



Wednesday, 23 April 2025

## KBC Sunrise Market Commentary

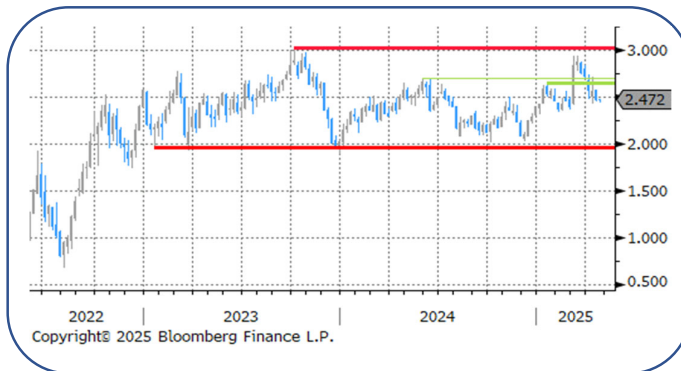
### Markets

- Yesterday during the day, **markets gradually entered calmer waters as the impact of the rift between President Trump and the Fed gradually unwound**. US equities more than reversed Monday's decline with major indices closing between 2.51% (S&P 500) and 2.71% (Nasdaq) higher. US Treasuries also entered calmer waters. Despite recent pressure from the White House, most Fed members (in a balanced way) still joined Chair Powell's thesis that policy is currently well positioned for changes in the economy and that if the combination of a solid labour market and higher inflation risks/expectations persists, the Fed will keep rates on hold at least of a while (e.g. Fed Kugler). **US yields in a corrective flattening move changed between + 5.7 bps (2-y) and -2.5 bps (30-y)**. However, the major market-relevant events still came after the close of US markets. President Trump's media messages aren't contained by the regular trading hours. In comments to reporters, he stated that **he has no intention of firing Powell**. He only would like him to be 'early or on time as opposed to being late' with respect to cutting interest rates. At the same time, **the US President also struck a relatively 'soft' tone on trade negotiations with China as he indicated that tariffs might drop substantially in case of a deal**. The comments of course were only 'temporary photo' of the mindset at the White House. Even so, it gave the impression of some kind of an intended de-escalation effort. US equities rallied further post-market. The US yield curve this morning bull flattens (30-y -7.5 bps) and the dollar regains some further ground after yesterday's intraday comeback (USD DXY 99.2, EUR/USD 1.138). On European markets, yields yesterday still declined a few bps (Germany -2.5 bps 2-y; -3.7 bps 30-y). Several ECB members, including Chair Lagarde, indicated that the ECB is close to reaching its price stability objective, but that all options are open for the June policy meeting as uncertainty remains elevated. Despite this balanced comments post last week's ECB meeting, markets continue to anticipate further 'aggressive' ECB easing later this year (near 1.50% by year end). We assume this trend has gone (more than) far enough.
- Asian markets this morning mostly show gains between 1 à 2% after the de-escalation in the US yesterday evening. Aside from new 'guidance' from the US administration, **markets today will keep a close eye at the April PMI's**. Overall sentiment in EMU (composite PMI) is expected to backtrack from the positive momentum in March (50.2 from 50.9). The survey already covers the period after Trump's tariff announcement on liberation day (April 2). Especially for Europe, we keep a close eye at **the expected impact on prices**. If slower growth coincides with rather modest price growth, it might further fuel the market debate on an additional ECB rate cut in June even as we consider it too early to draw conclusions. In the US, the composite index also is expected to ease from 53.5 to 52.0. Over there, a stagflationary narrative is likely, but an outright negative signal from the labour market might put additional pressure on the Fed to reconsider the balance with respect to its dual mandate. The dollar recently suffered from a US-driven risk-off, but we don't expect a sustained comeback, even in case of a (temporary) improvement in risk sentiment.

