



Wednesday, 14 May 2025

## KBC Sunrise Market Commentary

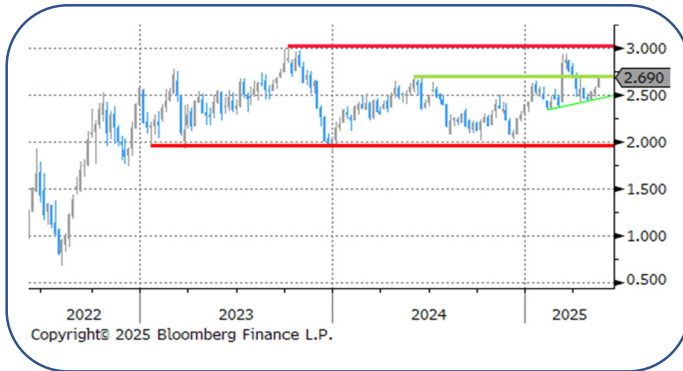
### Markets

- The market rebound after the weekend US-China trade truce was confronted the with yesterday's US April inflation data.** The potentially less negative impact of the trade war on the US (and global) economy also changed the market assessment on inflation. Especially the combination of resilient activity data and ongoing high inflation data would solidify Powell's reactive wait-and-see bias. At 0.2% M/M and 2.3% Y/Y for headline CPI (from 2.4%) and 0.2% M/M and 2.8% Y/Y for core (unchanged from March), **US inflation was marginally softer than expected.** The details showed that some goods prices already tentatively rose as was the case for energy prices (electricity) but this was compensated for by lower food prices and some services prices. Shelter prices still rose 0.3% M/M. **Overall the report didn't bring any decisive guidance on the potential impact of the tariffs going forward. A modest dip in yields immediately after the release was very short-lived.** President Trump again used the report to call Fed Chair Powell to cut interest rate immediately. However, markets understood that this report is no reason for the Fed Chair to leave the current approach anytime soon. At the end of the day **US yields hardly changed (after the recent rebound)** with the 2 and the 5-y down 1.0 bp and the 30-y unchanged. **German Bunds still underperformed Treasuries** with yields rising between 2.3 bps (2-y) and 4.5 bps (30-y) as markets ponder the scope (and timing) of additional ECB rate cuts in the wake of recent trade developments. A June rate cut is no longer 100% discounted. ECB's Villeroy indicated that another rate cut is likely by summer. That of course gives some room of maneuver on the timing. **In the meantime, US equities remained well supported** (S&P 500 +72%). Modest inflation is a supportive. **The Nasdaq even outperformed** as Trump deals negotiated during his trip in the Middle East supported US tech stocks. **The combination of moderate inflation and a continuation of the risk rally this time caused a correction on recent USD gains.** DXY eased from 101.7 to close near the 101 big figure. EUR/USD rebounded from the 1.109 area to close near 1.1185. The recent rebound in sterling (against the euro) gradually eased despite in line unemployment date and still solid wage March wage growth (EUR/GBP close 0.841).
- Today's eco data calendar is extremely thin,** except for some Fed (Waller, Jefferson) and ECB (Nagel, Holzmann) speakers. **Yesterday's price action at least suggests that the downside in US and probably even more in European yields is well protected.** With respect to the latter we also look out to the announced meeting between Ukrainian President Zelensky and (maybe) Vladimir Putin that might take place in Turkey tomorrow. Expectations probably are low. Any positive outcome might further support some kind of European reflation trade. Of course, this remains highly conditional for now. Today we expect more technical consolidation on the risk rally. Even despite yesterday's correction, **we're not sure that that the dollar rebound has already fully run its course.** Some further comeback might still be on the cards.

### News & Views

- Australian wage growth accelerated from 0.7% Q/Q in Q4 2024 to 0.9% Q/Q in Q1 2025 (vs 0.8% expected), the fastest pace since Q4 2023.** Jobs covered by enterprise agreements contributed to over half of all quarterly wage growth. The larger than usual March quarter contribution from enterprise agreement-covered jobs was mainly driven by the new state-based enterprise agreements in the public sector. Annual wage pay picked up from 3.2% to 3.4%. Details showed private sector annual wage growth unchanged at 3.3% while public sector salaries rose by 3.6% Y/Y (up from 2.9%). **The Australian Bureau of Statistics publishes its monthly labour market report tomorrow.**
- Bulgarian parliament speaker Kiselova rejected President Radev's request for a referendum on euro adaptation** saying that it violated Bulgaria's constitution as well as a range of EU treaties. The politically loaded push came 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.** Interior minister Mitov yesterday labelled the referendum request as "a clear act of sabotage against the introduction of the euro in Bulgaria".

## Graphs



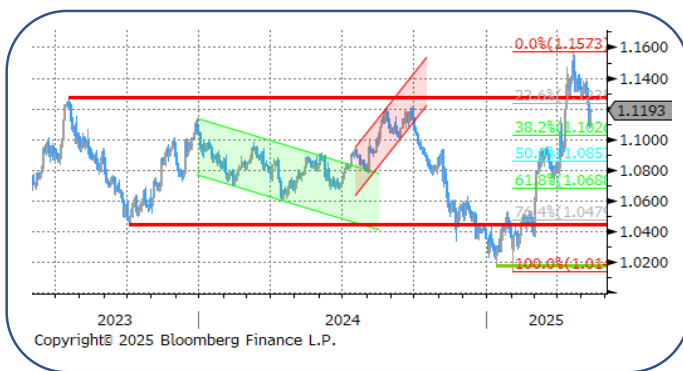
### GE 10y yield

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

Wednesday, 14 May		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	11.00%
<b>Japan</b>			
01:50	PPI MoM/YoY (Apr)	0.20%A/4.00%A	0.40%/4.20%
<b>Events</b>			
09:05	BOE's Breeden Speaks		
10:15	ECB's Nagel Speaks in Madrid		
11:15	Fed's Waller Speaks on Central Bank Research		
11:30	Germany to Sell EU1 Billion of 2.5% 2054 Bonds		
15:10	<a href="#">Fed's Jefferson Speaks on Economic Outlook</a>		
16:00	ECB's Holzmann Speaks in Vienna		
23:40	Fed's Daly Speaks in Fireside Chat		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4,47	-0,01		US	4,00	-0,01		DOW	42140,43	-269,67
DE	2,68	0,03		DE	1,94	0,02		NASDAQ	19010,08	301,74
BE	3,23	0,03		BE	2,08	0,01		NIKKEI	38129,47	-53,79
UK	4,67	0,03		UK	3,98	-0,02		DAX	23638,56	72,02
JP	1,45	0,01		JP	0,71	-0,01		DJ euro-50	5416,21	23,85
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	2,16	3,72	3,77	€STR	2,1720	0,0020		SOFR-1	4,3292	0,0020
5y	2,33	3,74	3,82	Euribor-1	2,1260	0,0030		SOFR-3	4,3254	0,0001
10y	2,62	3,94	4,13	Euribor-3	2,1430	0,0040		SOFR-6	4,2610	0,0021
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,1185	0,0098		EUR/JPY	164,96	0,37		CRB	300,53	5,00
USD/JPY	147,48	-0,98		EUR/GBP	0,8407	-0,0008		Gold	3247,80	19,80
GBP/USD	1,3306	0,0130		EUR/CHF	0,9389	0,0012		Brent	66,63	1,67
AUD/USD	0,6471	0,0099		EUR/SEK	10,8771	-0,0124				
USD/CAD	1,3936	-0,0039		EUR/NOK	11,5923	0,0022				

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