



Friday, 16 May 2025

## KBC Sunrise Market Commentary

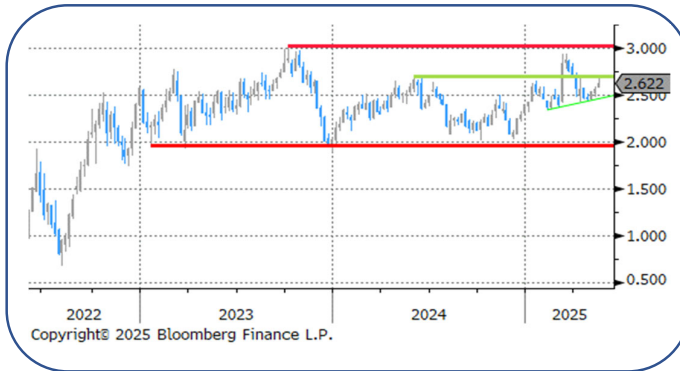
### Markets

- The **new leg in the 'reflation rebound' as triggered by a promising outcome in US-Sino trade talks last weekend ran into resistance**. US yields yesterday were closing in on some kind of a technical wall (2-yr 4.05/10% area, 10-y 4.55/60% area, 30-y key 5.0% barrier). Money markets had scaled back expectations on the EoY Fed easing to 50 bps. The debate for sure will remain subject to multiple reassessments, but for now this look a reasonable bet. While unlikely being conclusive for the timing and amount of Fed easing, **mildly softer than expected US data in this respect provided a perfect excuse to move to some more neutral positioning**. US PPI producer prices printed softer than expected. April retail sales were soft (0.1% M/M, -0.2% control sales), but came on the back of a very strong (and upwardly revised) March reading. **Difficult to draw any conclusions on spending going forward**. Idem for mixed industry surveys. Even so, **it was enough for markets to not further scale back expectations on Fed easing**. US yields eased between 11.3 bps (5-y) and 8.3 bps for the 30-y with the latter intraday briefly touching the 5.0% mark. Even without much high profile news, German yields followed in lockstep with yields easing 6.0 bps (2-y) and 8.0 bps (30-y). EMU money markets are now again fully in line with two additional ECB rate cuts towards the end of the year and a low in the ECB easing cycle at 1.75%. **The equity rally stalled but with no retracement yet** (S&P 500 +0.4%, Eurostoxx 50 +0.16%). USD trading of late mainly was driven by trade-related topics (was/is FX policy a topic in US trade negotiations, in particular with Asian trading partners?). Even so, **yesterday's US data and declining yields at least didn't help**. The dollar eased a bit further with the likes of the won and the yen still outperforming (close USD/JPY 145.7, DXY 100.88, EUR/USD marginally higher at 1.119). Decent UK GDP data kept sterling fairly well bid intraday, with EUR/GBP returning tot the low 0.84 support area.
- Asian equities this morning trade modestly lower. US yields tentatively extend yesterday's setback (minus 1-2 bps) as does the dollar (USD/JPY 145.2, EUR/USD 1.1215). Today's eco calendar in the EMU is almost empty. In the US housing starts and permits and **the U. of Michigan consumer confidence are scheduled for release**. Confidence is expected to bottom after a steep setback since the start of the year. Markets will look out for the inflation expectations series after last month's sharp leap higher, especially in the 1-yr ahead measure (6.5%). Given the repositioning this week, probably a substantial upward surprise is need for yields to change course north again. **For now, we favour more consolidation as US yields are probably blocked by above-mentioned technical barriers**. The dollar rebound earlier this week apparently has run its course. Especially for the likes of USD/JPY, direction south looks the path of least resistance.

### News & Views

- Japanese GDP shrank by slightly more than expected in Q1 2025**. The -0.2% Q/Q contraction (-0.7% annualized) was the first negative number since Q1 2024. Available details showed consumption failing to contribute (0% Q/Q) following an already weak Q4 2024 (+0.1% Q/Q). Like in yesterday's UK GDP release, there was **a significant increase in business spending (1.4% Q/Q)**. **Net exports cut 0.8 percentage point off Q/Q GDP with inventories adding 0.3 ppt**. Rather weak growth was accompanied by rising inflation with the **GDP deflator increasing from 2.9% Y/Y to 3.3% Y/Y, the highest levels since Q4 2023**, and complicating the BoJ's policy normalization process. Japanese money markets aren't positioned for the continuation of the hiking cycle anytime soon, with the market implied probably of another 25 bps rate increase at only 67% by the end of the year.
- The central bank of Mexico extended its rate cut cycle with a third consecutive 50 bps rate cut to 8.50%**. Banxico stated that "it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes." **This clearly hints at similar action at the June meeting**. Both headline and core inflation came in at 3.93% Y/Y in April. Inflation forecasts were adjusted upwards in the short term, mainly due to a greater-than-expected increase in merchandise inflation but headline inflation is still expected to converge to the 3%-target in Q3 2026. Although the balance of risks remains biased to the upside, it has improved as global shocks have been fading. The inflation environment allows for a continuation of the rate cutting cycle, albeit maintaining a restrictive stance.

