



Friday, 11 April 2025

KBC Sunrise Market Commentary

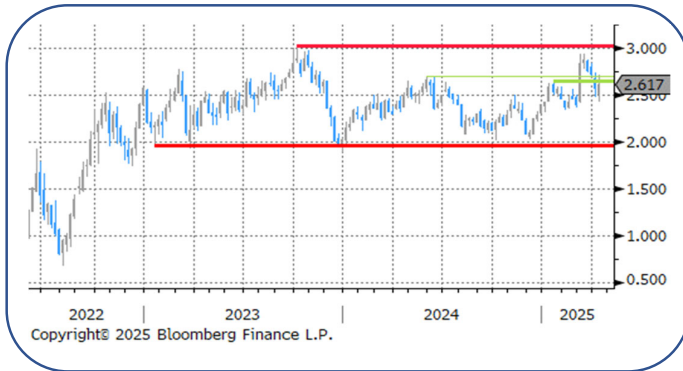
Markets

- US President Trump on Wednesday announcing a pause in the roll-out of reciprocal tariffs beyond the 10% base rate (expect for China) apparently **wasn't the game changer and confidence reset that the government hoped for**. Yesterday's price action indicated instead investors took it as **an opportunity to sell America on up-ticks**. US equities fell prey to a substantial retracement on Wednesday's historic rebound (Nasdaq -4.31%). **Developments in the US Treasury market are even far more worrisome**. Softer than expected US March CPI inflation were only a footnote. **The US yield curve again steepened**. The 2-y easing 4.6 bps was no more than technical trading, assessing ongoing Fed guidance that the stagflationary impact of tariffs is a reason to stay on hold for longer. However, **red alert is still flashing at the very long end of the US Treasury curve**. The closely watched 30-y US Treasury Auction showed decent bidding metrics. So far the good news. The auction however, in no way was able to arrest the intraday slide in US long bonds. In the end, the 30-y yield again added 13.75 bps. Also remarkable: **the rise was driven by a sharp move in the real yield. In the current environment, this suggests a higher risk premium**, rather than anything else. Even more striking. **The divergence with the performance of German Bunds couldn't have been bigger**. ST German yields rise marginally (a limited easing of ECB rate cut bets), but as the day proceeded, **the Bund contract soon captured a solid safe haven bid**. The 10-y yield more than fully reversed the rise at the open to close even 1.1 bp lower. Investors looking for a new safe haven alternative in German Bunds? Something to watch out for. Even so, **the underperformance of Treasuries/outperformance of Bunds is currently going hand-in-hand with aggressive USD selling and a strong outperformance of the euro**. With the yen (USD/JPY 143.5 area) and the Swiss franc (EUR/CHF 0.927) also attracting safe haven buying interest. Red alert also in the DXY index (100.4). The 2023/2024 lows (99.6/101.15) are already under test. A break of 98.98 (62% retracement of 2021/2022 rise) would signal a further sharp deterioration. **Similar narrative for EUR/USD**. EUR/USD 1.1276 (2023 top) is at risk of breaking. Another indication of the sell-America on (quasi non-existing) upticks.
- Risk sentiment in Asia this morning remains fragile (Nikkei -3.6%). The dollar and US treasuries struggle to avoid further losses. Regarding the data, **University of Michigan consumer confidence will be closely watched**. Another jump in inflation expectations (already expected at 5.2% 1-y ahead and at 4.3% for 5-10 y) would give (US Treasury) investors a highly uncomfortable feeling going into the weekend. We don't fight the sell America trade, not in US Treasuries and not in the dollar. **A confirmed break in EUR/USD would in a first instance bring the 1.1495 2022 intermediate top in the picture**. The 2021 top stands at 1.2349. In the UK, February production data this morning were better than expected. It's doubtful this will change fortunes for sterling (against the euro). The EUR/GBP pair already tested the 0.87 barrier. In the UK, the focus also remains at the long end of the Gilts curve with the 30-Y yield still uncomfortably high at 5.43%.

News & Views

- Hong Kong-based newspaper the South China Morning Post reported that to EU officials are planning to make a visit to China for a meeting with Chinese president Xi Jinping in late July**. People familiar with the matter indicate that EC von der Leyen and European Council President Costa agreed to the summit which breaks with protocol since the EU and China previously met in China as well. In **more signals that the hawkish US trade policy is improving ties between the two blocks**, Handelsblatt yesterday reported that they started talks on abolishing EU tariffs on Chinese EV's while Spanish PM Sanchez concluded his visit to the country by calling for mutually beneficial relations and to promote balanced trade and investments.
- Bank of England governor Breeden commented on the escalating trade war and the unravelling of leveraged trades in the US Treasury market**. Regarding trade, she singled out a potential weakening in the UK currency as key in defining the inflation outlook by making UK imports more expensive. It has not happened yet, but "that could change". On the turbulence in the Treasury market, **she said that it's not obvious that the right thing to do is to intervene in the gilt market**. The long end of the UK curve underperformed as well with the UK 30-yr yield reaching its highest level since 1998 and bringing back the echo of the Truss-Kwarteng crisis. "What we can do is be aware of what's going on and have repo facilities, ways of providing liquidity to the system to try and ensure that whatever trading happens, happens as smoothly as possible."..

