



Friday, 09 May 2025

KBC Sunrise Market Commentary

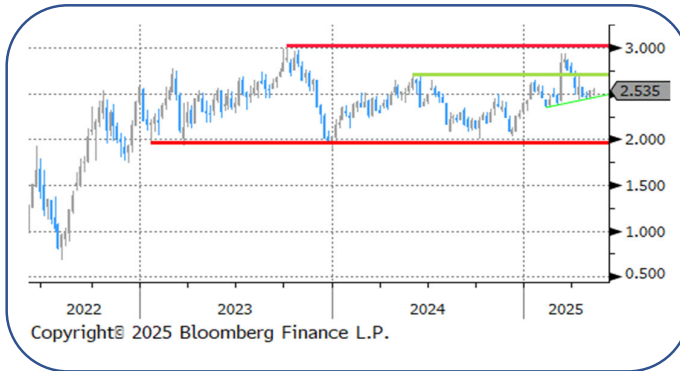
Markets

- Today's thin eco calendar** gives the opportunity to **reflect on the past week's events**. First and foremost, **the Fed extended its policy rate pause and indicated that the needle in the compass remains pointed at (upside) inflation (risks)**. The message kicked in yesterday with US yields rising by 7.5 bps (30-yr) to 12.1 bps (5-yr), the belly underperforming the wings. **A weak \$25bn 30-yr Bond auction** contrasted with solid sales of 3-yr and 10-yr Treasuries earlier this week, but didn't trigger any additional "panic" sales. The likes of Fed Barr, Kugler, Williams, Barkin, Goolsbee and Waller might elaborate on the decision and the Fed's reaction function in scheduled speeches later today. **The sell-off in US T's also contrasted with the better performance of US equities and the dollar**. Both profited from **positive trade vibes**, coming from the UK-US trade deal ("not a template"), but especially from US President Trump comments suggesting that **tariffs against China could be lowered if talks go well**. US Treasury Secretary Bessent and trade negotiator Greer meet with Chinese vice premier He Lifeng in Geneva this weekend in first high-level talks since the trade escalation. The fentanyl issue serves as the icebreaker. Main US equity gauges rallied by up to 1% for Nasdaq. **EUR/USD lost first support at 1.1274/76**, providing room for a temporary return towards the 1.10-area. Medium-term, we stick to our view that the pair is in a technical buy-the-dip pattern. Monetary policy decisions in Sweden & Norway (status quo) and the Czech Republic & the UK (hawkish 25 bps rate cuts) are another reflection point. **Central banks clearly stated that the huge amount of uncertainty actually numbs the short term decision making process**. They align with the Powell view that it takes more data to see which risks to the growth and inflation outlook effectively materialize. In the case of the UK and the BoE, the MPC clearly downplayed the doom and gloom scenarios that some investors currently take into account. **The UK Gilt curve bear flattened yesterday** with yield rising by 6.5 bps (30-yr) to 12.4 bps (2-yr) as **the BoE remains on a gradual (quarterly) rate cutting pace**. EUR/GBP tested first support at 0.8474 and closed just above that handle. BoE governor Bailey and BoE chief economist Pill will today elaborate on the decision making process. Yesterday's central bank outcomes put aggressive market pricing on future ECB policy, both from a timing and from a structural perspective, into doubt but didn't trigger a real momentum change. Daily changes on the German curve varied between +5 and +6 bps yesterday.

News & Views

- Chinese exports (USD terms) in April rose 8.1% y/y, way more than the 2% expected**. April was the first month capturing the effects of the disruptive import tariffs announced on Liberation Day (April 2). That explains the low consensus bar. **Chinese exports to the US indeed slumped around 20% but were compensated by a similar-sized increase to other Asian nations and by an 8% uptick to the EU**. It's expected that this rerouting will pick up in the coming months as well. **Chinese imports from the US dropped by 14%**, a consequence of the retaliatory Chinese import tariffs. **Total imports fell 0.2% y/y compared to the -6% expected**. China's yuan weakens today in a move that already took place ahead of the data. USD/CNY rises for a third day straight to the 7.25 area, erasing a large part of the losses in the wake of the PBOC's significantly lower fixing on Tuesday.
- The Polish zloty yesterday appreciated towards EUR/PLN 4.25 from 4.27 after **National Bank of Poland governor Glapinski explained Wednesday's 50 bps rate cut in more detail**. He said inflation has peaked and an improved CPI outlook **allowed for some easing**. But Glapinski warned **the fight isn't won yet and said the first rate cut since end 2023 doesn't mean the start of a cycle**. The central bank is now **back at wait-and-see**, he said, adding that future policy moves hinge on **the July projection**. Were the NBP to cut further, the governor suggested it would be **by 25 bps** rather than the 50 bps they did earlier this week. MPC member Kotecki in some comments this morning favours a total of 100 bps this year with a follow-up move preferably in September. Wnorowski weighed in as well, with July seen as the earliest possible occasion for another, normal-sized cut.

