



Monday, 28 April 2025

KBC Sunrise Market Commentary

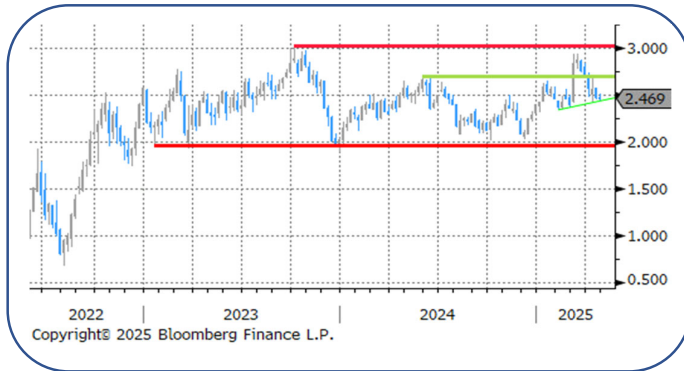
Markets

- US yields drifted further south on Friday in a generally technically driven trading session. Net daily changes ranged between -5 and -8.4 bps in a bull flattening move. The US 10-yr yield is testing support offered by the recent lows and by the lower bound of a short term upward trading channel. Bunds underperformed with yields inching higher up to 3.4 bps at the front, suggesting the recent (ECB) repricing stretched far enough. The 2-year yield's downside around 1.6% seems well protected. The same goes for Germany's 10-yr yield around 2.5%. Stocks rose both in Europe and the US with the S&P 500 taking out resistance around 5500. The dollar finish higher across the G10 currency board but that had no technical implications. The trade-weighted DXY index stayed sub 100 & EUR/USD remained near 1.14. USD/JPY rose from 142.6 to 143.6. US Treasury outperformance, rising (US) stocks and an appreciating greenback **suggests some of the tariff dust settled for the time being**. There is still huge uncertainty but barring any new (verbal) shocks we could see a shift from the sell-on-upticks in the US to some sideways consolidation. Focus meanwhile goes to the trade negotiations during the 90 day tariff "grace period" which the US says have been going well for a number of countries. **With the symbolic first 100 days of his presidency coming up, Trump may indeed be eager to announce an agreement "in principle" left and right**. Today's economic calendar in any case lacks market moving potential, adding to the case of consolidation instead. That does change from tomorrow on though with the JOLTS job openings and Conference Board consumer confidence due in the US and the first national CPI and Q1 numbers in the euro area. The EMU growth number is scheduled for release on Wednesday as is that for the US, accompanied by PCE inflation. Thursday's headliners are the US manufacturing ISM and the Bank of Japan with April payrolls starting on Friday. The **heavy, backloaded economic calendar** offers a great opportunity to check whether economic data, especially in the US, will have regained importance compared to the previous weeks.

News & Views

- Rating agency S&P on Friday downwardly revised the outlook on the sovereign credit rating of Belgium from stable to negative.** The long term credit rating remains at AA. The agency said the negative outlook reflects **heightened risk regarding Belgian's budgetary consolidation**, given the already high government debt of 104% of GDP in 2024. The agency in this respect mentions that the risks from the **current tensions could weigh on Belgium's economic growth** prospects as a key commerce hub in Europe. The agency takes notice of agreement of the Arizona coalition on the 2025 budget outlining a budget deficit reduction path in line with the seven year reform plan submitted on the EC excessive debt procedure. **The plan is expected to halt the rise in the deficits**, which could reach 6.0% in 2027 without policy measures, and the decrease it to 3.0% in 2030, but S&P mentions **significant challenges to the implementation** including the complex regional negotiations and a possible social backlash. Rising defense spending is also seen as likely to slow the pace of fiscal consolidation.
- Rating agency S&P also downwardly revised the outlook on the Slovak credit rating from stable to negative.** The long term sovereign rating remains at A+. The negative outlook reflects the **risks that global trade tensions could weigh on the projection for Slovakia's medium-term growth**, against the backdrop of the high export exposure of its economy. It also could **hamper the government's fiscal consolidation efforts** and keep its debt ratio on an upward trend. The Slovak government has started an ambitious fiscal consolidation. S&P projects that the measures will reduce the deficit to around 3%-4.% of GDP by 2027, from 5.3% in 2024. However, due to the trade uncertainty, S&P lowered the GDP growth projection from 2025-26 to just over 1.0%. Slovakia's automotive-heavy economy is vulnerable to U.S. tariffs, and the associated uncertainty detracts from external demand and consumption that is already subdued. **EU-funded investments and the German fiscal package will provide some support for the economy**. S&P also assesses that the government will aim to preserve sound relations with the EU while the domestic political climate remains polarized.

Graphs



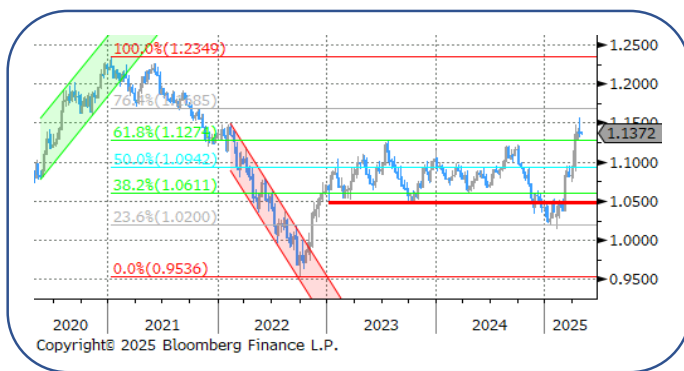
GE 10y yield

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

Monday, 28 April		Consensus	Previous
UK			
12:00	CBI Total Dist. Reported Sales (Apr)	--	-32
12:00	CBI Retailing Reported Sales (Apr)	-20	-41
Spain			
9:00	Retail Sales YoY (Mar)	--	0.80%
Sweden			
8:00	PPI MoM/YoY (Mar)	--/--	-0.10%/3.40%
Events			
11:30	EU to Sell Bonds		
12:00	Belgium to Sell Bonds		
15:00	ECB's Rehn Speaks in Online Event ()		
15:00	ECB's Guindos Speaks in EU Parliament ()		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4.24	-0.08		US	3.75	-0.05		DOW	40113.5	20.10
DE	2.47	0.02		DE	1.72	0.03		NASDAQ	17382.94	216.90
BE	3.05	0.03		BE	1.89	0.03		NIKKEI	35805.76	100.02
UK	4.48	-0.02		UK	3.86	-0.02		DAX	22242.45	177.94
JP	1.32	-0.03		JP	0.69	-0.01		DJ euro-50	5154.12	39.14
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	1.98	3.44	3.63	€STR	2.1670	-0.0020				
5y	2.14	3.49	3.67	Euribor-1	2.1390	-0.0080		SOFR-1	4.3206	0.0007
10y	2.45	3.72	3.97	Euribor-3	2.1740	0.0130		SOFR-3	4.2767	-0.0069
				Euribor-6	2.1410	0.0070		SOFR-6	4.1228	-0.0190
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1365	-0.0025		EUR/JPY	163.3	0.89		CRB	298.46	0.63
USD/JPY	143.67	1.04		EUR/GBP	0.8536	-0.0001		Gold	3298.40	-50.20
GBP/USD	1.3315	-0.0027		EUR/CHF	0.9409	-0.0010		Brent	66.87	0.32
AUD/USD	0.6395	-0.0013		EUR/SEK	11.0115	0.0817				
USD/CAD	1.3863	0.0010		EUR/NOK	11.8628	0.0190				

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