



Tuesday, 13 May 2025

## KBC Sunrise Market Commentary

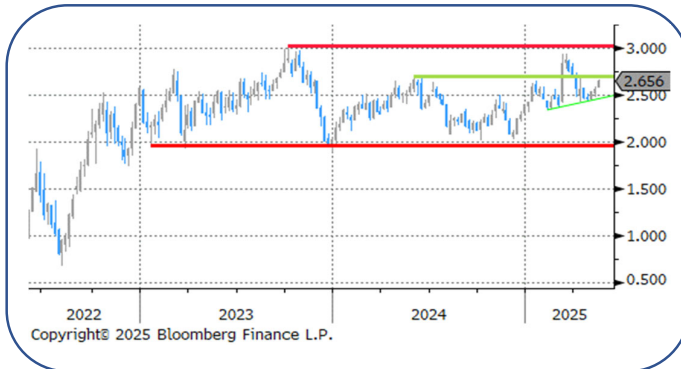
### Markets

- Substantial progress in the trade negotiations with China this weekend in Switzerland as touted by the US administration **triggered an impressive reflationary move of global markets**. Both **US and most other core bond yields jumped sharply higher in an impressive bear steepening move**. US yields rose between 11.9 bps (2-y) and 7.1 bps (30-y). Markets scaled back expectations on Fed easing this year from 75 bps last week tot about to 50 bps eoy. A first rate cut also is pushed to the September meeting rather than July as expected before last week's Fed meeting. **Fed Chair Powell at least can consider his reactive rather than a proactive approach fully validated by the administration U-turn on tariffs**. With the Trump administration still working on deregulation and tax cuts, the case for a higher-for-long approach is strengthened even further. Of course, further down the road, the Fed still might come in a position to ease policy as the impact of current uncertainty on growth at some point still might filter through. However, the timing probably will be later rather than sooner and isn't the focus of the market momentum at this stage. **European/German bonds even slightly underperformed especially at the short end of the curve**, with German yields adding between 12.8 bps (2-y) and 6.2 bps (30-y), safe haven bunds understandably underperforming swaps. Of late, the impact of the trade war on Europe was assessed as outright deflationary by at least part the ECB MPC members. In case of a further de-escalation and/or progress in EU-US trade talks, this argument might lose some weight, too. ECB hawks recently at least become a bit more vocal with Isabel Schnabel this weekend and Buba president Nagel but also Spanish Member Escriva to some extent joining the idea that current volatile environment might be a good reason not to overreact to short term developments. **European markets reversed recent bets for the ECB to cut rates below 1.75%**. Especially US equity markets reacted euphorically with the Nasdaq (+4.35%) more than reversing the post-Liberation Day sell-off. The Eurostoxx 50 even is nearing the cycle top reached early March. **On FX markets**, the dollar now is the preferred risk currency. DXY came with reach of the 102 barrier. EUR/USD briefly dropped below 1.11 (close 1.1086). USD/JPY (164.6 close) is nearing the 164.9/166.7 range top).
- Markets today might gradually look for a new equilibrium after yesterday's sharp repositioning. US equity futures, US yields and the dollar this morning are ceding marginal ground. Regarding the data, **ZEW economic sentiment** deserves some attention. In the US, we look for the NFIB small business sentiment and even more for **the US April CPI**. Markets will look whether some tariffs related prices rises already are filtering through. Consensus expects 0.3% M/M both for headline (2.4%Y/Y) and core inflation (2.8% Y/Y). **An upward surprise might only reinforce Powell's reactive approach**. Such a scenario might support the rise in yields, but probably won't be good news for the risk rally. The impact on the dollar also might be more mixed. However, it's too early to anticipate on a genuine trend reversal on yesterday's repositioning.

### News & Views

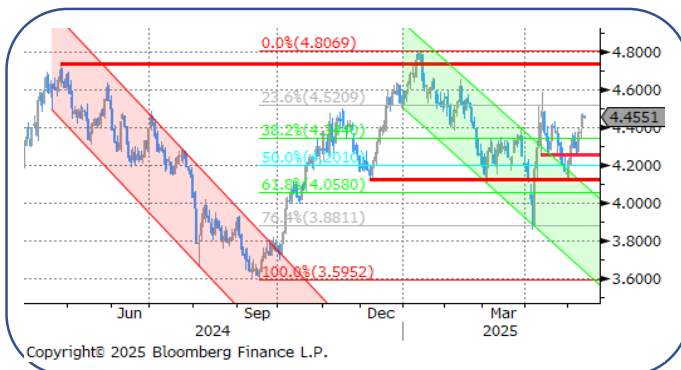
- UK retail sales rose by 6.8% Y/Y in April, rising from 0.9% in March and beating consensus estimates (2.3%)**. The British Retail Consortium pointed out **that Easter falling in April rather than March artificially lifted sales (and weighed on growth in March)**. The sunniest April on record also provided a boost to sales. Food sales increased 8.2% Y/Y while non-food revenues rose by 6.1% Y/Y. BRC CEO Dickinson nevertheless warned for clouds on the horizon as **"new costs begin to bite"**. She refers to an estimated £7bn of costs to the industry coming from higher Employer National Insurance Contributions, the higher National Living Wage and a new packaging tax.
- Bulgarian President Radev filed a request to parliament to organize a referendum on euro adoption**. The proposed referendum question "Do you agree to have Bulgaria adopt the single European currency euro in 2026?" will test the democracy and provide an opportunity to hear all the arguments for and against the monetary policy move. **The politically loaded push comes as the country waits the June 4 publication of convergence reports by the EC and the ECB and against the background of a divided political and societal landscape**. A similar request for euro referendum was filed by the far-right pro-Russian Revival party and eventually rejected by the country's constitutional court. Interior minister Mitov called the referendum "a clear act of sabotage against the introduction of the euro in Bulgaria" with PM Zhelyazkov urging lawmakers to ignore the President's request.