### News & Views

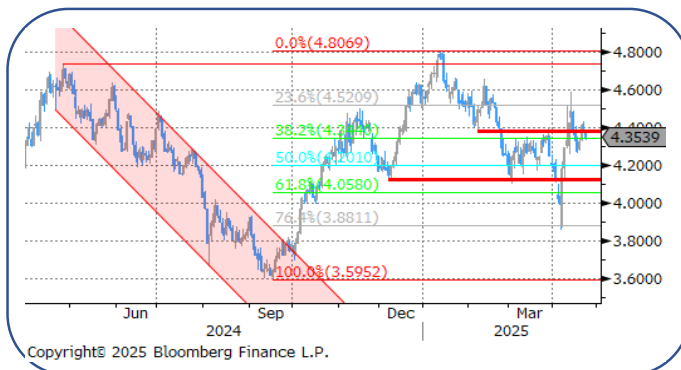
- Czech National Bank deputy governor Frait yesterday signaled room for **one more rate cut in the second half of the year, from 3.75% now to 3.5% even though investors expect it to be slightly lower in part due to global financial market turbulence**. Money markets discount a 25 bps at the next, May 7, policy meeting and a 3% policy rate by year-end. Ahead of that meeting, the CNB still gets Q1 GDP data (Apr 30) and one additional CPI report (May 6). Frait wants to be very careful with further monetary easing with the **labour market** being one of the reasons. It is still tight and wages, especially in market services, are growing relatively quickly. Rising property prices and fiscal dynamics are other domestic inflation risks.
- Rumours suggest that French President Macron is considering to call snap parliamentary elections as early as this autumn or alongside municipal elections next year (March)**. Macron is reportedly consulting with his inner circle and weighing the potential benefits and risks of such a move. The aim would be to regain a legislative majority, banking on his boost in popularity thanks to **greater international prominence**. The gamble to regain political stability through elections could backfire though in more political instability if results disappoint. Macron's presidential term ends in April 2027 ahead next parliamentary elections (June 2029).

## Graphs



### GE 10y yield

At the April meeting, confidence that inflation is returning to 2.0%, **allowed the ECB to reduce to policy rate to 2.25%, reaching neutral territory.** The ECB now moves to an outright data dependent approach, but overall uncertainty remains elevated. This could lead to a prolonged policy pause. At the same time, **German bunds ever more gain safe haven status** as uncertainty with respect to US assets intensifies. This for now slows the rise in LT yields.



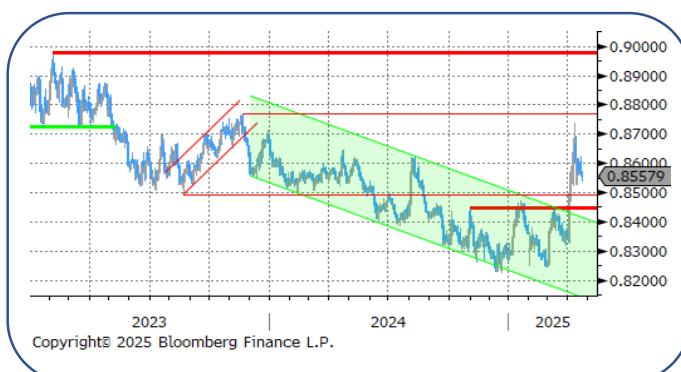
### US 10y yield

The Fed's updated forecasts in March are **full of stagflation risks. 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, with the sell US(T) pressure 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. Uncertainty on Fed independence also puts the 1.1495 February 2022 under heavy strain.**



### EUR/GBP

**Long end Gilt underperformance due to fiscal risks** weighed on sterling earlier this year. Temporary relief as president Trump seemed to be more forgiving towards the UK when it comes to tariffs, didn't last long. UK stagflation risk persists. **EUR-strength, renewed pressure on LT gilts and a global risk-off finally pushed EUR/GBP for a test of the 0.87 area.** Sterling stays vulnerable.

