Danske Daily

Danske Morning Mail: Anticipation is building for Powell's outlook on US economy

19.3.2025

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In focus today

- The main event will be the FOMC meeting tonight. We expect an unchanged rate decision which is also fully priced in the markets, but all eyes will be on Powell's communication about the outlook for further rate cuts as well as the updated rate and economic projections. The Fed could also provide signals about further tapering or even completely ending QT over coming months.

Economic calendar

Economic and market news

What happened overnight

In Japan, the Bank of Japan concluded its two-day policy meeting, keeping the policy rate at 0.5% as expected. They highlighted that exchange rate developments are, compared to the past, more likely to affect prices. The market reaction to the decision was muted. With the outlook for another significant wage bump this year, we anticipate the BoJ will find room to hike rates again in July. We will keep an eye on the 07.30 CET press conference to look for clues on the future rate path.

What happened yesterday

In Ukraine, Russian President Putin agreed to a 30-day halt to strikes against energy infrastructure in Ukraine following talks with President Trump. While President Putin did not agree to the full 30-day ceasefire proposal like Ukraine, the US and Russia have agreed to work quickly towards more extensive peace agreements. Further discussions are set to take place in Saudi-Arabia on Sunday between the US and Russia.

In Germany, the new German government has successfully passed the significant fiscal package through the Bundestag, with support from The Green party. The package is expected to pass the Bundesrat on Friday, backed by a two-thirds majority between the CDU/CSU, SPD, Greens, and Bavarian Free Voters. The ECB anticipates upside risks to inflation and growth from this package, supporting a slower pace of rate cuts. While Germany will experience a positive demand shock, we expect the bulk of growth impacts to occur from 2026 onwards, with GDP growth potentially rising by 1-2 percentage points in 2027. Germany's shift towards fiscal spending may influence EU-level agreements on increased defence spending and common borrowing, although growth impacts depend on rising production capacities in Europe.

Equities: Global equities were lower yesterday, primarily due to the US pulling global indices down with its significant weight in global indices. In Europe, the belief that Germany would pass the historic spending package in the Bundestag grew throughout the day, leading to indices ending higher, buoyed by Germany, manufacturing-related cyclicals, and notably banks. Consequently, Europe, not just Germany, is now outperforming the US by more than 15% year-to-date in local currency, and by more than 20% when measured in common currency. In the US, we once again saw Mag 7 and cyclicals under pressure. Banks, on the other hand, had a better day, finishing as the best-performing industry in the S&P 500. Yesterday in the US, Dow -0.6%, S&P 500 -1.1%, Nasdaq -1.7%, and Russell 2000 -0.9%. This morning presents a mixed bag in Asia, and the same could be said about Western futures. To be clear, calmness, days with sub-1% moves, and fewer noisy political headlines would be beneficial for equities at the moment.

FI&FX: EUR/USD rose to a new high yesterday following the passing of the German fiscal package in the Bundestag and progress on Russia-Ukraine ceasefire. The Bund ASW spread was about unchanged on the news. In Scandies, EUR/SEK fell back below 11.00, which also sent NOK/SEK lower again. The NOK curve steepened considerably driven by a decline in the short end.

See also our in-depth *FI & FX morning comment* *

Recommended reading

China Headlines - Mixed data flow, plan to boost consumption, BYD unveils 5-minute charging, stock rally continues, 18 March

Reading the Markets USD: Time to taper, 18 March

Bank of England Preview - Quarterly cuts amid elevated uncertainty, 17 March

Research US - Fed preview: Aiming for stability, 14 March

Fixed income and FX markets

Majors FX: EUR/USD consolidated above the 1.09 mark after the German Bundestag approved the large fiscal package with a 2/3 majority. This was largely expected by markets and the reaction in EUR/USD was muted. The package must now also pass the Bundesrat, which is the upper chamber of the parliament, in a vote on Friday. Here the bill is also expected to pass. Today, focus turns to the FOMC meeting where we do not anticipate strong market reactions. We do not expect Powell to guide explicitly towards a cut in May, but we do still anticipate three 25bp reductions later in the year starting from June, see more in *Research US - Fed preview: Aiming for stability*, 14 March. We expect EUR/USD to consolidate around current levels in the near term, with risks still skewed to the upside. The key risk to further EUR/USD upside is that if upcoming data fails to validate market concerns about the US economy, the USD could rebound quickly.

