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Early Morning Reid

Macro Strategy

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Key Market Data
(Index @ Close // Change)
(S&P 500 @ 5675 // +0.64%)
(STOXX Europe 600 @ 551 // +0.79%)
(ITX Crossover @ 305 // -4)
(Brent Oil^ @ 71.34 // +0.41%)
(10yr Treasury^ @ 4.29 // -1 bp)
(10yr Bund @ 2.82 // -6 bp)
(Dollar Index^ @ 103.53 // -0.24%)
(Further Fed hikes/cuts priced for 2025 @ -60 // 5 bp)
(Further ECB hikes/cuts priced for 2025 @ -46 // 2 bp)
^ - Change from previous day's 4:30 GMT to 04:30 GMT

*** Yesterday we launched our latest global market survey. We ask simple questions to tease out your thoughts on tariffs, Germany, US vs. European equities, etc. We would very much appreciate all responses. They are all anonymous. The link to fill it in is here. ***

The rebound from Thursday's S&P 500 correction continued yesterday even if the sting in the tail was a fresh decline in US tech mega caps. Today starts what should be a quiet 2-day FOMC meeting alongside an important vote this morning in the Bundestag and a scheduled call between Presidents Trump and Putin.

Before all that, the **S&P 500 has now reduced its fall from the highs to -7.63% after closing +0.64% last night**. I published a short pack yesterday looking at the history of corrections (link here). **On our methodology there have been 60 now since 1928. Including this one so far, 10 have only spent one day in correction territory** but if you read DB's Binky Chadha's latest piece here he expects this one to continue into early April. Time will tell. **It would be easier if tech was performing but yesterday saw the Mag-7 fall -1.10% led by a -4.79% decline in Tesla and a -1.76% fall in Nvidia**.

But outside of big tech it was a strong day, with only 44 fallers in the S&P 500 and the equal-weighted version of the index advancing +1.32%. Energy (+1.56%) and consumer staples (+1.55%) led the gains within the S&P and the **VIX volatility index fell to its lowest since the end of February (-1.26pts to 20.51)**. The upbeat tone was helped by the absence of negative trade headlines and was if anything helped by a Bloomberg report that US Trade Representative Jamieson Greer was reinstating a more process-oriented approach ahead of the expected April 2 tariff announcements.

In terms of Germany today, to achieve a two-third majority for the reform of the debt break and the bumper fiscal package, **the CDU/SPD/Greens need 489 out of 733 votes and have a buffer of 31 votes**. We think it is highly unlikely that many of these will vote against the package. Expect the vote to start at 10am with the result perhaps taking until lunchtime given it's a roll call vote. **Assuming it goes through then the next stop is the Bundesrat on Friday where it should also comfortably pass, especially as yesterday Bavaria's ruling coalition of CSU and Free Voters confirmed they would support the changes in the Bundesrat**. Therefore, the German Constitutional Court (GCC) is the most likely unknown but again the expectations are for there to be no objections with more rulings going in favour of the package being allowed to go to a vote yesterday. Ahead of the vote, the DAX (+0.73%), STOXX 600 (+0.79%), and FTSE100 (+0.56%) continued their gains from Friday, while **bonds across the continent actually recovered after their recent sell-off with yields on 10yr bunds (-5.8bps), OATs (-7.8bps) and BTPs (-8.0bps) all seeing sizeable declines**.

By contrast, US Treasury yields saw more modest moves with **10yr US yields falling -1.4bps to 4.30% but 2yr yields rising +2.8bps to 4.05%**. The latter came as **December fed fund futures rose by +4.6bps with 60bps of Fed cuts now priced in by year-end**. That's the most hawkish that market pricing has been this month, having traded at 90bps of cuts early in the Asian session last Tuesday morning.

