Danske Daily

Danske Morning Mail: German fiscal package anticipated to secure Bundestag approval

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In focus today

- Today, the German fiscal package is scheduled to be passed in the Bundestag and on Friday in the Bundesrat, with expectations for approval. Merz states that CDU/CSU unanimously support the proposal, although there are risks that some may not vote in favour and that Bavaria's 'Free Voters' might not provide their support in the Bundesrat on Friday.
- In the US, President Trump has announced that he will be speaking with Russian President Putin about ending the war in Ukraine. The talk will presumably be on land concessions by Ukraine along with powerplants as mentioned by President Trump previously. Ukraine has already agreed to a 30-day ceasefire proposal.
- Overnight, the Bank of Japan will conclude a two-day policy meeting with a rate decision. Anything but hold would be a big surprise after the January rate hike, trade war tensions and a stronger yen, which will serve to dampen imported inflation. With the outlook for another significant wage bump this year, we anticipate the BoJ will find room to hike rates again over the summer.

Economic calendar

Economic and market news

What happened overnight

In the Middle East, Isreal launched its largest attack since the ceasefire in January, striking multiple Hamas targets. The strikes are a response to Hamas's refusal to release the remaining hostages, according to the office of Israeli Prime Minister Netanyahu. The US White House was consulted prior to the strike.

What happened yesterday

In the US, February retail sales data sent mixed signals. Retail sales control group was up 1% (cons: 0.3%) compared to -0.9% in January. On the flip side, headline retail sales growth remained weak in February at 0.2% m/m SA from -0.9% in January. Excluding the most volatile categories improved the picture, with control group sales growth accelerating to 1.0% m/m SA from -1.0%. However, unusually positive seasonal adjustment lifted the monthly growth rate significantly. Looking at the y/y growth rate of the non-seasonally adjusted series shows that control group sales growth actually slowed down quite a bit (+0.3% y/y, from +4.1%, see chart below). EUR/USD ticked slightly lower following the release.

In China, the data covering January and February was released. The data showed a decent start to the new year albeit still with a few weak spots. Industrial production surprised to the upside rising 5.9% y/y (cons: 5.3% y/y). The momentum in production explains the rise in metal prices recently. However, more importantly there were tentative signs of improvement to demand as this is the real driver of the economy. Retail sales increased 4% y/y (cons: 3.8% y/y). There is still some way up to the 7-8% pre-pandemic levels, though, and lifting private consumption is now the number one priority for the government.

Equities: Global equities were broadly higher yesterday, with some major US indices achieving the first two-day gain for the S&P 500 since it reached its record close on 19 February. This is certainly positive news, and we have already seen pundits suggesting the correction is over. It is remarkable how swiftly situations can reverse in the equity market and how quickly perspectives can change simply because Bloomberg screens shift from red to green. We would argue that we did not receive reassuring macroeconomic data yesterday; in fact, the opposite was true, and we still view 2 April as a crucial uncertainty deadline due to impending tariff increases.

Additionally, it is important to consider sector and regional performance from yesterday. Defensive stocks outperformed in the US, while the MAG 7 stocks significantly underperformed compared to the broader 493 index. Europe and Asia also outperformed, and the same trend is visible today in the futures and cash markets. In other words, some investors are attempting to buy the dip, a strategy that has been highly profitable over the past two and a half years. We continue to recommend exercising caution, as the combination of macroeconomic factors and politics has not yet demonstrated a positive outlook for the future. In the US yesterday, the Dow rose by 0.9%, the S&P 500 by 0.6%, the Nasdaq by 0.3%, and the Russell 2000 by 1.2%. In Asia, most markets are higher this morning, led by a new year-to-date high in the Hang Seng index. Conversely, Indonesia's economy is struggling, with growth fears leading to a sell-off and a temporary halt in trading this morning. European futures are higher ahead of the decisive voting in the Bundestag today. US futures are lower this morning.

