



Thursday, 15 May 2025

## KBC Sunrise Market Commentary

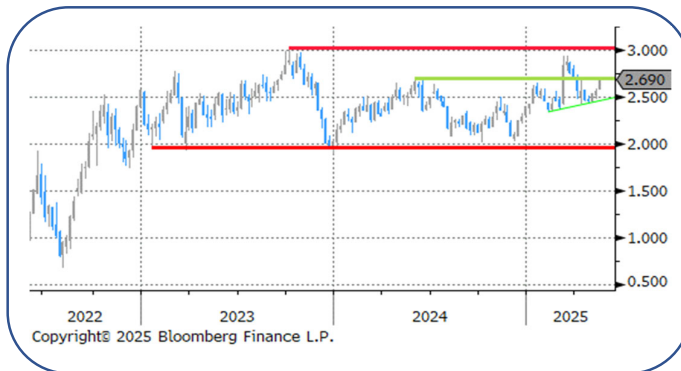
### Markets

- There were very few eco data to guide global trading yesterday. **(US) equities took a breather.** Details on US trade agreements with the likes China and the UK still have to be hammered out. This is also the case for (framework) deals with other trading partners. For now, equity investors felt enough trade de-escalation might have been discounted. **The S&P closed little changed (+0.1%).** Headlines on commercial deals during Trump's Middle East trip still triggered some Nasdaq outperformance, but also here the risk momentum appears to be slowing. **Core yields** markets didn't find a clear direction in European trading, **but again took the path north in US dealings.** At the short end of the curve, better/less negative economic prospects only reinforced the case of Powell's reactive policy approach. The 2-y yield regained the 4.0% mark (+5.1 bps). LT yields also continued their recent ascent. Here, probably it's not only better economic prospects at work. As the Trump fiscal package is moving its way through the committees of Congress, **the theme of fiscal sustainability is also again looming (cf infra).** The US 10-y added 7.1 bps. The 30-y is coming ever closer to the 5.0% psychological barrier (4.96%, + 6.3 bps). German yields also again gained a few bps (0.5 bp to 2.5 bps across the curve). UK gilt yields in a similar way added 4-5 bps. Higher (less low) for longer is again becoming mainstream on core yields markets. **On FX,** the dollar was hit by headlines that the **US was seeking 'engagements' on a weaker dollar at trade negotiations with trading partners,** e.g. South Korea. The rumours evidently weren't confirmed by any of the parties involved, but markets picked up the message. After gaining on recent US inflationary spirits, the dollar rally was blocked. After spiking lower intraday, DXY closed the session little changed at 100.03. Idem for EUR/USD (close 1.1175). The yen outperformed (USD/JPY close 146.75).
- This morning,** Asian equities are facing some profit taking after recent rally. US yields are holding little changed. The dollar is losing further ground, especially against the likes of the yen (USD/JPY 146.05). EUR/USD is again nearing the 1.12 big figure. **Later today, the eco calendar is better filled with the EMU Q1 GDP, the US empire manufacturing survey, the Philly Fed business outlook, US April retail sales, PPI & jobless claims.** Most of these releases probably mirror the brisk swings in expectations post the Libation Day announcements. In this respect, it won't be easy for markets to draw any conclusions on what to expect going forward. **If anything, good/better than expected data still might solidify the bottom for core real yields.** At the same time, after yesterday's price action, it's doubtful this will be much of a help for the dollar. The US currency is at risk being captured again in a sell-on-upticks pattern. This morning, **UK Q1 GDP surprise on the upside** (0.7% Q/Q and 1.3% Y/Y), but details were a bit mixed (poor consumption, solid capital formation). In a first reaction, sterling is gaining a few ticks (0.843).