## Calendar & Table

Wednesday, 23 April		Consensus	Previous
<b>US</b>			
15:45	S&P Global US Manufacturing PMI (Apr P)	49.0	50.2
15:45	S&P Global US Services PMI (Apr P)	52.6	54.4
15:45	<b>S&amp;P Global US Composite PMI (Apr P)</b>	<b>52.0</b>	<b>53.5</b>
16:00	New Home Sales Total/MoM (Mar)	685k/1.30%	676k/1.80%
<b>Japan</b>			
2:30	<b>Jibun Bank Japan PMI Composite (Apr P)</b>	<b>51.1</b>	<b>48.9</b>
2:30	Jibun Bank Japan PMI Mfg (Apr P)	48.5	48.4
2:30	Jibun Bank Japan PMI Services (Apr P)	52.2	50
<b>UK</b>			
10:30	<b>S&amp;P Global UK Composite PMI (Apr P)</b>	<b>50.4</b>	<b>51.5</b>
10:30	S&P Global UK Manufacturing PMI (Apr P)	44.0	44.9
10:30	S&P Global UK Services PMI (Apr P)	51.5	52.5
<b>EMU</b>			
10:00	HCOB Eurozone Manufacturing PMI (Apr P)	47.4	48.6
10:00	HCOB Eurozone Services PMI (Apr P)	50.5	51
10:00	<b>HCOB Eurozone Composite PMI (Apr P)</b>	<b>50.2</b>	<b>50.9</b>
11:00	Construction Output MoM/YoY (Feb)	--/--	0.20%/0.00%
11:00	Trade Balance SA (Feb)	15.0b	14.0b
<b>Germany</b>			
9:30	HCOB Germany Manufacturing PMI (Apr P)	47.6	48.3
9:30	HCOB Germany Services PMI (Apr P)	50.2	50.9
9:30	<b>HCOB Germany Composite PMI (Apr P)</b>	<b>50.5</b>	<b>51.3</b>
<b>France</b>			
9:15	HCOB France Manufacturing PMI (Apr P)	47.9	48.5
9:15	HCOB France Services PMI (Apr P)	47.6	47.9
9:15	<b>HCOB France Composite PMI (Apr P)</b>	<b>48.4</b>	<b>48</b>
<b>Events</b>			
Q1 earnings	Boeing (bef-mkt), Chipotle Mexican Grill (22:10), IBM (aft-mkt) ...		
11:30	Germany to Sell EU4 Billion of 2.5% 2035 Bonds		
12:00	<b>ECB Wage Tracker (TBC)</b>		
12:00	ECB's Knot Speaks at PIIE in Washington		
12:30	<b>BOE's Pill Speaks</b>		
15:00	Fed's Goolsbee Gives Opening Remarks		
15:30	<b>Fed's Musalem, Waller Give Opening Remarks</b>		
19:00	U.S. To Sell 5-Year Notes		
19:15	<b>BOE's Bailey Speaks</b>		
20:00	<b>Fed Releases Beige Book</b>		
20:00	BOE's Breeden Speaks		
20:45	<b>ECB's Villeroy Speaks at Atlantic Council in DC</b>		
21:15	<b>ECB's Lane Speaks at IIF in Washington</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,40	-0,01		US	3,82	0,06	DOW	39186,98	1016,57
DE	2,44	-0,03		DE	1,66	-0,02	NASDAQ	16300,42	429,52
BE	3,06	-0,03		BE	1,85	-0,03	NIKKEI	34836,99	616,39
UK	4,55	-0,02		UK	3,83	-0,09	DAX	21293,53	87,67
JP	1,33	0,02		JP	0,69	0,02	DJ euro-50	4961,45	26,11
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	1,95	3,51	3,63	€STR	2,4170	0,0000			
5y	2,13	3,60	3,70	Euribor-1	2,1010	-0,0330	SOFR-1	4,3272	-0,0007
10y	2,46	3,85	4,05	Euribor-3	2,1910	0,0080	SOFR-3	4,2850	0,0037
				Euribor-6	2,1730	0,0190	SOFR-6	4,1389	0,0221
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1421	-0,0094		EUR/JPY	161,71	-0,49	CRB	297,30	3,89
USD/JPY	141,57	0,71		EUR/GBP	0,8567	-0,0037	Gold	3419,40	-5,90
GBP/USD	1,3332	-0,0047		EUR/CHF	0,9353	0,0039	Brent	67,44	1,18
AUD/USD	0,6367	-0,0048		EUR/SEK	10,9295	-0,0386			
USD/CAD	1,3815	-0,0028		EUR/NOK	11,8762	-0,0640			

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