FI&FX: Bond yields slipped on both sides of the Atlantic yesterday ahead of the vote on the German fiscal package today and on a relatively quiet day when risk sentiment held up amid solid retail sales data in the US. EUR/USD traded around the 1.09 level and the top from last week. EUR/SEK held steady just above 11.00 as the market digested the outlook for increased government borrowing amid a coming rise in defence spending.

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

Recommended reading

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

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

China Headlines - Deflation in February temporary, more upbeat tech news within AI and microchips, 13 March

Global Inflation Watch - Tariff uncertainty blurs the outlook, 13 March

Fixed income and FX markets

Majors FX: EUR/USD was supported by risk sentiment during yesterday's session rising back above the 1.09 mark with US retail sales not sending any firm signals. Today, focus turns to the important vote in the German Bundestag where a 2/3 majority is needed to pass a range of fiscal measures including a reform of the constitutional enshrined debt brake. While not our base case, failing to secure the necessary 2/3 majority would trigger a broad EUR-weakening. More broadly, we expect EUR/USD to consolidate around current levels in the near term, with risks still skewed to the upside. However, we increasingly believe US pessimism is overstretched. 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.

Amid risk-on sentiment yesterday USD/JPY traded above 149 yesterday. Early on Wednesday, the BoJ is widely expected to keep rates unchanged. Reflation momentum remains intact in Japan after big corporates decided to meet their unions' quite high wage demands last week. The spring will show to what extent this spills over to smaller businesses, which will be key to further rate hike potential. We expect the BoJ will be ready to hike rates again in July and believe the FOMC meeting on Wednesday to be a bigger deal for yen crosses than the BoJ. We still favour short USD/JPY on a strategic horizon.

The big event for CHF this week is the SNB meeting on Thursday where we expect a 25bp cut to 0.25%. This is in line with consensus and markets price in around 20bp for the meeting. We believe it is a close decision amplified by the recent weakening of the CHF and the limited space left for easing. Ultimately, we believe that the very muted inflationary pressure with headline currently around 0.3% y/y will leave the SNB opting for a cut. We continue to be bullish on CHF an expect the recent weakening to prove temporary.

Majors FI: EUR rates edged lower throughout yesterday's session as markets positioned for today's pivotal Bundestag vote. The SPD, CDU/CSU, and Greens collectively control 70% of seats, exceeding the 2/3 threshold required to relax the debt brake. However, passage remains uncertain, with several party members publicly opposing the bill and the risk related to abstentions—particularly from MPs who will lose their seats when the new Bundestag convenes next week. While not the base case, failure to secure the necessary majority today will trigger a sharp rally in long-end rates. Today's calendar features Finish taps in the 10Y-15Y segment. See our preview: *Tap auction in Finland*, 17 March.

Scandies FX: In Norway anticipation builds ahead of Thursday's Regional Network Survey. The week started with a steepening pressure on the NOK curve, but this later turned to an overall flattening of 2s10s mirroring global curve-moves. We still favour steepeners driven by the short end to the extent that not least global curves are driven by a bullish steepening pressure. On the FX side our long USD/NOK has been off to a slightly rough start amid energy prices rising and Norwegian equities outperforming at the beginning of the week. We do highlight that the timing of this trade is tricky which is also why we have opted for an option structure in positioning for an eventual rebound in USD/NOK (driven not least by the NOK leg) in the next 3-6M. Importantly, this trade is not based on the view that Norges Bank will cut rates next week.

Scandies FI: The Danish Debt Management Office is selling DGB 2.25% 11/35 and DGBi 0.1% 11/30 on Wednesday. We expect a sale between DKK 3bn and DKK 3.5bn since there will likely be solid demand for the 5Y index bond after the real interest rate has risen from 0.49% (at the auction in January) to approximately 0.65% today. Conversely, there is likely more modest demand for the 10Y nominal government bond given the ongoing issuance throughout 2025 and uncertainty about a potential rise in defence expenditures. Thus, we have closed our recommendation to buy DGB 11/35 against Germany and instead bought DGB 11/31 against DBR 02/35. We continue to have DGBi 11/30 as a top trade for 2025 against DGB 11/29 and DGB 11/31, given the risk of rising inflation.

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.

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