Those moves came amid a mixed bag of US data. This included a **softer-than-expected headline US retail sales print (+0.2% m/m vs the expected +0.6% m/m), the homebuilder sentiment index falling back to its August 2024 local lows of 39 and the empire manufacturing survey disappointing (-20.0 vs -1.9 expected)**. January's retail sales were also revised to -1.2% m/m (previously -0.9% m/m). However, **February retail control growth was +1.0%, six tenths above expectations even if there was a couple of tenths downward revision to the prior month**. That brought the 3-month annualised growth of retail control, which feeds more directly into GDP, to a solid +3.8%, alleviating some of the increasing concerns over the US consumer outlook.

Turning to commodities, **Monday saw Brent crude oil (+0.69%) rise to a two-week high of $71.07/bbl following the US strikes against Houthi targets in Yemen over the weekend**. **Oil has edged another +0.28% higher overnight following Israeli military strikes in Gaza**, signaling a potential breakdown of the almost two-month ceasefire with Hamas. Meanwhile, **copper (+1.63%) rose to its highest level since last May** after the stronger monthly China activity data that we reported yesterday.

Gold (+0.55% to $3,001/oz) closed above $3,000 for the first time ever yesterday, after first breaking that threshold intra-day on Friday, as investors continue to rotate away from the US dollar and find perceived safe havens amidst the heightened policy uncertainty. Indeed, **the dollar index (-0.34%) yesterday fell to its lowest level since October**.

Asian equity markets are mostly trading higher this morning with the Hang Seng (+2.14%) leading gains and rising to three-year highs, followed by the Nikkei (+1.27%). **Mainland Chinese equities are struggling to gain as much momentum** with the CSI (+0.32%) and the Shanghai Composite (+0.14%) both edging slightly higher. Meanwhile, the KOSPI (+0.04%) is swinging between gains and losses alongside the S&P/ASX 200 (+0.05%). S&P 500 (-0.32%) and NASDAQ 100 (-0.47%) futures are both retreating with US yield. Meanwhile, yields on USTs are around a basis point lower across the board.

And now for the day ahead, as a reminder Germany's leaders will be voting in the Bundestag today at 9AM GMT, with the roll called vote finishing possibly up until 12:30PM GMT. We'll also get more US Feb data on industrial production numbers, building permits and housing starts. Canadian CPI is the other highlight. And President Trump's phone call with President Putin is expected in the morning US time, with President Trump posting yesterday evening that "Many elements of a Final Agreement have been agreed to, but much remains."

Other Market Data
(10y US Real Yield @ 2.00 // 0 bp)
(10y US Breakevens @ 2.30 // -1 bp)
(10y German Breakeven @ 1.95 // 0 bp)
(ITX Europe 125 @ 56 // -1)
(CDX 125 @ 54 // -1)
(CDX HY - pts* @ 106.17 // +0.120)
(ITX Sen Fin @ 60 // -1)
(ITX Sub Fin @ 103 // -2)
(CDX EM @ 97.5 // +0.1)
(WTI Oil^ @ 67.82 // +0.25%)
(EUR/USD^ @ 1.091 // +0.30%)
(NIKKEI @ 37864 // +1.25%)
(Hang Seng @ 24653 // +2.10%)
(VIX @ 20.51 // -1.26)
(Gold^ @ 3011 // +0.85%)

Key Economic Data
(Release // DB // Prev // Con)
(Housing Starts // 1.395M // 1.366M // 1.385M)
(Housing Permits // 1.475M // 1.473M // 1.453M)
(Industrial Production // 0.2% // 0.5% // 0.2%)

Topical Deutsche Bank publications:
* US Economic Perspectives: How tariffs can lift US wages, 17 Mar
* IG & HY Strategy: The White-Knuckled Ride from MAGA to MEGA, 17 Mar
* Investor Positioning and Flows: Sliding Further, 14 Mar
* US Credit Strategy: Can Fallen Angels continue outpacing Rising Stars?, 14 Mar
* FX Blog: Pain, 14 Mar
* FX Special Report: The unruly hegemon; what a decline in US leadership means for markets, 13 Mar

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Appendix 1

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