



Thursday, 08 May 2025

KBC Sunrise Market Commentary

Markets

- “*We think we’re in the right place to wait and see how things evolve*” wraps up yesterday’s press conference by Fed Chair Powell. Comments were very similar to the ones made on April 16 before the Economic Club of Chicago. The official statement pointed out that compared to March, **uncertainty about the economic outlook has increased further and that risks of both higher unemployment and higher inflation have risen**. If the dual-mandate goals are in tension, the US central bank will 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. With inflation above target and the unemployment rate currently in line with the NAIRU-estimate from the March Summary of Economic Projections, this suggests a **clear focus on inflation still**. US economic activity has continued to expand at a solid place, although swings in net exports have affected the data. **We stick with our call of a prolonged Fed pause, stretching at least over Summer**. US money markets currently discount a 20% probability to a June cut and a 80% probability to action in July. **Once risks to the labour market materialize, we think the Fed will immediately opt bigger (50 bps) rate cuts, using the policy room towards neutral levels**. It’s hard to pinpoint that exact moment, if it even were to occur. As Powell said: “*it’s not a situation where we can be pre-emptive because we actually don’t know what the right response to the data will be until we see more data*.” Yesterday’s status quo didn’t really surprise. US Treasury yields yesterday lost 0.6 bps (2-yr) to 3.8 bps (7-yr) with the belly of the curve outperforming the wings. The dollar gained against the euro (EUR/USD 1.1301 close) but that move coincided more with news that **the Trump administration plans to rescind Biden-era AI chip curbs** as part of a broader effort to revise semiconductor trade restrictions. The latter helped a positive close for the likes of Nasdaq (+0.27%) and S&P 500 (+0.43%) as well, overturning earlier losses. **Focus turns to the UK today**. Not only because of the scheduled BoE policy meeting, but also as US President Trump is expected to announce a **framework of a trade deal with the UK**. It’s the first such announcement which should start negotiations on tariff rates, non-tariff barriers, digital trade,... in coming months. Sterling welcomed the news with EUR/GBP dipping below the 0.85-handle this morning. **The UK central bank is expect to deliver a 25 bps rate cut**. A new Monetary Policy Report will **balance growth and inflation risks and might put the BoE on a more activist future path compared to the quarterly cutting pace** in place since August of last year.

News & Views

- The Czech central bank (CNB) lowered policy rates by 25 bps yesterday to 3.5%**. The cut was priced in, especially following a bigger-than-expected drop in April inflation to 1.8%, the slowest pace since 2018. The CNB noted, however, that services inflation remains elevated amid above-average wage growth and warned for significantly rising property prices. **It beefed up its inflation forecast in the spring update for 2025 to 2.5% and for 2026 to 2.2% compared to the winter edition**. The balance of risks is still **modestly inflationary overall**, with the CNB mentioning risks of inertia in services and food inflation, higher public spending, increased wage demands and an acceleration in (property) lending activity. Governor Michl in the presser later added that these **inflation risks limit the room for further easing but also said that there was no agreement whether yesterday’s “very cautious” cut was the last one in the current cycle**. The **GDP forecast for this year remained unchanged at 2%** while the one for **next year was downgraded to 2.1%**. The impact of the trade conflict on both inflation and growth could not “*reliably assess at the moment*”. Czech swap yields finished between 3.3-7.7 bps lower. The Czech koruna ended the day higher though (EUR/CZK 24.91).
- “*Taking into account incoming information, including lower current and forecasted inflation, decreasing wage growth and weaker data on economic activity, in the Council’s assessment, the adjustment of the level of the NBP interest rates became justified*.” And with that, the **National Bank of Poland (NBP) yesterday slashed interest rates for the first time since late 2023 by 50 bps to 5.25%**. While making it sound like a no-brainer now, the decision does mean **a sharp U-turn** by the central bank, not least by its governor who up until a month ago suggested no rate cuts until 2026. Glapinski changed his tone dramatically following the April policy meeting, which took place after Trump’s Liberation Day announcement. It meant yesterday’s cut was also widely expected, resulting stoic PLN trading around EUR/PLN 4.265 afterwards. **The NBP statement offered no guidance on future moves but Glapinski might during the presser later today**.

