



Thursday, 12 March 2026

KBC Sunrise Market Commentary

Markets

- We believe that the ECB will hike its policy rate at next week's meeting or in April.** In absence of any surprise cease-fire this weekend, **the central bank be presented with a \$100/b oil price and a tough dilemma** when it gathers next Thursday. Even yesterday's announcement by the International Energy Agency that members will release a record 400mn barrels of oil from their emergency stocks provided no relief. Iran keeps attacking the few vessels trying to pass through the blocked Strait of Hormuz with the US unable/unwilling to provide military escort. In the meantime, overall production grinds to a halt while Oman also evacuated a key oil port following attacks. Recall that also LNG production remains halted at QatarEnergy (force majeure since March 6). On top, it will take time to restore both confidence and supply chains once the conflict does come to an end. **Having touted that policy is in a good place with room to address symmetric risks around the outlook, it might already be time for the ECB to put the money where the mouth is.** Technical assumptions for the December 2025 Eurosystem staff macroeconomic projections counted on an average Brent crude price of \$62.5/b this year and next to help stabilize inflation near the 2% target over the complete policy horizon. The cut-off date for new projections was just before the start of the conflict in the Middle-East with the ECB planning scenario analysis to help explain its potential reaction function. **We believe the ECB to be more trigger-happy because it learnt the hard way four years ago that supply-related energy/inflation shocks are able to ignite second-round effects.** They lure this time around as well through for example food prices (fertilizer supply disrupted) and inflation expectations (already sticky above ECB's inflation target) and by far exceed downside economic risks. ECB president Lagarde in her most recent testimony before European parliament **flagged the gap between perceived and actual inflation and why it complicated the ECB's task to anchor inflation expectations.** And while headline inflation may be significantly lower than compared with the start of Russia's full-scale inflation in Ukraine, core inflation levels are at pretty similar levels. Going into the blackout period ahead of Thursday's meeting, **ECB President Lagarde said they should be vigilant to developing inflation risks. That wording contrasts sharply with the "transitory" narrative which dominated in the spring of 2022.** This set-up suggests that the central bank won't wait until July to address the energy price shock (timeline of 2022 with more or less similar starting dates to conflicts). **Failure to respond risks pushing the long end of the curve up as well through rising inflation risk premia and complicates the process of getting any inflationary risks/expectations back under control.** The break-down of the German 10-yr yield already shows inflation expectations being responsible for the latest increase in nominal yields. They rose to 2.3%, the highest level since 2023 and ending a period of two years of near stability around the ECB's 2% inflation target. **The persistent bear flattening of EMU yield curves is testament to the market shift towards embracing a different ECB reaction function.** While a March rate hike is currently a wildcard (6%), odds for April action are becoming significant (25%).

News & Views

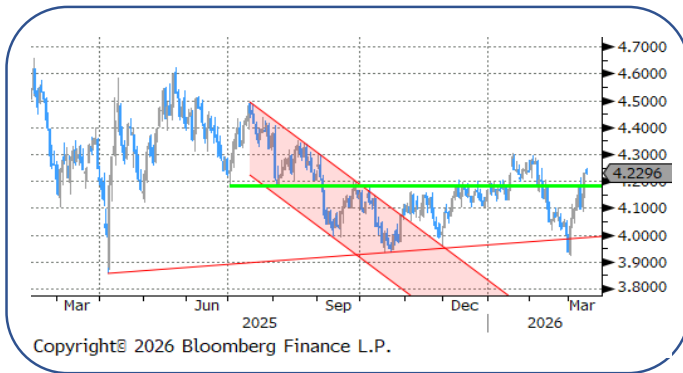
- US Trade Representative Greer yesterday announced the first series of new trade investigations that ultimately may end up in new import tariffs.** The eventual goal is to by and large replicate the levies introduced under the International Emergency Economic Powers Act that were struck down by the Supreme Court last month. The probes are initiated under Section 301 of the Trade Act which allows the US to impose tariffs in response to other nation's trade measures that are considered discriminatory. **The USTR's case rests on allegations of production overcapacity in many sectors** including aluminum, automobiles, electronics, paper, plastics, machineries and chemicals. Some of the biggest economies that are subject to the investigation are China, the EU, Mexico, India, Japan, South Korea and Taiwan, along with Switzerland, Norway and other ASEAN countries (Cambodia, Singapore, Malaysia ...). The Trump administration is expected to announce today **separate probes that could lead a ban on imports if found to be made with forced labour.** Greer seeks to conclude findings before the 10% Section 122 levies, introduced after the Supreme Court decision, fade out by end-July.
- Australian consumer inflation expectations in March hit the highest level since July 2023.** The 5.2% is another acceleration from February's 5% and compares with 3.6% one year ago. The release comes just days before the central bank (RBA) meeting next Tuesday and gives a slight boost to the market implied probability of a rate hike (73%). **Chances jumped sharply yesterday after RBA Deputy Governor Hauser issued a stark warning yesterday that they won't made the same mistake of having inflation at a way too high level following the energy price surge in 2022.** Governor Bullock just last week called the March meeting a live one, citing the inflationary risks.