Graphs



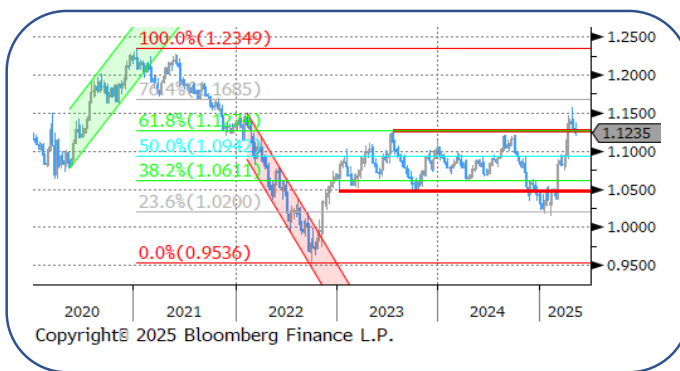
GE 10y yield

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.



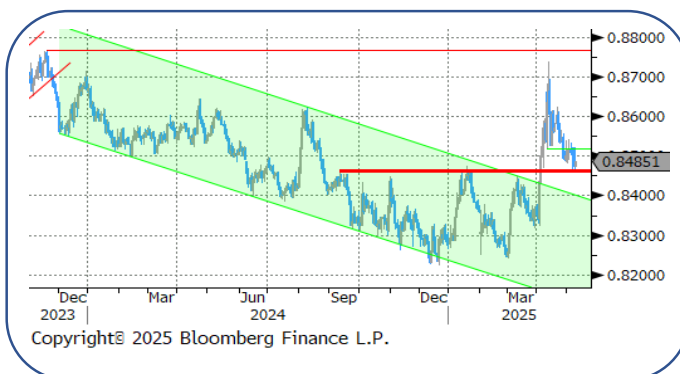
US 10y yield

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 is in a buy-the-dip pattern with the less explosive trade situation offering some relief for the dollar



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, 09 May		Consensus	Previous
Canada			
14:30	Net Change in Employment (Apr)	5.0k	-32.6k
14:30	Unemployment Rate (Apr)	6.80M	6.70%
14:30	Participation Rate (Apr)	65.30%	65.20%
14:30	Hourly Wage Rate Permanent Employees YoY (Apr)	3.30%	3.50%
14:30	Full Time Employment Change (Apr)	--	-62.0k
14:30	Part Time Employment Change (Apr)	--	29.5k
Japan			
1:30	Real Cash Earnings YoY (Mar)	-2.10%A	-1.50%R
1:30	Labor Cash Earnings YoY (Mar)	2.10%A	2.70%R
1:30	Cash Earnings-Same Sample Base YoY (Mar)	2.40%A	2.50%R
1:30	Household Spending YoY (Mar)	2.10%A	-0.50%
Italy			
10:00	Industrial Production MoM/WDA YoY (Mar)	-0.50%/1.90%	-0.90%/-2.70%
Hungary			
8:30	CPI MoM/YoY (Apr)	0.10%/4.00%	0.00%/4.70%
Norway			
8:00	CPI MoM/YoY (Apr)	0.60%/2.50%	-0.70%/2.60%
8:00	CPI Underlying MoM/YoY (Apr)	0.60%/3.20%	0.20%/3.40%
Events			
8:00	ECB's Rehn, EU's Virkkunen Speak at Bruegel Event in Helsinki		
9:45	ECB's Simkus Speaks in Reykjavik		
10:40	BOE's Bailey Speaks		
11:55	Fed's Barr Gives Speech on AI and the Labor Market		
12:45	Fed's Kugler Gives Speech on Maximum Employment		
13:15	BOE's Pill Speaks		
14:30	Fed's Williams Gives Keynote Address in Reykjavik		
14:30	Fed's Barkin to Take Part in Fireside Chat in Virginia		
16:00	Fed's Goolsbee Gives Remarks at Fed Listens Event		
17:30	Fed's Williams, Waller on Panel at Hoover		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.38	0.11		US	3.87	0.10	DOW	41368.45	254.48
DE	2.54	0.06		DE	1.77	0.06	NASDAQ	17928.14	189.98
BE	3.12	0.05		BE	1.93	0.06	NIKKEI	37543.11	614.48
UK	4.55	0.09		UK	3.93	0.12	DAX	23352.69	236.73
JP	1.36	0.03		JP	0.64	0.00	DJ euro-50	5288.94	58.75
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.03	3.58	3.69	€STR	2.1710	0.0020			
5y	2.20	3.62	3.73	Euribor-1	2.1310	-0.0400	SOFR-1	4.3255	-0.0007
10y	2.50	3.84	4.03	Euribor-3	2.1380	-0.0120	SOFR-3	4.3110	0.0048
				Euribor-6	2.1340	-0.0120	SOFR-6	4.2135	0.0254
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1228	-0.0073		EUR/JPY	163.82	1.27	CRB	292.01	2.25
USD/JPY	145.91	2.08		EUR/GBP	0.8476	-0.0027	Gold	3306.00	-85.90
GBP/USD	1.3246	-0.0046		EUR/CHF	0.9340	0.0031	Brent	62.84	1.72
AUD/USD	0.64	-0.0024		EUR/SEK	10.9292	0.0034			
USD/CAD	1.3924	0.0085		EUR/NOK	11.7128	0.0151			

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