### News & Views

- The US Committee for a Responsible Federal Budget estimates that the developing House reconciliation bill will add roughly \$3.3tn to US debt through the fiscal year 2034** as written or \$5.2tn if made permanent. Under current law, debt is projected to rise from nearly 100% of GDP today to 117% by 2034. Adding the impact of the reconciliation bill, this would be 125% or even 129% of GDP. Total yearly deficits would rise dramatically – from \$1.8tn in 2024 to \$2.9tn by 2034 under the bill and \$3.3tn under a permanent version of the bill. As a share of GDP, yearly deficits would rise to 6.9% – or 7.8% if the bill were extended permanently. **Interest costs** alone would make up a large share of that borrowing, doubling from nearly \$900bn in 2024 to \$1.8tn (4.2% of GDP) by 2034 as written, or to \$1.9tn (4.4% GDP) if permanent. This excludes dynamic effects where higher debt boost interest rates.
- Australian employment increased by 89k in April, up from 36.4 in March and significantly beating the consensus estimate (+22.5k).** Details showed the lion share of occupations coming from full time jobs (+59.5k). Employment has grown by 390k people, or 2.7%, over the year. This annual growth rate is higher than the population growth rate for people aged 15 years and over, which was 2.1% over the same period. **The unemployment rate stabilized at 4.1%,** but the labour force participation rate increased from 66.8% to 67.1%. Yesterday, the Australian Bureau of Statistics released wage growth numbers. Those showed an acceleration from 0.7% Q/Q in Q4 2024 to 0.9% in Q1 2025 (+3.4% Y/Y). **Despite labour market strength and slightly higher than expected Q1 CPI numbers, money markets stick to the view that the Reserve Bank of Australia will lower its policy rate by 25 bps to 3.85% when it meet next week.** The RBA implemented a first cautious rate cut in February this year followed by a status quo in April.

# Graphs



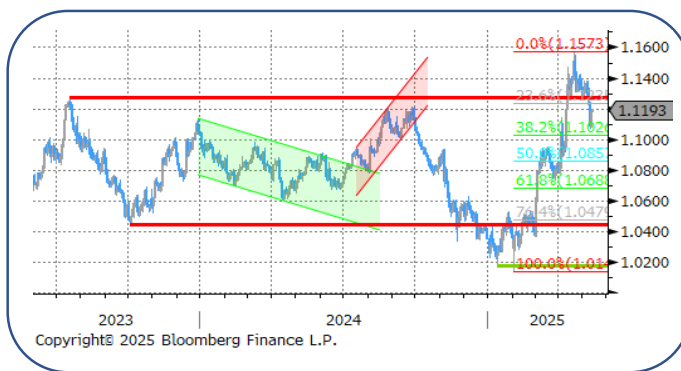
## GE 10y yield

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 March forecasts were **full of stagflation risks, but priority stayed on inflation until growth is visibly weakening.** It means the extended pause announced got confirmed, 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. After a temporary easing of risk premia, US yields are now again trending higher on delayed rate cut expectations.