Graphs



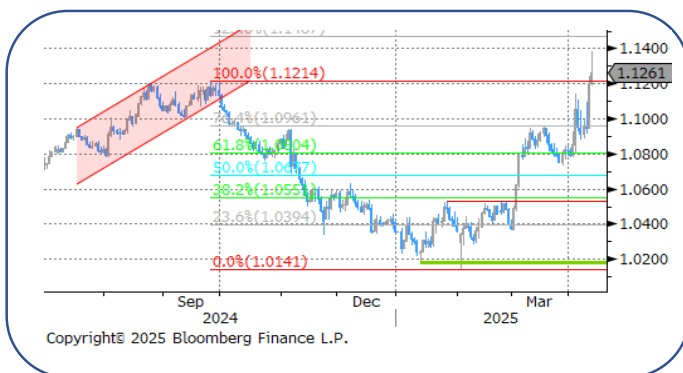
GE 10y yield

The ECB's March rate cut (to 2.5%) was complemented by labelling the stance as meaningfully less restrictive, leaving 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 pushed the long end of the curve higher, but the **path to 3% is interrupted by global tariff uncertainty.**



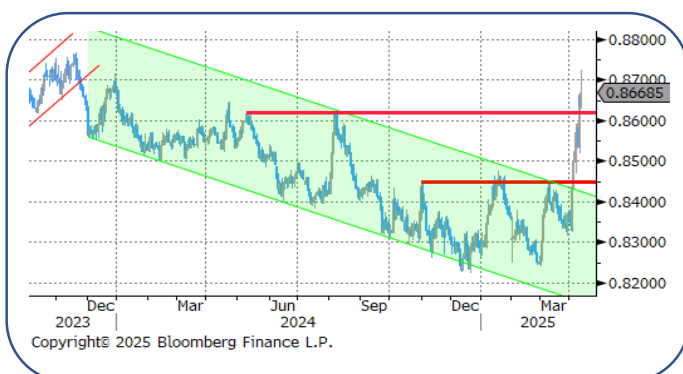
US 10y yield

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 remained more vulnerable for how the explosive policy mix could backfire to the US economy. Risk-off of late dominated, but the sell US(T) pressure is building.



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 profited from growth-lifting fiscal spending and the process towards peace in Ukraine. EUR/USD took out the 1.0804 resistance (62% retracement), and is testing the 1.1214/76 (202/2023 top). A break looks **unavoidable. Next target 1.1495**



EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on sterling earlier this year. EUR/GBP tested resistance near 0.845. Temporary return action occurred as president Trump seemed to be more forgiving towards the UK when it comes to tariffs. However stagflationary risk still are not boding well for the UK currency. EUR-strength and a global risk-off finally push EUR/GBP beyond 0.845 with next reference (0.8625/44) already being tested.

Calendar & Table

Friday, 11 April		Consensus	Previous
US			
14:30	PPI Final Demand MoM/YoY (Mar)	0.2%/3.3%--	0.00%/3.20%
14:30	PPI Ex Food and Energy MoM/YoY (Mar)	0.3%/3.6%	-0.10%/3.40%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Mar)	0.3%/3.3%	0.20%/3.30%
16:00	U. of Mich. Sentiment (Apr P)	53.5	57
16:00	U. of Mich. Current Conditions (Apr P)	60.8	63.8
16:00	U. of Mich. Expectations (Apr P)	50.7	52.6
16:00	U. of Mich. 1 Yr Inflation (Apr P)	5.2	5.00%
16:00	U. of Mich. 5-10 Yr Inflation (Apr P)	4.3%	4.10%
UK			
08:00	Industrial Production MoM/YoY (Feb)	0.10%/-2.30%	-0.90%/-1.50%
08:00	Manufacturing Production MoM/YoY (Feb)	0.20%/-2.20%	-1.10%/-1.50%
08:00	Index of Services MoM/3M-3M (Feb)	0.10%/0.50%	0.10%/0.40%
08:00	Construction Output MoM/YoY (Feb)	0.20%/1.70%	-0.20%/0.20%
08:00	Trade Balance Ex Precious Metals (Feb)	--	£537m
Events			
Q1 earnings	Wells Fargo (13:00), JPMorgan Chase (13:00), Blackrock (bef-mkt), Morgan Stanley (13:30) ...		
11:00	Italy to Sell Bonds		
11:45	ECB's Lagarde at Eurogroup Press Conference in Warsaw		
16:00	Fed's Musalem Speaks on US Economy, Policy		
17:00	Fed's Williams Speaks on Outlook, Monetary Policy		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,42	0,09		US	3,86	-0,05	DOW	39593,66	-1014,79
DE	2,58	-0,01		DE	1,79	0,06	NASDAQ	16387,31	-737,66
BE	3,20	-0,03		BE	1,97	0,03	NIKKEI	33526,06	-1082,94
UK	4,64	-0,14		UK	3,90	-0,09	DAX	20562,73	891,85
JP	1,35	0,00		JP	0,62	-0,05	DJ euro-50	4818,92	196,78
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,06	3,59	3,66	€STR	2,4160	0,0010			
5y	2,24	3,66	3,73	Euribor-1	2,3510	0,0230	SOFR-1	4,3190	-0,0310
10y	2,55	3,87	4,07	Euribor-3	2,2650	-0,0360	SOFR-3	4,2563	-0,0428
				Euribor-6	2,1900	-0,0410	SOFR-6	4,1030	-0,0650
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1201	0,0252		EUR/JPY	161,8	-0,08	CRB	285,13	-2,92
USD/JPY	144,45	-3,31		EUR/GBP	0,8636	0,0093	Gold	3177,50	98,10
GBP/USD	1,297	0,0150		EUR/CHF	0,9228	-0,0159	Brent	63,33	-2,15
AUD/USD	0,6224	0,0071		EUR/SEK	11,0326	0,1097			
USD/CAD	1,3983	-0,0099		EUR/NOK	12,1167	0,3151			

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