



Thursday, 17 April 2025

## KBC Sunrise Market Commentary

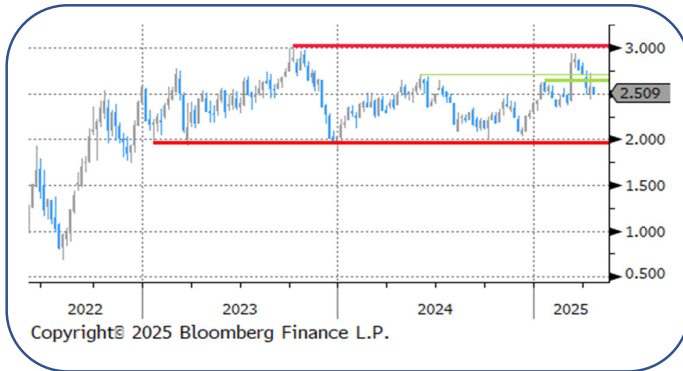
### Markets

- Fed Chair Powell sent a clear signal to markets** in a keynote speech for the Economic Club of Chicago. He started by pointing out that the level of the tariff increases announced so far by the new Administration is significantly larger than anticipated. The same is likely to be true of the economic effects, which will include **higher inflation and slower growth**. The Fed's obligation is to keep longer-term inflation expectations well anchored and **to make certain that a one-time increase in the price level does not become an ongoing inflation problem**. As the central bank acts to meet that obligation, they will balance their maximum employment and price-stability mandates, **keeping in mind that, without price stability, it cannot achieve the long periods of strong labor market conditions** that benefit all Americans. **The Fed may find itself in the challenging scenario in which their dual-mandate goals are in tension**. If that were to occur, Powell suggests that they **consider how far the economy is from each goal, and the potentially different time horizons over which those respective gaps would be anticipated to close**. During the Q&A he stressed on multiple occasions that **the Fed's goals aren't in tension right now** with the labour market still being strong. That's **a very strong hint that the Fed is well positioned to wait for greater clarity** before considering any adjustments to its policy stance. **Over the course of the year, Powell thinks that both metrics (unemployment & inflation) will on balance move away from target**. Taking in mind that they'll see how far away each is from target, this also **suggests in first instance a clear focus on inflation**. We feel strengthened in **our base case scenario of a long pause, stretching at least into September and probably even into December**. US money and interest rate markets **turned a blind eye** to Powell's message yesterday. The Fed fund futures forward curve still suggests a 75% probability of a 25 bps rate cut in June with a cumulative 100 bps of rate cuts discounted by March of next year. Daily changes on the US yield curve yesterday ranged between -8.6 bps (3-yr) and -3.9 bps (30-yr). **Powell's message did leave traces on stock markets, pushing key indices to losses of 1.75% (Dow) to 3% (Nasdaq)**. They already started on the backfoot after US President Trump threw in Nvidia as a bargaining chip with China in the trade war. EUR/USD closed at 1.1399 from a start at 1.1283.
- Focus shifts to Frankfurt today where we expect the ECB to cut its policy rate by another 25 bps to 2.25% and dropping any reference to a restrictive policy rate**. Those settings allow for the central bank to, like the Fed, **turn into wait-and-see mode as the tariff story develops**. The 90-day pause in the worst case reciprocal tariff narrative stretches beyond the central bank's June meeting, arguing against extending the rate cycle. As in the US, inflation is above target with both tariffs and fiscal stimulus being deployed posing upside risks which in the short-run outweigh downside growth risks. **We are aware that this view goes against current market thinking of multiple additional ECB rate cuts, bringing the deposit rate towards 1.5%-1.75% by year-end but stick with our call**. **This dovish positioning nevertheless calls for asymmetric risks today**. The front end of European yield curves might underperform, further supporting the single currency.

### News & Views

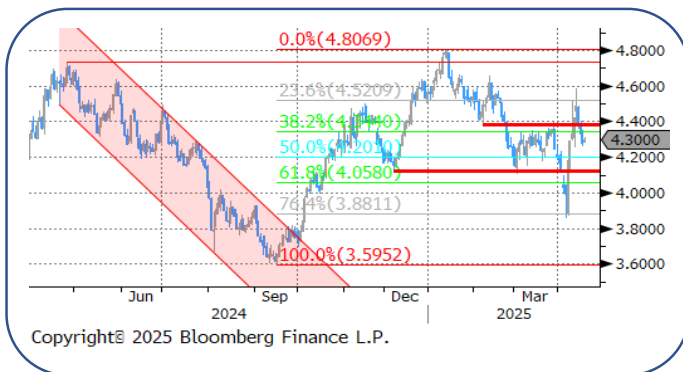
- The Bank of Canada left its policy rate unchanged at 2.75% yesterday**. It's the first pause since it embarked on an easing cycle in June 2024. The central bank offered **no guidance for future policy**, only that it will proceed carefully. **The BoC considers two scenarios. In the first one, uncertainty is high but tariffs are limited in scope**. Canadian growth weakens temporarily and inflation (2.3% in March) remains around the 2% target. **In the second scenario, a protracted trade war causes a recession this year and inflation rises temporarily above 3% in mid-2026 before returning to target**. Some 40% of a rate cut was priced in going into the meeting yesterday, triggering minor CAD appreciation after the status quo decision. Money markets expect less than two additional rate cuts for this year.
- Australian labour market numbers for March were strong but slightly underwhelming**. Employment grew by 32.2k (vs 40k expected) after February's 57.5k drop, almost equally split in full time and part time jobs. The 2.2% annual employment growth was slightly above the 20-year pre-pandemic average of 2. The unemployment rate barely budged with **rounding effects pushing the figure up from 4% to 4.1%**. The same effects lifted the participation rate 1bp to 66.8%. **First quarter inflation in New Zealand rose by 0.9% q/q to 2.5% y/y, up from 2.2%**. Both were slightly above consensus but remain within the 1-3% central bank target range for a third consecutive quarter. **Rent was the largest contributor**. The 3.7% increase was the first sub 4% reading since 2021. **Non tradeable CPI, a gauge for domestic price pressures, accelerated from 0.7% to 1.1% q/q, as did tradeable CPI from 0.3% to 0.8%**. Despite the inflation quickening, markets expect the central bank to further cut rates at the May meeting (to 3.25%).

