



Thursday, 27 March 2025

KBC Sunrise Market Commentary

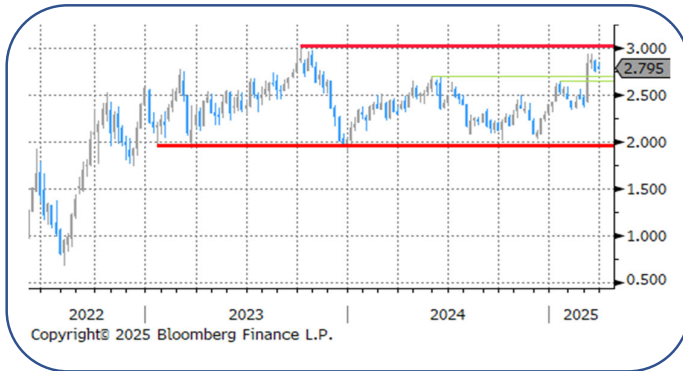
Market

- Again no really congruent storyline to guide US and European markets yesterday.** Equities on both sides of the Atlantic were captured in a risk-off modus as Trump's Liberation Day tariff announcement was coming ever closer. The uncertainty, however, still resulted in a different performance between US and EMU interest rate markets. EMU (swap) yields declined further in a steepening move (2-y -4.1 bps, 30-y -2.2 bps). **Money markets apparently are still embracing the idea of a 'frontloaded' April ECB interest rate cut (75% discounted).** We join this view but are far more reluctant on the room for further steps later this year. **In the US, bond markets despite the lingering risk-off, went in the other direction.** Yields added between 0.3 bps (2-y) and 4.3 bps (30-y). Markets apparently assume that the Fed will stay in a wait-and-see approach. Even so, several Fed member including ST Louis Fed President Musalem are making **reservations on Powell's assessment last week that the inflationary impact of tariffs will likely be temporary.** This debate, combined with CBO fiscal outlook might be important for yields in the (near?) future. If the Fed doesn't respond decisively enough the market might. **On FX markets,** the dollar this time outperformed on (or is it despite?) the risk-off. DXY closed at 104.55. EUR/USD finished the session at 1.0754 (from 1.0791). The yen also weakened to USD/JPY 105.6. **UK markets reacted rather constructive to softer than expected CPI data and to Fin Min Reeves' spring budget update (and new OBR fiscal projections).** UK yields eased between 1.1 bp (2-y) and 6.0 bps (30-y). Sterling declined after the CPI data, but regained most of the loss especially against the euro later (EUR/GBP 0.8345 close).
- US President Trump announcing 25% tariffs on all cars imported in the US** after the close of US markets is dominating the headlines this morning. Equity markets of the likes of Japan and South Korea are trading in red, but the reaction is very orderly. The EuroStoxx 50 future cedes 0.5%. US futures trade little changed. Trump also already warned on more tariffs on the EU and Canada if the work against the US. Even so, the orderly reaction suggests that an important part of this news was discounted. The intraday dynamics of EU equity markets might be telling. Also interesting, in FX EUR/USD (1.0775) trades off yesterday's lows. DXY also eases (104.35). **Later today,** the eco calendar is thin (US weekly jobless claims), but several ECB policy makers will speak. Still, investors' reaction to the tariffs announcement will set the tone for global trading. **We especially keep a close eye at the reaction of US Treasuries.** Will markets continue to accept Powell's view at the press conference last week that the impact of tariffs on inflation/inflation expectations will probably remain temporary? If doubt is creeping in further, this might affect risk premia. **In this respect, also keep a close look at the long term CBO US budget outlook to be updated today.** Additional negative headlines on the sustainability of US debt might put pressure, especially at the long end of the US yield curve. **For the dollar,** the jury is still out. Even so, we look out for signs of a topping out process after recent rebound as quite some negative news on tariffs might gradually be discounted for the likes of the euro and the yen.

