



Friday, 21 March 2025

## KBC Sunrise Market Commentary

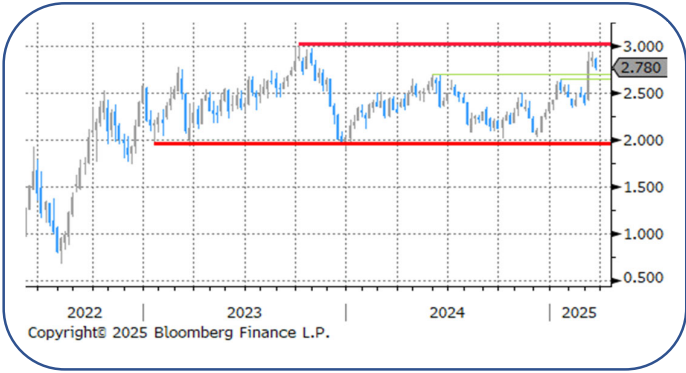
### Market

- European markets unlike their US counterpart had a pessimistic view on the Fed's policy decision. While the latter took comfort from chair Powell's reassuring message during the presser, the former seem to eye the stagflationary risks in the updated forecasts. Stocks, core bond yields and the euro dropped. Sentiment then took a turn for the better around the start of US dealings. News of **the EU delaying retaliatory tariffs until mid-April (from April 1) to allow for dialogue** helped the turnaround, as did way stronger than expected housing data a bit later. Equities in Europe bottomed though still finished 1% lower in the close. WS shrugged off most of the initial contagion losses during the US session. European yields cut their previous losses in half, ending around 2-3 bps lower in a daily perspective. US rates (almost) fully wiped out declines of up to 7 bps. EUR/USD bounced off 1.082 to close at 1.085. Sterling rose as high as EUR/GBP 0.835 before paring some of those gains to 0.837. The labour market report was a tad better than anticipated and the **Bank of England held rates steady**. A deeper dive in the 8-1 split vote (one member voting for a cut) showed two policymakers who voted for cuts at all three previous meetings taking a cautious turn by supporting the rates hold. UK money markets pared some of the easing bets from more than to slightly below two rate cuts this year.
- Asian (and more specially Chinese) risk-off is set to spillover in some degree to Europe with stock futures pointing at a 0.4% lower open. **Risk sentiment will probably remain key for markets** in absence of an inspiring economic calendar and ahead of the weekend. We expect technical trading in FX and FI markets. The dollar is trying to build on a bottoming out process with DXY attacking the 104 resistance area. EUR/USD is correcting lower for a third day but should find support around 1.08. The US 10-yr yield holds tight in a narrow sideways trading range while the 10-yr EU swap grinds lower. The January high at 2.63% serves as a strong support. **The unpredictable tariff narrative appears to gain some traction again as the April 2 reciprocal date draws closer**. The EU's olive branch yesterday was answered by White House press secretary Leavitt with renewed "big tariff" threats. Yesterday's EU summit revealed some divisions, first and foremost with Hungary again opposing the €5bn in Ukrainian aid. Southern countries are seeking a broader definition in terms of what to include under "defense spending", which is exempted for 1.5% of GDP from the deficit rules. **French president Macron late yesterday announced a new summit in Paris next week** during which he is looking for a coalition of the willing.

### News & Views

- In a speech in Calgary yesterday, Tiff Macklem elaborated on the difficult context that the central bank is facing due to uncertainty surrounding US tariffs on Canadian imports. **The Bank of Canada governor indicated that it could be appropriate for the bank consider a range of economic estimates rather than one single forecast**. He also pointed to the **dangers of adjusting policy too quickly based on an uncertain outlook**. In the current environment policy should be less forward looking until the situation is clearer and then act more quickly 'when things crystallize'. This at least suggest **the BOC is moving to a wait-and-see approach**. Macklem nonetheless indicated that there should be no doubt that the BOC stays committed to low inflation. The Bank wants to **avoid** that higher import costs due to the depreciation of the currency and retaliatory **tariffs will spread to consumer prices and affect the anchoring of inflation expectations**. **The impact of the tariffs war limits the Banks' room to support the economy**. The market currently only sees about a 35% for an additional 25 bps BOC rate cut next month.
- British consumers' moral in March turned slightly more positive for the third consecutive month**. The GfK consumer confidence index improved from -20 to -19 to be compared to short-term low of -22 in January. Even so, the indicator remains **well below the long-term average near -10**. Consumers turned slightly more optimistic about the economic situation, both in the last 12 months (-42 from -44- and also for the next 12 months (-29 from -31). At the same time consumer again turned less positive on their personal finances. "The current stability is to be welcomed but it won't take much to upset the fragile consumer mood," Neil Bellamy, consumer insights director at GfK was quoted.

# Graphs



### GE 10y yield

The ECB is **nearing a fine-tuning phase**. The March rate cut (to 2.5%) was complemented by labelling the stance as meaningfully less restrictive, leaving some limited room for easing. Seeing the huge spending initiatives, we think the ECB will seize the moment in April (2.25%) before the window of opportunity closes. The upcoming massive defense investment wave pushes the long end of the curve higher too. **A test of the 2023 top just above 3% is in the cards.**



### US 10y yield

The Fed's updated forecasts in March are **full of stagflation risks**, contrasting with the still-upbeat message brought by Chair Powell. **The Fed's priority remains inflation until growth is visibly weakening.** It means the extended pause announced in January got confirmed, in theory supporting the bottom below front end yields. The long end remains more vulnerable for 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 and stuck to it in March with an accompanying stagflationary message not boding well for the UK currency. EUR-strength entered the equation as well.