## 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.**



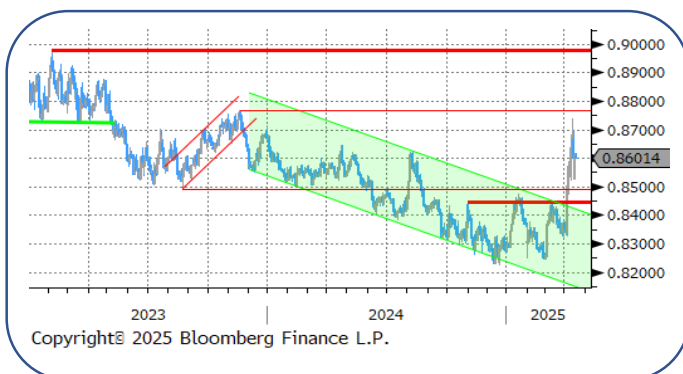
### US 10y yield

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 **1.1214/74/76 (2024/2023 top/62% retracement) resistance. Next short term 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 stagflation risks aren't boding well for the UK currency. EUR-strength and a global risk-off finally pushed EUR/GBP beyond 0.845 with next reference (0.8625/44) already being tested.

## Calendar & Table

Thursday, 17 April		Consensus	Previous
<b>US</b>			
14:30	Housing Starts (Mar)	1420k	1501k
14:30	Housing Starts MoM (Mar)	-5.4%	11.2%
14:30	Building Permits (Mar P)	1450k	1459k
14:30	Building Permits MoM (Mar P)	-0.60%	-1.00%
14:30	<b>Initial Jobless Claims</b>	<b>225k</b>	<b>223k</b>
14:30	Continuing Claims	1870k	1850k
14:30	<b>Philadelphia Fed Business Outlook (Apr)</b>	<b>2.2</b>	<b>12.50</b>
<b>Japan</b>			
01:50	Trade Balance Adjusted (Mar)	-¥233.6bA	¥191.4bR
01:50	Exports YoY (Mar)	3.90%A	11.40%
01:50	Imports YoY (Mar)	2.00%A	-0.70%
<b>EMU</b>			
14:15	<b>ECB Deposit Facility Rate</b>	<b>2.25%</b>	<b>2.50%</b>
14:15	ECB Main Refinancing Rate	2.40%	2.65%
14:15	ECB Marginal Lending Facility	2.65%	2.90%
<b>Germany</b>			
08:00	PPI MoM (Mar)	-0.1%/0.4%	-0.2%/0.7%
<b>Events</b>			
Q1 earnings	Blackstone (before market), Netflix (22:01),...		
01:00	Fed's Schmid Chats With Fed's Logan on Economy, Banking		
10:30	<b>Bank of England Bank Liabilities/Credit Conditions Surveys</b>		
10:50	France to Sell Bonds		
14:45	<b>ECB President Christine Lagarde Holds Press Conference</b>		
17:45	Fed's Barr Speaks in Fireside Chat		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.28	-0.06		US	3.77	-0.08	DOW	39669.39	-699.57
DE	2.51	-0.02		DE	1.75	-0.02	NASDAQ	16307.16	-516.01
BE	3.12	-0.03		BE	1.94	-0.02	NIKKEI	34338.11	417.71
UK	4.60	-0.04		UK	3.97	0.01	DAX	21311.02	57.32
JP	1.31	0.04		JP	0.65	0.03	DJ euro-50	4966.5	-3.93
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.03	3.47	3.74	€STR	2.4180	0.0020			
5y	2.21	3.53	3.79	Euribor-1	2.1990	-0.0080	SOFR-1	4.3191	-0.0069
10y	2.52	3.75	4.09	Euribor-3	2.2360	-0.0270	SOFR-3	4.2708	-0.0085
				Euribor-6	2.1940	-0.0200	SOFR-6	4.1170	-0.0244
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1399	0.0117		EUR/JPY	161.67	0.10	CRB	292.70	3.40
USD/JPY	141.88	-1.33		EUR/GBP	0.8608	0.0081	Gold	3346.40	106.00
GBP/USD	1.3244	0.0013		EUR/CHF	0.9270	-0.0021	Brent	65.85	1.18
AUD/USD	0.6371	0.0026		EUR/SEK	11.1173	-0.0270			
USD/CAD	1.3859	-0.0097		EUR/NOK	12.0398	0.0349			

## Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
CSOB Economics – Markets Prague		Hong Kong	
Jan Cermak	+420 2 6135 3578		+852 2525 9232
Jan Bures	+420 2 6135 3574	Prague	
Petr Baca	+420 2 6135 3570		+420 2 6135 3535
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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