News & Views

- The non-partisan **US Congressional Budget Office estimates the United States risk no longer being able to cover its obligations by August unless Congress acts to raise the debt ceiling.** It warned that this so-called X-date could even be as soon as late May or somewhere in June should borrowing needs in coming months exceed CBO projections. The estimate is also complicated by shifts in timing and amount of revenue collection and spending. The CBO to that end noted several important dates, including the April 15 deadline for taxpayers to submit annual filings, a mid-June tax payment deadline and June 30, when additional extraordinary (accounting) measures for the US Treasury become available.
- France's budget deficit widened from 5.4% in 2023 to 5.8% last year,** the country's statistical office reported this morning. While huge and well-above the 3% EC limit, **it was slightly less than the 6% the Finance Ministry had forecasted.** It offers the government a slight reprieve and a better starting point for bringing down the gap to 5.4% again this year. That was already a hard-fought compromise by a minority government in a highly fractured parliament. The goal is to get back to the 3% cap by 2029 but didn't get any easier by the plans to significantly increase military outlays over the coming years. **Finance Minister Lombard, however, already said he won't deviate from the current trajectory, meaning spending cuts will have to found elsewhere.** France's public debt rose to 113% of GDP end last year, up from 109.8% in 2023. The debt ratio prior to the pandemic stood at 97.9% (2019)

Graphs



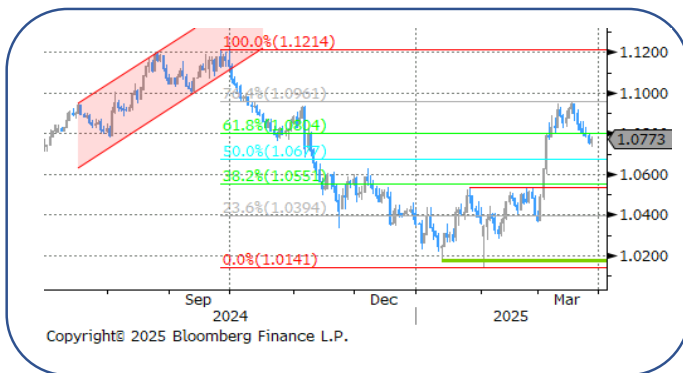
GE 10y yield

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

Thursday, 27 March		Consensus	Previous
US			
13:30	Wholesale Inventories MoM (Feb P)	0.70%	0.80%
13:30	Advance Goods Trade Balance (Feb)	-\$139.0b	-\$153.3b
13:30	Initial Jobless Claims	225k	223k
13:30	Continuing Claims	1886k	1892k
15:00	Pending Home Sales MoM/NSA YoY (Feb)	1.00%/-3.50%	-4.60%/-5.20%
16:00	Kansas City Fed Manf. Activity (Mar)	-5	-5
EMU			
10:00	M3 Money Supply YoY (Feb)	3.80%	3.60%
Norway			
10:00	Deposit Rates	4.50%	4.50%
8:00	Unemployment Rate Trend (Feb)	--	3.90%
Spain			
9:00	Retail Sales SA YoY (Feb)	--	2.20%
Events			
27MAR	CBO releases 30-yr US budget outlook		
9:30	BOE's Dhingra Speaks		
10:45	ECB's Villeroy Speaks in Brussels		
14:00	ECB's Guindos Speaks in Brussels		
17:15	ECB's Wunsch Speaks in Brussels		
17:45	ECB's Escriva Speaks in Brussels		
18:00	U.S. To Sell USD44 Bln 7-Year Notes		
19:40	ECB's Schnabel Speaks in London		
21:30	Fed's Barkin Gives Speech, Q&A		
21:30	Fed's Collins Speaks in Fireside Chat on Economy		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,35	0,04	US	4,02	0,00	DOW	42454,79	-132,71	
DE	2,80	0,00	DE	2,12	-0,02	NASDAQ	17899,02	-372,84	
BE	3,34	0,00	BE	2,25	-0,02	NIKKEI	37799,97	-227,32	
UK	4,73	-0,03	UK	4,29	-0,01	DAX	22839,03	-270,76	
JP	1,59	0,01	JP	0,89	0,00	DJ euro-50	5411,69	-63,39	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,29	3,78	4,06	€STR	2,4170	-0,0010			
5y	2,43	3,79	4,07	Euribor-1	2,3580	0,0090	SOFR-1	4,3310	-0,0005
10y	2,68	3,90	4,21	Euribor-3	2,3690	0,0040	SOFR-3	4,3018	-0,0059
				Euribor-6	2,3750	-0,0110	SOFR-6	4,2230	-0,0005
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0754	-0,0037	EUR/JPY	161,92	0,14	CRB	307,09	0,58	
USD/JPY	150,57	0,66	EUR/GBP	0,8344	0,0007	Gold	3052,30	-2,00	
GBP/USD	1,2888	-0,0056	EUR/CHF	0,9503	-0,0023	Brent	73,79	0,77	
AUD/USD	0,6299	-0,0004	EUR/SEK	10,807	-0,0269				
USD/CAD	1,4267	-0,0012	EUR/NOK	11,354	0,0073				

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