# Calendar & Table

| Friday, 21 March |   | Consensus | Previous |
|------------------|---|-----------|----------|
| <b>Japan</b>     |   |           |          |
| 0:30             | Natl CPI YoY (Feb)                                      | 3.70%A    | 4.00%    |
| 0:30             | Natl CPI Ex Fresh Food YoY (Feb)                        | 3.00%A    | 3.20%    |
| 0:30             | Natl CPI Ex Fresh Food, Energy YoY (Feb)                | 2.60%A    | 2.50%    |
| <b>UK</b>        |   |           |          |
| 1:01             | GfK Consumer Confidence (Mar)                           | -19A      | -20      |
| 8:00             | Public Finances (PSNCR) (Feb)                           | --        | -22.5b   |
| 8:00             | PSNB ex Banking Groups (Feb)                            | --        | -15.4b   |
| <b>EMU</b>       |   |           |          |
| 10:00            | ECB Current Account SA (Jan)                            | --        | 38.4b    |
| 16:00            | Consumer Confidence (Mar P)                             | -13.0     | -13.6    |
| <b>France</b>    |   |           |          |
| 21MAR            | Retail Sales SA YoY (Feb)                               | --        | -0.70%   |
| 8:45             | Business Confidence (Mar)                               | 96        | 96       |
| 8:45             | Manufacturing Confidence (Mar)                          | 97        | 97       |
| 8:45             | Production Outlook Indicator (Mar)                      | -13       | -15      |
| <b>Belgium</b>   |   |           |          |
| 11:00            | Consumer Confidence Index (Mar)                         | --        | -4       |
| <b>Events</b>    |   |           |          |
| 9:15             | ECB's Escriva speaks at IESE banking event in Barcelona |           |          |
| 13:30            | Fed's Goolsbee on CNBC                                  |           |          |
| 14:05            | Fed's Williams Speaks in Bahamas                        |           |          |

| 10-year    | Close  | -1d     |      | 2-year     | Close   | -1d     | Stocks      | Close    | -1d     |
|------------|--------|---------|------|------------|---------|---------|-------------|----------|---------|
| US         | 4.24   | -0.01   |      | US         | 3.96    | -0.01   | DOW         | 41953.32 | -11.31  |
| DE         | 2.78   | -0.02   |      | DE         | 2.17    | -0.03   | NASDAQ      | 17691.63 | -59.16  |
| BE         | 3.34   | -0.01   |      | BE         | 2.30    | -0.02   | NIKKEI      | 37677.06 | -74.82  |
| UK         | 4.65   | 0.01    |      | UK         | 4.24    | 0.03    | DAX         | 22999.15 | -288.91 |
| JP         | 1.53   | 0.01    |      | JP         | 0.85    | 0.02    | DJ euro-50  | 5450.93  | -56.43  |
|            |        |         |      |            |         |         |             |          |         |
|            |        |         |      |            |         |         |             |          |         |
| IRS        | EUR    | USD     | GBP  | EUR        | -1d     | -2d     | USD         | -1d      | -2d     |
| 3y         | 2.35   | 3.73    | 4.06 | €STR       | 2.4170  | 0.0010  |             |          |         |
| 5y         | 2.47   | 3.72    | 4.04 | Euribor-1  | 2.3730  | -0.0160 | SOFR-1      | 4.3205   | -0.0013 |
| 10y        | 2.67   | 3.81    | 4.15 | Euribor-3  | 2.3870  | -0.0240 | SOFR-3      | 4.2997   | -0.0018 |
|            |        |         |      | Euribor-6  | 2.4110  | -0.0100 | SOFR-6      | 4.2088   | -0.0114 |
|            |        |         |      |            |         |         |             |          |         |
|            |        |         |      |            |         |         |             |          |         |
| Currencies | Close  | -1d     |      | Currencies | Close   | -1d     | Commodities | Close    | -1d     |
| EUR/USD    | 1.0851 | -0.0052 |      | EUR/JPY    | 161.47  | -0.66   | CRB         | 307.41   | 1.10    |
| USD/JPY    | 148.78 | 0.09    |      | EUR/GBP    | 0.8370  | -0.0015 | Gold        | 3043.80  | 2.60    |
| GBP/USD    | 1.2967 | -0.0036 |      | EUR/CHF    | 0.9570  | 0.0002  | Brent       | 72.00    | 1.22    |
| AUD/USD    | 0.6303 | -0.0054 |      | EUR/SEK    | 10.9957 | -0.0191 |             |          |         |
| USD/CAD    | 1.4325 | -0.0001 |      | EUR/NOK    | 11.4578 | -0.0571 |             |          |         |

## 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    |
|                                     |                  | Shanghai                     | +86 21 68236128  |
|                                     |                  | Hong Kong                    | +852 2525 9232   |
| CSOB Economics – Markets Prague     |                  | Prague                       |                  |
| Jan Cermak                          | +420 2 6135 3578 |                              | +420 2 6135 3535 |
| Jan Bures                           | +420 2 6135 3574 |                              |                  |
| Petr Baca                           | +420 2 6135 3570 |                              |                  |
| CSOB Economics – Markets Bratislava |                  | Bratislava                   |                  |
| Marek Gabris                        | +421 2 5966 8809 |                              | +421 2 5966 8820 |
| K&H Economics – Markets Budapest    |                  | Budapest                     |                  |
| David Nemeth                        | +36 1 328 9989   |                              | +36 1 328 99 85  |

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