Graphs



GE 10y yield

Confidence grew that inflation returned to 2% **allowing the ECB to reduce its policy rate to 2%, reaching neutral territory.** The ECB considers it to be in a good place to respond to potential shocks. Lower EMU January inflation prints and risk aversion averted a break above key 3% resistance. A new test amid rising inflation risks is in the making, however, after the war in Iran erupted.



US 10y yield

The Fed's **focus shifted to increased attention for (risks to) the labour market** with 25 bps rate cuts in September, October and December. The Fed now nears a neutral policy level allowing for a longer pause. While the debate on further easing isn't finished, the focus is increasingly **turning back rising inflation risks** from downside labour market risks. The 10-yr yield rebounded from the YtD lows in the wake of the Iran war.



EUR/USD

In 2025, Trump's explosive policy mix triggered uncertainty on future US economic growth and sustainability of public finances with markets showing **a loss of confidence in the dollar.** The Fed subpoenas, Greenland, and the US administration's (not so) hidden preference for a weaker USD, the tariff narrative and attack against Iran have reignited long-lingering market concerns. Risk-related safe haven flows nevertheless still hang in the balance.



EUR/GBP

Sterling snapped through multiple support zones, pushing EUR/GBP in November last year to its highest levels since early 2023. A new sell-off was avoided after Chancellor Reeves' November Autumn Budget, but we stick to our view that eco fundamentals limit sustained further sterling gains. Over time, EUR/GBP still might return towards the 0.90 handle.

Calendar & Table

Thursday, 12 March		Consensus	Previous
US			
13:30	Trade Balance (Jan)	-\$66.0b	-\$70.3b
13:30	Imports/Exports MoM (Jan)	--/--	3.60%/-1.70%
13:30	Initial Jobless Claims	215k	213k
13:30	Continuing Claims	1849k	1868k
13:30	Housing Starts Total/MoM (Jan)	1410k/-4.50%	1404k/6.20%
13:30	Building Permits Total/MoM (Jan P)	1341k/-3.10%	--/--
17:00	Household Change in Net Worth (4Q)	4.4	\$6064b
Japan			
00:50	BSI Large All Industry QoQ (1Q)	4.4A	4.9
00:50	BSI Large Manufacturing QoQ (1Q)	3.8A	4.7
UK			
01:01	RICS House Price Balance (Feb)	-12%A	-10.00%
Events			
11:00	Italy to Sell Bonds		
16:00	Fed's Bowman Speaks on Basel III		
17:25	ECB's Villeroy Speaks on Financial Stability in Paris		
18:00	U.S. To Sell USD22 Bln 30-Year Bond		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4,23	0,07	US	3,65	0,06	DOW	47417,27	-289,24	
DE	2,93	0,10	DE	2,38	0,13	NASDAQ	22716,13	19,03	
BE	3,49	0,13	BE	2,51	0,14	NIKKEI	54452,96	-572,41	
UK	4,69	0,13	UK	4,01	0,14	DAX	23640,03	-328,60	
JP	2,19	0,01	JP	1,26	0,01	DJ euro-50	5794,68	-42,49	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,61	3,43	3,91	€STR	1,9310	-0,0020			
5y	2,71	3,49	3,99	Euribor-1	1,9400	-0,0110	SOFR-1	3,6759	0,0024
10y	2,95	3,76	4,27	Euribor-3	2,1220	-0,0160	SOFR-3	3,6781	0,0038
				Euribor-6	2,1730	-0,1220	SOFR-6	3,6496	0,0125
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1567	-0,0044	EUR/JPY	183,86	0,36	CRB	354,97	6,94	
USD/JPY	158,95	0,90	EUR/GBP	0,8624	-0,0029	Gold	5179,10	-63,00	
GBP/USD	1,3412	-0,0006	EUR/CHF	0,9028	-0,0011	Brent	91,98	4,18	
AUD/USD	0,7152	0,0032	EUR/SEK	10,6784	0,0177				
USD/CAD	1,3593	0,0013	EUR/NOK	11,1596	-0,0312				

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