



Tuesday, 06 May 2025

## KBC Sunrise Market Commentary

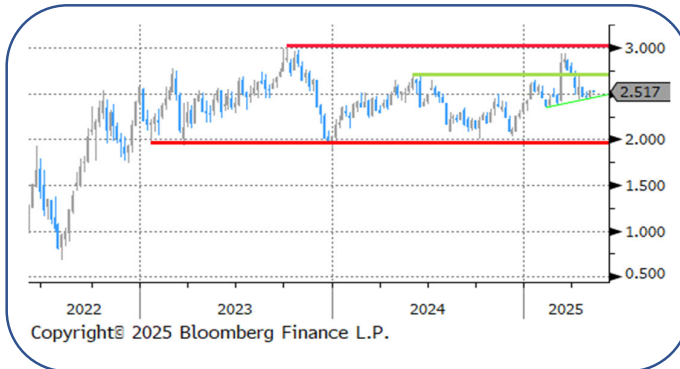
### Markets

- Markets took a slow start to the trading week as the risk rally fizzled and with UK markets closed for May Day holiday.** The German Dax's outperformance (+1.1%) was exception to the rule. The index is just a session away from breaking the previous all-time high set in March, implying full retracement on the 20% (!) hit from the build-up to and aftermath of US President Trump's Liberation Day. **At least according to this metric, it's becoming clear that the impact of the new German government's policies (announcements on fiscal/defense spending expected before summer) will offset the damaging impact from tariff wars.** Yesterday's sole data point was **a consensus-beating April Services ISM** (51.6 from 50.8 vs 50.2 expected). It's a welcome sign after last month's sudden collapse in the ISM (53.5 to 50.8). Details showed lower business activity (53.7 from 55.9), but an acceleration in new orders (52.3 from 50.4). Businesses cut jobs for a second month straight, though at a slower pace (49 from 46.2). The prices paid index rose to its highest level since January 2023 (65.1 from 60.9). **The ISM triggered some underperformance of US Treasuries vs German Bunds.** The intraday bear flattening isn't reflected in the daily close because of performance in the run-up to the release. Daily changes on the US curve eventually ranged between 0.8 bps (2-yr) and +4.6 bps (30-yr). German yields closed between flat (30-yr) and 2 bps lower (5-yr). The US dollar erased earlier losses following the ISM with EUR/USD dipping from an intraday high at 1.1360 back to opening levels just above 1.13. **Short term, we expect more underperformance of US Treasuries in combination with a stronger dollar (testing EUR/USD 1.1276/74 support).** The ISM **further reduced Fed rate cut bets at the June meeting, from around 33% to 25%.** The US central bank is expected to keep rates steady at tomorrow's meeting and signal no intent to break the deadlock any time soon. The trade-off between downside risks to the maximum employment goal and upside risks to price stability clearly tilt to the latter. Not only because of the expected impact from tariffs on already above target inflation, but also from the self-fulfilling risk coming from surging inflation expectations for consumers and companies. **We stick to the view that the Fed rate cut pause will last at least over summer.** The Powell Fed has **a track record of wanting to be very sure and then going fast.** If the labour market breaks, they'll be inclined to use the ample policy room towards neutral levels as soon as possible. They showcased that last September by kicking off with a 50 bps rate cut. That contrasts hugely with the US money market view of pre-emptive 25 bps rate cuts. **Today's eco calendar is razor thin apart from a \$42bn 10-yr Note auction.** The success will be indicative on the return of market calm following last month's violent sell-off at the long end of the curve (US risk premium). The real test comes on Thursday with a \$25bn 30-yr bond auction. Yesterday's \$58bn 3-yr Note sale was solid.

### News & Views

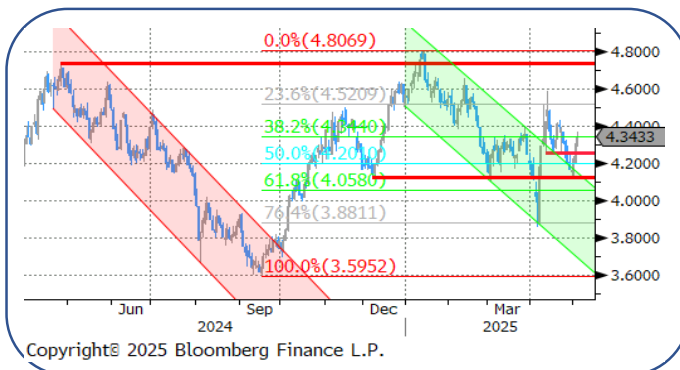
- The European Commission will today announce a plan to fully end gas imports from Russia.** European officials familiar with the matter said **companies will have to stop all spot market gas contracts with Russian suppliers by the end of the year while long-term contracts are due to be severed by 2027.** Doing so would wean the bloc off almost fully from Russian fossil fuels. Before the invasion of Ukraine in 2022, the EU imported more than 40% of its pipeline gas imports and almost 30% of crude oil from Russia. Both significantly decreased on face value since then but in the case of gas, there has been a shift from pipeline transit to LNG. The EU last year imported a record amount of Russian LNG. The Commission's plan is also intended as a signal to Washington that **the EU stands ready to buy more US LNG as a way to reduce its trade deficit.**
- China's services sector barely grew in April,** the Caixin private sector PMI suggests this morning. The headline index retreated from 51.9 to 50.7, the lowest in seven months. **Weak details included the slowest rise in business orders since December 2022 and staff reduction for a second month straight.** Concerns over the negative impact of shifting trade policies also weighed on sentiment. **Business confidence among service providers slipped to the second-lowest level recorded since data collection began in November 2005.** This concerning outlook for sales led service companies to reduce their charges again despite stronger cost inflation. Despite the poor PMI, China's onshore yuan rallies nevertheless during the first session of the month this morning. It's mostly a catch-up move with the offshore CNH's performance over the last couple of days, in turn linked rising trade deal hopes.