## Graphs



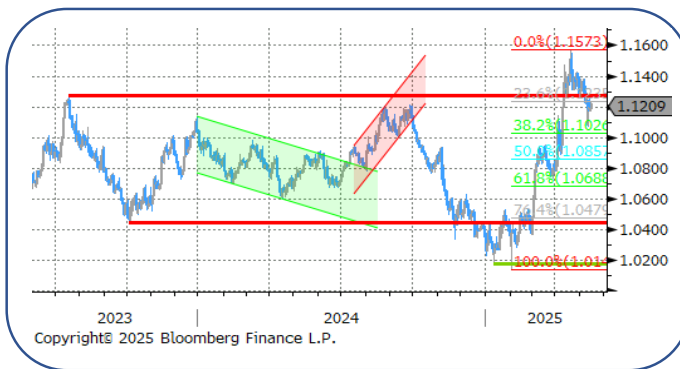
### GE 10y yield

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

Friday, 16 May		Consensus	Previous
<b>US</b>			
14:30	Housing Starts Total/MoM (Apr)	1364k/3.00%	1324k/-11.40%
14:30	Building Permits Total/MoM (Apr P)	1450k/-1.20%	1467k/0.50%
14:30	Import Price Index MoM/YoY (Apr)	-0.30%/-0.20%	-0.10%/0.90%
14:30	Export Price Index MoM/YoY (Apr)	-0.40%/-0.20%	0.00%/2.40%
14:30	New York Fed Services Business Activity (May)	--	-19.8
16:00	<b>U. of Mich. Sentiment (May P)</b>	<b>53.5</b>	<b>52.2</b>
16:00	U. of Mich. Current Conditions (May P)	59.9	59.8
16:00	U. of Mich. Expectations (May P)	48.6	47.3
16:00	<b>U. of Mich. 1 Yr Inflation (May P)</b>	<b>6.50%</b>	<b>6.50%</b>
16:00	<b>U. of Mich. 5-10 Yr Inflation (May P)</b>	<b>4.40%</b>	<b>4.40%</b>
22:00	Net Long-term TIC Flows (Mar)	--	\$112.0b
<b>Japan</b>			
01:50	<b>GDP SA QoQ (1Q P)</b>	<b>-0.20%A</b>	<b>0.60%</b>
01:50	GDP Annualized SA QoQ (1Q P)	-0.70%A	2.40%R
01:50	GDP Nominal SA QoQ (1Q P)	0.80%A	1.20%R
01:50	GDP Deflator YoY (1Q P)	3.30%A	2.90%
01:50	GDP Private Consumption QoQ (1Q P)	0.00%A	0.10%R
01:50	GDP Business Spending QoQ (1Q P)	1.40%A	0.80%R
01:50	Inventory Contribution % GDP (1Q P)	0.30%A	-0.30%
01:50	Net Exports Contribution % GDP (1Q P)	-0.80%A	0.70%
06:30	Capacity Utilization MoM (Mar)	--	-1.10%
<b>EMU</b>			
11:00	Trade Balance SA (Mar)	--	21.0b
<b>Poland</b>			
14:00	CPI Core MoM/YoY (Apr)	0.60%/3.50%	0.40%/3.60%
<b>Events</b>			
00:00	<b>European Commission Publishes Spring Economic Forecasts</b>		
00:00	Fed's Barkin Gives Commencement Speech		
17:00	ECB's Lane, BOE's Lombardelli, Riksbank's Seim in DC		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,43	-0,10		US	3,96	-0,09	DOW	42322,75	271,69
DE	2,62	-0,08		DE	1,88	-0,06	NASDAQ	19112,32	-34,49
BE	3,16	-0,08		BE	2,02	-0,06	NIKKEI	37762,34	6,83
UK	4,66	-0,05		UK	3,99	-0,04	DAX	23695,59	168,58
JP	1,46	-0,02		JP	0,72	-0,01	DJ euro-50	5412,08	8,64
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	2,12	3,68	3,80	€STR	2,1720	0,0000			
5y	2,27	3,70	3,84	Euribor-1	2,1200	-0,0120	SOFR-1	4,3241	-0,0003
10y	2,55	3,91	4,13	Euribor-3	2,1270	-0,0150	SOFR-3	4,3208	-0,0043
				Euribor-6	2,1610	0,0050	SOFR-6	4,2564	-0,0154
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1187	0,0012		EUR/JPY	162,97	-1,02	CRB	295,86	-2,55
USD/JPY	145,67	-1,08		EUR/GBP	0,8409	-0,0016	Gold	3226,60	38,30
GBP/USD	1,3305	0,0042		EUR/CHF	0,9350	-0,0065	Brent	64,53	-1,56
AUD/USD	0,6406	-0,0022		EUR/SEK	10,881	-0,0132			
USD/CAD	1,3959	-0,0024		EUR/NOK	11,6502	0,0476			

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