Majors FI: Yesterday's approval of the German fiscal package in the Bundestag did not rock the boat for German curve, which was close to unchanged through the session. The Bund-ASW spread held steady at -10bp, suggesting that markets continue to price a significant term premium in long-end bond yields. A lower price on duration seems justified given the prospect of a significant increase in supply going forward, which is not isolated to Germany. In that regard, it is a bit puzzling that the softer German stance on EU fiscal rules has not raised any concerns in markets with regards to countries with much less fiscal space such as France. The OAT-Bund spread has tightened roughly 5bp to 68bp since the end of February. With Germany less inclined to discipline the rest of the union, debt sustainability and warnings from credit agencies could soon start to pop up again. In the US, yesterday's session was also a very quiet one with marginal declines across the curve. We expect the FOMC to abstain from providing any clear direction for US rates at tonight's policy announcement.

Today's EGB issuance calendar features long-end Germany supply (EUR1bn of 0% 2050 and EUR1.5bn of 1.8% 2053 nominals).

Scandies FX: We took profit on our long position in a 12M EUR/DKK FX forward yesterday from FX Top Trades. The trade had benefited from the recent surge in EUR/DKK FX forwards amid tighter liquidity conditions - the 1M tenor turned positive this week for the first time since 2022. We will look to re-enter the trade when liquidity conditions have eased again over the coming months. For more info see *FX Strategy - We take profit on our long position in EUR/DKK*, 18 March.

The rotation out of the US and into Europe is still ongoing as indicated by relative equity performance month-to-date and it is clearly manifested in stronger European currencies including the SEK and a weaker USD. The triggers have been the regime shift in Europe, Sweden included, with respect to expansionary and growth-supportive fiscal programmes alongside signs of a less constructive outlook for the US economy. The move lower in USD/SEK goes hand in hand with relative rates, although the drop which has taken the cross closer to 10.00, has become somewhat stretched. Barring a dovish Fed surprise tonight, the cross seems prone for a correction. EUR/SEK has been trading a wide range of 10.90 to 11.10 in the last few weeks but most recently it has spent most of the time close to 11.00. A hawkish/dovish surprise from the Riksbank tomorrow could send EUR/SEK toward and possibly outside of said range, although base case is for muted response. For a

Riksbank preview, see *Reading the Markets Sweden*, 14 March.

We are beginning to see the NOK underperform European peer FX which is in accordance with our view. While we have opted for a longer-term 6M bullish USD/NOK option structure we think it makes sense for clients to look at shorter-term NOK selling opportunities as well.

Scandies FI: The NOK curve steepened considerably during yesterday's session driven by the short end coming lower. This supports our strategic view, and we are looking for cross-market opportunities to receive the short end of the NOK curve vs peers. While the Regional Network Survey marks a risk, we increasingly see the balance of risk as asymmetrically skewed towards receiving the short end of the NOK curve. Norges Bank will tap NOK4bn in NGB 3.75% 06/35 (NST 489) and NGB 3.625% 05/39 (NST 488). Norges Bank also tapped those bonds in early March. There was solid demand at the auction in March, and we expect a similar result at the auction on Wednesday as yields are higher now than in March and close to some of the recent SPIRE deals (see our preview: *Reading the Markets Norway - Norges Bank is tapping in the long end of the curve*, 18 March).

Today the Swedish National Debt Office will auction SEK10bn of the September T-bill and SEK7.5bn of December (11.00 CET). Over the upcoming three T-bill auctions (until 16 April) the SNDO will sell a total of SEK55bn T-bills, which we believe may put further upside pressure on Swedish front-end yields. T-bills currently trade at 3-4 bp below the Riksbank pricing.

Denmark will issue in the new 10Y Benchmark DGB 2.25% 11/2035 and the 5Y linker DGBi 0.1% 11/30. We expect total sales between DKK3bn and DKK3.5bn as we expect decent demand. See our preview in Danish, *Strategi - Køb 5-årige linkere på auktionen på onsdag*, 17 March17 March.

Tactical views

FX

EUR/USD - tactical upside potential - we seek strategic selling opportunities
EUR/NOK - look to fade CPI-induced drop, buy strategic topside exposure
EUR/SEK - Room for near-term bounce higher in SEK-crosses
EUR/GBP - strategic downside
USD/JPY - we favour the downside
EUR/DKK - to trade just below the central rate on strong DKK fundamentals
USD/CNY - tactical view neutral, strategic view bullish on trade war 2.0 in 2025

Fixed Income

Europe - We have taken profit on our Bund ASW-spread as we have reached our target, but the spread can go wider (Bunds underperform)
US - Long-end US rates have reached our 12M target. We see near-term risks as being tilted to the upside

Sweden - We expect steeper curves primarily driven by the long end
Norway - Look for opportunities to re-enter steepeners and receiver strategies, possibly on the Regional Network Survey released on Thursday
Denmark - We expect further performance in DGBs versus matching German government bonds

Commodities/Energy
Oil - low and steady on benign supply conditions and trade war woes.

Report completed: 19 March 2025, 07:00 CEST
Report first disseminated: 19 March 2025, 07:30 CEST