## Graphs



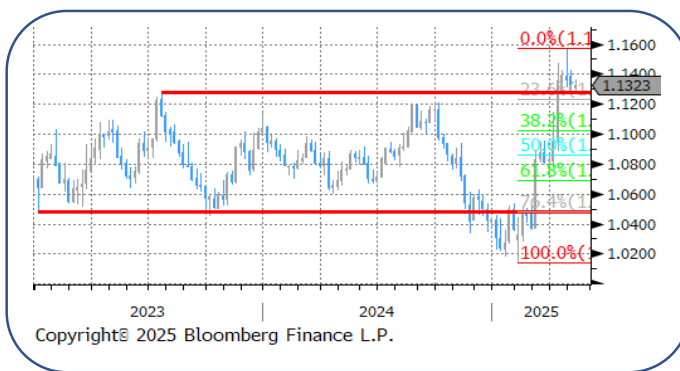
### GE 10y yield

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. Treasuries slid in the Sell US trade before finding a short term bottom.



### 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

Tuesday, 06 May		Consensus	Previous
<b>US</b>			
14:30	Trade Balance (Mar)	-\$137.2b	-\$122.7b
<b>UK</b>			
10:30	S&P Global UK Composite PMI (Apr F)	48.2	48.2
<b>EMU</b>			
10:00	HCOB Eurozone Composite PMI (Apr F)	50.1	50.1
11:00	PPI MoM/YoY (Mar)	-1.4%/2.5%	0.20%/3.00%
<b>France</b>			
8:45	Industrial Production MoM/YoY (Mar)	0.30%/-0.20%	0.70%/-0.40%
<b>Italy</b>			
9:45	HCOB Italy Services PMI (Apr)	51.3	52
9:45	HCOB Italy Composite PMI (Apr)	50.2	50.5
<b>China</b>			
3:45	Caixin China PMI Composite (Apr)	51.1A	51.8
3:45	Caixin China PMI Services (Apr)	50.7A	51.9
<b>Czech Republic</b>			
9:00	CPI MoM/YoY (Apr P)	0.10%/2.10%	0.10%/2.70%
<b>Sweden</b>			
8:30	Swedbank/Silf PMI Services (Apr)	50.0	49.4
8:30	Swedbank/Silf PMI Composite (Apr)	--	50.6
<b>Events</b>			
10:50	France to Sell Bonds		
11:30	Germany to Sell EU4.5 Billion of 2.4% 2030 Bonds		
19:00	U.S. To Sell USD42 Bln 10-Year Notes		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.31	0.09		US	3.82	0.13	DOW	41317.43	564.47
DE	2.53	0.09		DE	1.76	0.08	NASDAQ	17977.73	266.99
BE	3.13	0.09		BE	1.93	0.08	NIKKEI	36830.69	0.00
UK	4.51	0.03		UK	3.86	0.03	DAX	23086.65	589.67
JP	1.26	0.00		JP	0.61	0.00	DJ euro-50	5285.19	124.97
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	2.02	3.51	3.60	€STR	2.1680	0.0120			
5y	2.20	3.54	3.66	Euribor-1	2.1490	-0.0160	SOFR-1	4.3348	0.0095
10y	2.50	3.77	3.98	Euribor-3	2.1420	-0.0140	SOFR-3	4.3020	0.0344
				Euribor-6	2.1430	0.0140	SOFR-6	4.1718	0.0671
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1297	0.0007		EUR/JPY	163.8	-0.38	CRB	290.30	0.81
USD/JPY	144.96	-0.43		EUR/GBP	0.8517	0.0013	Gold	3243.30	21.10
GBP/USD	1.3272	-0.0006		EUR/CHF	0.9345	-0.0020	Brent	61.29	-0.84
AUD/USD	0.6434	0.0051		EUR/SEK	10.915	-0.0883			
USD/CAD	1.3812	-0.0042		EUR/NOK	11.758	-0.0228			

## 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
		Hong Kong	+852 2525 9232
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
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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