## Graphs



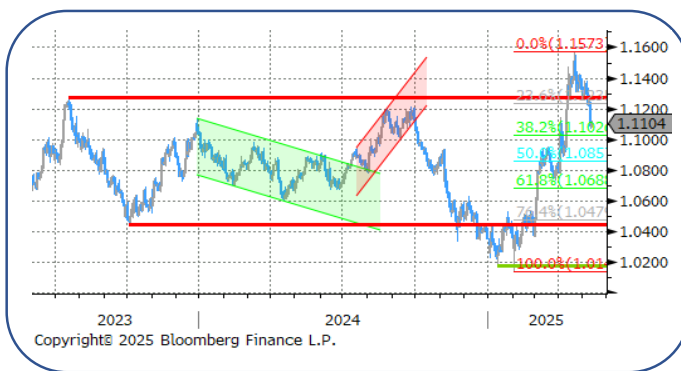
### GE 10y yield

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

Tuesday, 13 May		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Apr)	95.0	97.4
14:30	Real Avg Weekly Earnings YoY (Apr)	--	1.10%R
14:30	<b>CPI MoM/YoY (Apr)</b>	<b>0.30%/2.40%</b>	<b>-0.10%/2.40%</b>
14:30	CPI Ex Food and Energy MoM/YoY (Apr)	0.30%/2.80%	0.10%/2.80%
14:30	Real Avg Hourly Earning YoY (Apr)	--	1.40%
<b>Japan</b>			
01:50	Money Stock M3 YoY (Apr)	0.10%A	0.40%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Apr)	6.80%A	0.90%
08:00	<b>Average Weekly Earnings 3M/YoY (Mar)</b>	<b>5.20%</b>	<b>5.60%</b>
08:00	Weekly Earnings ex Bonus 3M/YoY (Mar)	5.70%	5.90%
08:00	Private Earnings ex Bonus 3M/YoY (Mar)	5.70	5.90%
08:00	<b>ILO Unemployment Rate 3Mths (Mar)</b>	<b>4.50%</b>	<b>4.40%</b>
08:00	Employment Change 3M/3M (Mar)	115k	206k
08:00	Payrolled Employees Monthly Change (Apr)	-32k	-78k
08:00	Claimant Count Rate (Apr)	--	4.60%
08:00	Jobless Claims Change (Apr)	--	18.7k
<b>EMU</b>			
11:00	ZEW Survey Expectations (May)	--	-18.5
<b>Germany</b>			
11:00	ZEW Survey Expectations (May)	11.3	-14
11:00	ZEW Survey Current Situation (May)	-77.0	-81.2
<b>Events</b>			
09:00	ECB's Escriva Speaks in Zurich		
10:00	ECB's Makhlof Speaks in Dublin		
11:30	Germany to Sell EU4.5 Billion of 1.7% 2027 Bonds		
10:45	<b>BOE's Pill Speaks</b>		
17:00	<b>BOE's Bailey, ECB's Knot Speak in Amsterdam</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,47	0,09		US	4,01	0,12	DOW	42410,1	1160,72
DE	2,65	0,09		DE	1,91	0,13	NASDAQ	18708,34	779,42
BE	3,20	0,07		BE	2,07	0,12	NIKKEI	38283,18	638,92
UK	4,64	0,08		UK	4,00	0,09	DAX	23566,54	67,22
JP	1,45	0,00		JP	0,72	0,02	DJ euro-50	5392,36	82,62
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	2,15	3,74	3,78	€STR	2,1700	0,0010			
5y	2,32	3,76	3,83	Euribor-1	2,1230	0,0090	SOFR-1	4,3273	0,0023
10y	2,59	3,96	4,12	Euribor-3	2,1390	0,0150	SOFR-3	4,3253	0,0154
				Euribor-6	2,1210	0,0100	SOFR-6	4,2589	0,0450
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1087	-0,0163		EUR/JPY	164,59	1,06	CRB	295,53	0,40
USD/JPY	148,46	3,09		EUR/GBP	0,8414	-0,0044	Gold	3228,00	-116,00
GBP/USD	1,3176	-0,0130		EUR/CHF	0,9377	0,0024	Brent	64,96	1,05
AUD/USD	0,6372	-0,0042		EUR/SEK	10,8895	-0,0399			
USD/CAD	1,3975	0,0040		EUR/NOK	11,5901	-0,0762			

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