian reaction to the US proposal on a ceasefire in the war in Ukraine. The euro recently was supported by expectations of a fiscally inspired revival and this theme might again come into play next week. However, with the uncertainty on the Russian reaction some further euro caution might prevail going into the weekend. **In the UK, the January production data undershoot expectations by a substantial margin (IP -0.9% M/M and -1.5% Y/Y).** Sterling in a first reaction loses modest growth (EUR/GBP 0.8385).

News & Views

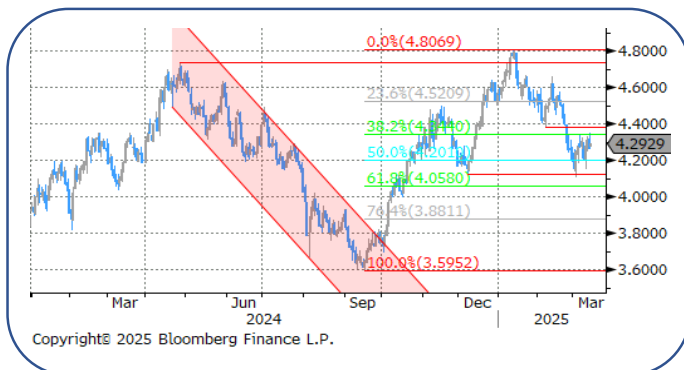
- Spanish PM Sanchez made a case for extending the definition of defense spending in order to include things like cyber security our climate as well.** Because of the geographic position of his country he thinks of Russia about a hybrid threat. Solely focusing on defense investment as deterrence is a tough sell in Spain where military spending is the lowest of any Nato member as a percentage of GDP (estimated at 1.28%). Other countries like Italy sought to include "competitiveness" in the spending carve-out. **EU leaders meet next week at an official summit (March 20-21) with a NATO-summit scheduled by the end of June.**
- National Bank of Poland governor Glapinski warned in a hawkish press conference that Polish inflation might only drop to target in 2027** and that monetary policy won't support growth until this happens. Dissenting votes within the board, like MPC Kotecki still see a chance of a rate cut in July (after presidential elections) despite the Glapinski comments and the upward revision to CPI forecasts. Kotecki is less pessimistic on inflation and more pessimistic on growth with a strong zloty also able to tilt the MPC towards sooner rate cuts. MPC Wnorowski is also a dissenting vote, though he indicates that chances of a July rate cut are a bit smaller now.

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.



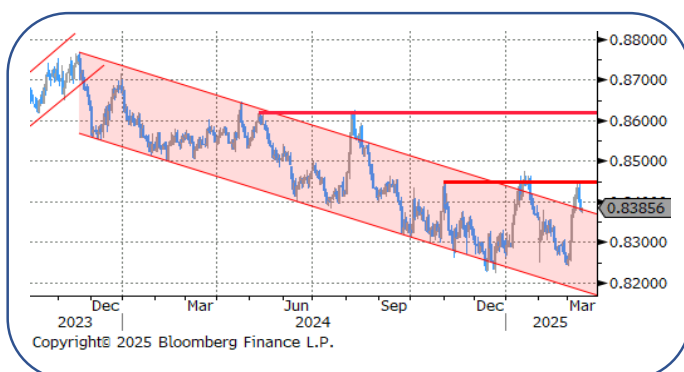
US 10y yield

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

Friday, 14 March		Consensus	Previous
US			
15:00	U. of Mich. Sentiment (Mar P)	63.0	64.7
15:00	U. of Mich. Current Conditions (Mar P)	64.4	65.7
15:00	U. of Mich. Expectations (Mar P)	63.0	64.0
15:00	U. of Mich. 1 Yr Inflation (Mar P)	4.30%	4.30%
15:00	U. of Mich. 5-10 Yr Inflation (Mar P)	3.40%	3.50%
UK			
08:00	Monthly GDP MoM/3M-3M (Jan)	0.10%/0.20%	0.40%/0.00%
08:00	Industrial Production MoM/YoY (Jan)	-0.10%/-0.60%	0.50%/-1.90%
08:00	Manufacturing Production MoM/YoY (Jan)	0.00%/-0.50%	0.70%/-1.40%
08:00	Index of Services MoM/3M-3M (Jan)	0.10%/0.30%	0.40%/0.20%
08:00	Construction Output MoM/YoY (Jan)	-0.20%/0.40%	-0.20%/1.50%
Italy			
10:00	Industrial Production MoM/WDA YoY (Jan)	1.40%/-2.90%	-3.10%/-7.10%
Poland			
10:00	CPI MoM/YoY (Feb)	0.40%/5.30%	1.00%/5.30%
Sweden			
08:00	Unemployment Rate SA (Feb)	8.90%	9.70%
Events			
14:15	ECB's Cipollone Speaks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,27	-0,04		US	3,96	-0,03	DOW	40813,57	-537,36
DE	2,86	-0,02		DE	2,18	-0,04	NASDAQ	17303,01	-345,44
BE	3,41	-0,01		BE	2,32	-0,04	NIKKEI	37053,1	263,07
UK	4,68	-0,05		UK	4,19	-0,03	DAX	22567,14	-109,27
JP	1,53	-0,02		JP	0,84	-0,02	DJ euro-50	5328,39	-31,03
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	2,35	3,73	4,01	€STR	2,4130	0,0010			
5y	2,50	3,74	4,00	Euribor-1	2,3680	-0,0240	SOFR-1	4,3170	-0,0019
10y	2,70	3,85	4,14	Euribor-3	2,5010	-0,0260	SOFR-3	4,2922	-0,0082
				Euribor-6	2,3860	0,0140	SOFR-6	4,1930	-0,0133
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,0852	-0,0036		EUR/JPY	160,42	-0,98	CRB	303,01	-0,76
USD/JPY	147,81	-0,44		EUR/GBP	0,8379	-0,0019	Gold	2991,30	44,50
GBP/USD	1,2952	-0,0011		EUR/CHF	0,9574	-0,0027	Brent	69,88	-1,07
AUD/USD	0,6285	-0,0036		EUR/SEK	11,066	0,0793			
USD/CAD	1,4439	0,0069		EUR/NOK	11,5865	0,0115			

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