Graphs



GE 10y yield

At the April meeting, confidence that inflation is returning to 2.0%, allowed the ECB to reduce its 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.



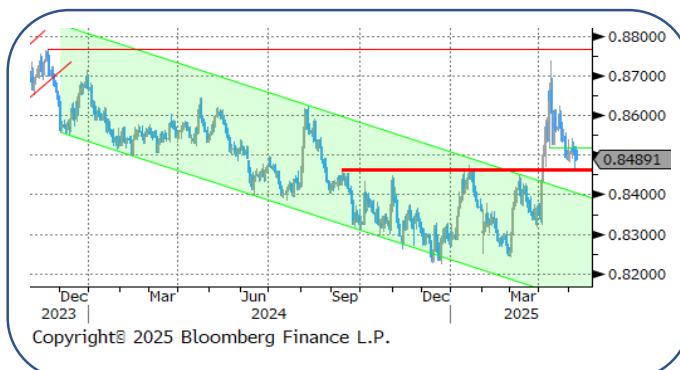
US 10y yield

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

Thursday, 08 May			Consensus	Previous
US				
14:30	Nonfarm Productivity (1Q P)		-0.80%	1.50%
14:30	Unit Labor Costs (1Q P)		5.10%	2.20%
14:30	Initial Jobless Claims		230k	241k
14:30	Initial Claims 4-Wk Moving Avg		--	226k
14:30	Continuing Claims		1895k	1916k
17:00	NY Fed 1-Yr Inflation Expectations (Apr)		--	3.58%
UK				
13:00	Bank of England Bank Rate		4.25%	4.50%
15:00	DMP 3M Output Price Expectations (Apr)		4.00%	3.90%
15:00	DMP 1 Year CPI Expectations (Apr)		3.50%	3.40%
Germany				
8:00	Industrial Production SA MoM/WDA YoY (Mar)		1.00%/-2.70%	-1.30%/-4.00%
8:00	Exports SA MoM (Mar)		1.00%	1.90%R
8:00	Imports SA MoM (Mar)		0.40%	0.80%R
Norway				
10:00	Deposit Rates		4.50%	4.50%
Sweden				
9:30	Riksbank Policy Rate		2.25%	2.25%
Events				
19:00	US To Sell USD25 Bln 30-Year Bonds			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
US	4.27	-0.03	US	3.78	-0.01	DOW	41113.97	284.97
DE	2.48	-0.06	DE	1.71	-0.03	NASDAQ	17738.16	48.50
BE	3.07	-0.06	BE	1.87	-0.04	NIKKEI	36965.19	185.53
UK	4.46	-0.05	UK	3.80	-0.03	DAX	23115.96	-133.69
JP	1.33	0.02	JP	0.63	0.00	DJ euro-50	5230.19	-33.19
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d
3y	1.97	3.46	3.57	€STR	2.1690	0.0020		
5y	2.13	3.50	3.63	Euribor-1	2.1710	0.0270	SOFR-1	4.3262
10y	2.43	3.73	3.93	Euribor-3	2.1500	0.0070	SOFR-3	4.3062
				Euribor-6	2.1460	0.0010	SOFR-6	4.1881
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1301	-0.0069	EUR/JPY	162.55	0.57	CRB	289.76	-2.48
USD/JPY	143.83	1.38	EUR/GBP	0.8503	-0.0002	Gold	3391.90	-30.90
GBP/USD	1.3292	-0.0077	EUR/CHF	0.9309	-0.0039	Brent	61.12	-1.03
AUD/USD	0.6424	-0.0071	EUR/SEK	10.9258	0.0438			
USD/CAD	1.3839	0.0061	EUR/NOK	11.6977	0.0190			

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