Friday, 25 April 2025

KBC Sunrise Market Commentary

Markets

- **Market sentiment these days is fluid and conditional to all kinds of headlines.** For once, during yesterday's session, **the 'news flow-headlines-rumours combo' protractedly moved from a hesitant start toward a risk-on session.** US indices closed the session with gains from 1.23% (Dow) to 2.74% (Nasdaq). On the trade war, the best news was that there were **no new negative headlines from the US administration.** Even more, US President Trump said that his administration was having talks with China on trade (admittedly even as this was denied by China). Still market saw this as another sign of potential (US-sided) de-escalation. On the monetary policy front, **markets saw some 'openings' that the Fed in its dual mandate (over time) could give some more weight to labour market developments rather than to inflation.** Cleveland Fed President **Beth Hammack** indicated that the Fed could move in June IF they have clear and convincing data by then. At the same time, she indicated that she isn't operating with a base case scenario. Even so, the market picked it up as a dovish signal. Fed **governor Waller** indicated that tariffs might cause layoffs and that the would support rate cuts in case of a significant rise in unemployment. But he indicated that he doesn't expect significant effects of the tariffs to become apparent before July. **Minneapolis Fed Kashkari** mentioned that enough uncertainty may cause lay-offs. **For now, this is all conditional.** Recent data showed no outspoken weakening of the labour market yet (US jobless claims yesterday again were reported at a low 222k). Even so, it was enough for markets to price a higher probability of Fed easing in H2. **US yields in a steepening move declined between 8.7 bps (5-y) and 4.7 bps (30-y)**. Markets now see about 65% of a 25 bps cut in June and it is more than fully discounted for July. The focus turns the labour market data. **German yields moved in a similar way easing between 6.1 bps (2-y) and 3.4 bps (30-y).** The move was supported by ECB Rehn keeping the option open of bigger rate cuts if necessary. Chief economist Lane later kept a more balanced tone, as he wasn't that negative on EMU growth. Of late the impact of both interest rate differentials/expectations and/or risk sentiment the dollar often was different from the 'standard' market reaction function. **Still, yesterday the combination of lower US yields and risk-on weighed slightly on the dollar.** DXY eased to 99.28 (close). EUR/USD 'rebounded' to close at 1.139.
- **Risk sentiment in Asia this morning remains constructive as trade tensions are easing further.** According to sources referred to by financial news agencies, **China is considering suspending its 125% tariff at least on some key US goods to mitigate the economic damage.** In a first reaction, the dollar gains against the likes of the yen (USD/JPY 143.75) and the euro (EUR/USD 1.133) that recently profited from the Sell US trade. Later today, the eco calendar is thin. Markets might keep still keep an eye at the inflation expectations measures of the Final U. of Michigan consumer confidence release. After recent easing, US yields are nearing first support levels (2-y 4.70% area, 10-y 4.25% area). **UK March retail sales** reported this morning were strong (0.4% M/M and 2.6M% Y/Y). The reaction of sterling is close to non-existent (EUR/GBP 0.8535).