## 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.** 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

Thursday, 15 May		Consensus	Previous
<b>US</b>			
14:30	Empire Manufacturing (May)	-8.0	-8.1
14:30	Retail Sales Advance MoM (Apr)	0.00%	1.50%R
14:30	Retail Sales Ex Auto and Gas (Apr)	0.30%	0.90%R
14:30	Retail Sales Ex Auto MoM (Apr)	0.30%	0.60%R
14:30	Retail Sales Control Group (Apr)	0.30%	0.40%
14:30	PPI Final Demand MoM/YoY (Apr)	0.20%/2.50%	-0.40%/2.70%
14:30	PPI Ex Food and Energy MoM/YoY (Apr)	0.30%/3.10%	-0.10%/3.30%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Apr)	0.30%/--	0.10%/3.40%
14:30	Initial Jobless Claims	228k	228k
14:30	Continuing Claims	1890k	1879k
14:30	Philadelphia Fed Business Outlook (May)	-11.0	-26.4
15:15	Industrial Production MoM (Apr)	0.10%	-0.30%
15:15	Capacity Utilization (Apr)	77.80%	77.80%
15:15	Manufacturing (SIC) Production (Apr)	-0.30%	0.30%
16:00	NAHB Housing Market Index (May)	40	40
<b>Japan</b>			
08:00	Machine Tool Orders YoY (Apr P)	--	11.40%
<b>UK</b>			
08:00	GDP QoQ/YoY (1Q P)	0.50%/1.20%	0.10%/1..50%
08:00	Private Consumption QoQ (1Q P)	0.50%	0.10%
08:00	Government Spending QoQ (1Q P)	0.50%	0.50%
08:00	Gross Fixed Capital Formation QoQ (1Q P)	0.20%	-0.60%
08:00	Exports/Imports QoQ (1Q P)	2.2.0%/0.50%	-1.80%/2.90%
08:00	Total Business Investment QoQ/YoY (1Q P)	0.40%/2.30%	-1.90%/1.80%
08:00	Industrial Production MoM/YoY (Mar)	-0.50%/-0.80%	1.50%/0.10%
08:00	Manufacturing Production MoM/YoY (Mar)	-0.70%/-0.50%	2.20%/0.30%
08:00	Index of Services MoM/3M-3M (Mar)	0.10%/0.70%	0.30%/0.60%
08:00	Trade Balance GBP/Mn (Mar)	--	-£1956m
10:30	Output Per Hour YoY (1Q)	--	-0.80%
<b>EMU</b>			
11:00	GDP SA QoQ/YoY (1Q S)	0.40%/1.20%	0.40%/1.20%
11:00	Employment QoQ/YoY (1Q P)	--/--	0.10%/0.70%
11:00	Industrial Production SA MoM/WDA YoY (Mar)	2.00%/2.50%	1.10%/1.20%
<b>Norway</b>			
08:00	GDP QoQ (1Q)	--	-0.60%
08:00	GDP Mainland QoQ (1Q)	0.60%	-0.40%
<b>Poland</b>			
10:00	GDP SA QoQ/YoY (1Q P)	0.10%/3.20%	1.30%/3.20%
<b>Events</b>			
09:05	ECB's Cipollone Speaks at France Payment Forum		
09:50	ECB's Elderson Video Message at OeNB Green Conference		
12:15	ECB's Guindos Speaks in Amsterdam		
13:30	ECB's Cipollone, Villeroy Speak on CBDCs in Paris		
16:00	BOE's Dhingra Speaks		
14:40	Fed's Powell Speaks on Framework Review		
20:05	Fed's Barr Gives Opening Remarks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,54	0,07		US	4,05	0,05	DOW	42051,06	-89,37
DE	2,70	0,02		DE	1,94	0,00	NASDAQ	19146,81	136,73
BE	3,24	0,01		BE	2,08	0,01	NIKKEI	37779,56	-348,57
UK	4,71	0,04		UK	4,02	0,04	DAX	23527,01	-111,55
JP	1,48	0,02		JP	0,73	0,01	DJ euro-50	5403,44	-12,77
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	2,18	3,78	3,84	€STR	2,1720	0,0000			
5y	2,35	3,81	3,89	Euribor-1	2,1320	0,0060	SOFR-1	4,3245	-0,0047
10y	2,64	4,01	4,19	Euribor-3	2,1420	-0,0010	SOFR-3	4,3251	-0,0003
				Euribor-6	2,1560	0,0250	SOFR-6	4,2718	0,0108
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1175	-0,0010		EUR/JPY	163,99	-0,97	CRB	298,41	-2,12
USD/JPY	146,75	-0,73		EUR/GBP	0,8425	0,0018	Gold	3188,30	-59,50
GBP/USD	1,3263	-0,0043		EUR/CHF	0,9415	0,0026	Brent	66,09	-0,54
AUD/USD	0,6428	-0,0043		EUR/SEK	10,8942	0,0171			
USD/CAD	1,3983	0,0047		EUR/NOK	11,6026	0,0103			

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