



Monday, 12 May 2025

KBC Sunrise Market Commentary

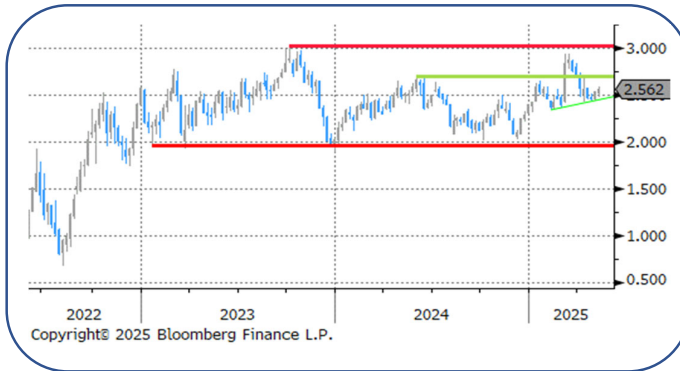
Markets

- Markets of late gradually faced something what, with some exaggeration, one can label as 'tentatively reflationary vibes'. For now, hard (US) eco data, despite the post-liberation Day trade escalation held up fairly well (US payrolls, GDP, but also the likes of the EMU Q1 GDP). **This allowed central bankers (Fed, BoE and several others) to hold a guarded, gradual approach on further easing.** The first US trade agreement with UK last week also reinforced the feeling that US trade policy entered some kind of **de-escalation phase**, with markets looking forward to first high level talks between US and Chinese officials in Switzerland this weekend. Moves on yield markets on Friday were limited (US yields changed less than 2 bps across the curve), **but the broader bottoming pattern was confirmed.** ECB policymakers in their communication of late focused more on the potential deflationary impact of the trade conflict, suggesting room for some further easing. However, given markets already discounting an ECB depo rate below 1.75%, there was also room for some bottoming. German yields on Friday added between 1.2 bps (2-y) and 3.0 bps (30-y). **The bottoming out narrative from yield markets to some extent spilled over to the dollar.** The US currency last month was a major victim of the trade disruption, which was seen as raising the risk of a US recession. Uncertainty on what will happen in H2 remains elevated, but data showing some resilience and the Fed for now in no hurry to remove interest rate support provided some support even as USD momentum remains tepid, to say the least. On Friday, with little high profile data or headline news, the dollar lost marginally (close DXY 100.34, EUR/USD 1.125). **Still, the US currency as a trend further left the April lows behind.**
- At the start of the new trading week, **it looks that the cautiously positive momentum can be maintained as China and the US reported 'substantial progress' after the talks in Switzerland during the weekend.** They provided no concrete details on any reduction in tariffs yet, but negotiators said to have agreed on a mechanism for further talks. Additional communication is said to come later today. Most Asian markets show modest gains of about 0.5% -1.0%. The ceasefire in the conflict between India and Pakistan might be a positive for regional markets, too. US yields are adding 3-4 bps across the curve. US equity futures gain 1.0%-2.0%. The dollar also again shows cautious gains (EUR/USD 1.1215, USD/JPY 146.1). **Today's eco calendar in the US and EMU is almost empty.** So the focus will remain on progress in trade talks between the US and China (and/or other trading partners). **Later this week**, the US April CPI (Tue), retail sales (Thu) and Michigan confidence (Fri) deserves attention. Unless these data show an unexpected substantial setback, the bottoming out process in US yields and the dollar might continue. This might also apply to German yields. In this respect, the concrete implementation of the fiscal plans of the new German government gradually might get some more attention after the risk driven rally of Bunds post Liberation Day.

News & Views

- The downturn in UK hiring activity eased in April according to the latest KPMG & REC UK report on jobs.** Both permanent placements and temp billings fell at softer rates compared to March amid reports of weak employer confidence and tighter hiring budgets. Recruiters signaled a further marked drop in demand for workers (18th consecutive month) which, alongside redundancies, drove another rapid increase in candidate availability (2nd sharpest pace since December 2020). **Turning to pay, stronger than average increases in the national minimum and living wage rates underpinned the quickest temp pay for nearly a year.** Starting salaries increases again, but remain below the long term average pace of growth. REC commented that "the biggest single drag factor on activity right now is uncertainty, some of which can't be helped but payroll tax costs and regulation design is in the Government's gift".
- Chinese consumer prices rose by 0.1% M/M in April, to be down on an annual basis for a third consecutive month (-0.1% Y/Y).** Details showed core inflation rising by 0.5% Y/Y and services prices by 0.3% Y/Y while goods deflation was extended with a 0.3% annual drop. Food prices, which have a heavy weight in the price basket, "only" fell 0.2% Y/Y (down from 1.4% in March). **Factory gate deflation persisted for a 31st month** with producer prices falling by 2.7% Y/Y. Supply keeps outstripping demand with government and PBOC easing actions in the trade war aimed to at least partly restore the balance. Those effects might only start showing in Summer though.

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 slowed 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. Some relieve kicked in as president Trump seemed to be more forgiving towards the UK when it comes to tariffs. Recently, UK eco data weren't that bad and the Bank of England at the May meeting held to a path of gradual easing. This helped sterling to further regain some lost territory. Short-term momentum on sterling improved, but fiscal issues still loom further out.

Calendar & Table

Monday, 12 May		Consensus	Previous
US			
20:00	Federal Budget Balance (Apr)	\$256.0b	-\$160.5b
Japan			
01:50	BoP Current Account Adjusted (Mar)	¥2723.1bA	¥2316.8b
01:50	Bank Lending Ex-Trusts YoY (Apr)	2.60%A	3.00%
07:00	Eco Watchers Survey Current SA (Apr)	44.6	45.1
07:00	Eco Watchers Survey Outlook SA (Apr)	44.6	45.2
Events			
01:01	S&P Global, KPMG and REC UK Report on Jobs		
10:00	BOE's Lombardelli Speaks		
12:30	BOE's Greene Speaks		
14:50	BOE's Mann Speaks		
18:00	BOE's Taylor Speaks		
16:25	Fed's Kugler Speaks on Economic Outlook		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4,38	0,00		US	3,89	0,02		DOW	41249,38	-119,07
DE	2,56	0,03		DE	1,79	0,01		NASDAQ	17928,92	0,78
BE	3,14	0,02		BE	1,94	0,01		NIKKEI	37652,75	149,42
UK	4,57	0,02		UK	3,91	-0,02		DAX	23499,32	146,63
JP	1,40	0,03		JP	0,67	0,02		DJ euro-50	5309,74	20,80
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	2,03	3,60	3,67	€STR	2,1690	-0,0020				
5y	2,20	3,64	3,72	Euribor-1	2,1140	-0,0170		SOFR-1	4,3250	-0,0005
10y	2,51	3,85	4,04	Euribor-3	2,1240	-0,0140		SOFR-3	4,3099	-0,0011
				Euribor-6	2,1110	-0,0230		SOFR-6	4,2139	0,0004
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,1250	0,0022		EUR/JPY	163,53	-0,29		CRB	295,13	3,12
USD/JPY	145,37	-0,54		EUR/GBP	0,8458	-0,0018		Gold	3344,00	38,00
GBP/USD	1,3306	0,0060		EUR/CHF	0,9353	0,0013		Brent	63,91	1,07
AUD/USD	0,6414	0,0014		EUR/SEK	10,9294	0,0002				
USD/CAD	1,3935	0,0011		EUR/NOK	11,6663	-0,0465				

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