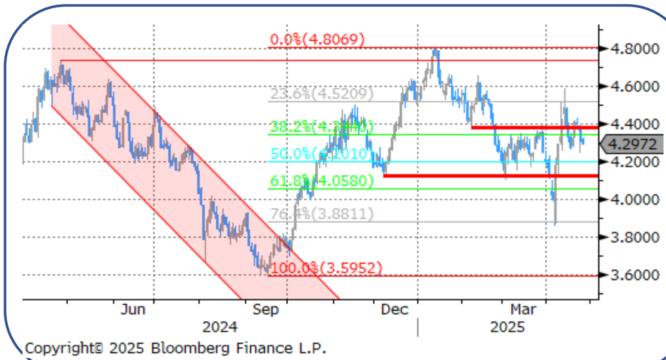
News & Views

- **Tokyo inflation figures remained uncomfortably high in April.** Headline inflation accelerated from 0.3% M/M to 0.4% M/M with core inflation (ex fresh food) and services inflation sticky at respectively 0.5% M/M and 0.3% M/M. In annual terms, **headline Tokyo CPI rose from 2.9% to 3.5% with the ex fresh food gauge spiking from 2.4% to 3.4%.** Both are the highest levels since April 2023, more than markets expected and way above the BoJ's 2% inflation target. A low base from last year's school-fee waiver, a sharp pickup in rent and price adjustments for the new fiscal year contributed to the acceleration. **The BoJ** recently shifted the onus to economic risks from stemming from the developing trade war, **but faces a difficult task turning a blind eye to price developments later this year.** The BoJ meets next week with money markets currently only attaching a 5% probability to a new rate hike.
- **UK consumer confidence (GfK) deteriorated from -19 in March to -23 in April, the weakest level since November 2023.** GfK comments that it was an extraordinarily unsettling month as the tariffs controversy filtered through to consumer sentiment. All five categories making up the index have declined. The biggest monthly move came in the "general economic situation over next 12 months" category, which fell from -29 to -37 (vs -21 one year ago). Also "personal financial situation over next 12 month" took a relatively big hit, from 1 to -3. Offering some glimmers of hope, there's only limited impact on major purchase intentions (-19 from -17). The savings index rose from 25 to 30.

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.

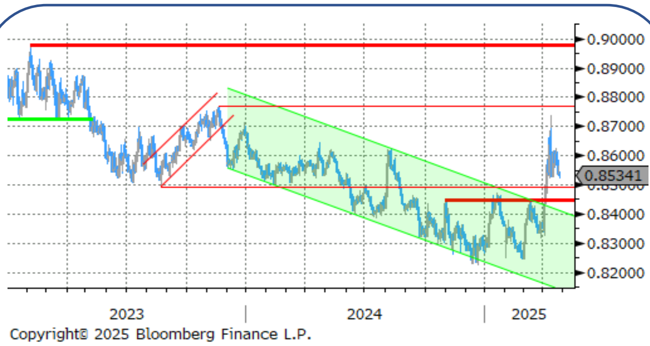


US 10y yield

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

Friday, 25 April		Consensus	Previous
US			
16:00	U. of Mich. Sentiment (Apr F)	50.5	50.8
16:00	U. of Mich. Current Conditions (Apr F)	56.0	56.5
16:00	U. of Mich. Expectations (Apr F)	46.3	47.2
16:00	U. of Mich. 1 Yr Inflation (Apr F)	6.80%	6.70%
16:00	U. of Mich. 5-10 Yr Inflation (Apr F)	4.40%	4.40%
17:00	Kansas City Fed Services Activity (Apr)	--	0
Japan			
1:30	**Tokyo CPI YoY (Apr)**	**3.50%A**	**2.90%**
1:30	Tokyo CPI Ex-Fresh Food YoY (Apr)	3.40%A	2.40%
1:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Apr)	3.10%A	2.20%
UK			
1:01	GfK Consumer Confidence (Apr)	-23A	-19
8:00	Retail Sales Ex Auto Fuel MoM/YoY (Mar)	-0.50%/2.00%	1.00%/2.20%
8:00	Retail Sales Inc Auto Fuel MoM/YoY (Mar)	-0.40%/1.80%	1.00%/2.20%
Events			
10:00	SNB's Schlegel Speaks at AGM in Bern		
21:15	BOE's Greene Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,31	-0,07		US	3,80	-0,07	DOW	40093,4	486,83
DE	2,45	-0,05		DE	1,69	-0,06	NASDAQ	17166,04	457,99
BE	3,03	-0,07		BE	1,86	-0,07	NIKKEI	35690,94	651,79
UK	4,50	-0,05		UK	3,88	-0,04	DAX	22064,51	102,54
JP	1,33	0,01		JP	0,69	0,01	DJ euro-50	5114,98	16,24
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	1,96	3,50	3,64	€STR	2,1690	0,0020			
5y	2,13	3,57	3,69	Euribor-1	2,1470	0,0130	SOFR-1	4,3199	-0,0010
10y	2,45	3,80	3,99	Euribor-3	2,1610	0,0030	SOFR-3	4,2836	-0,0088
				Euribor-6	2,1340	0,0300	SOFR-6	4,1418	-0,0245
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1390	0,0074		EUR/JPY	162,41	0,06	CRB	297,83	2,21
USD/JPY	142,63	-0,82		EUR/GBP	0,8537	0,0001	Gold	3348,60	54,50
GBP/USD	1,3342	0,0088		EUR/CHF	0,9419	0,0019	Brent	66,55	0,43
AUD/USD	0,6408	0,0048		EUR/SEK	10,9298	-0,0449			
USD/CAD	1,3853	-0,0029		EUR/NOK	11,8438	-0,0776			

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