



Monday, 19 May 2025

KBC Sunrise Market Commentary

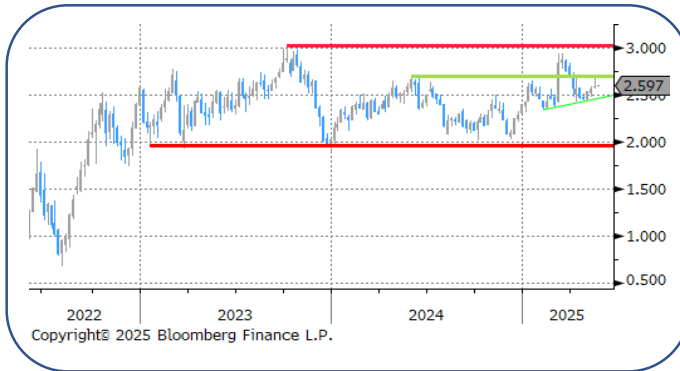
Markets

- Rating agency Moody's dropped a little bombshell in late US dealings last Friday. It stripped the US of its top notch AAA-rating over, unsurprisingly, the budgetary situation: "We do not believe that material multi-year reductions in mandatory spending and deficits will result from current fiscal proposals under consideration. Over the next decade, we expect larger deficits as entitlement spending rises while government revenue remains broadly flat." Moody's kept a stable outlook. **Its decision is largely a symbolical one with the two other rating agencies already having cut the rating before** (Fitch in 2011, S&P in 2023). It nevertheless triggered an immediate kneejerk upleg in longer-term yields. The US 30-yr yield shot up 6 bps towards 4.96% and is extending gains this morning back **towards the high-profile 5% barrier**. The front-end of the curve added around 4 bps, mainly after the release of the May U. of Michigan consumer confidence indicator earlier in the day. Confidence unexpectedly dropped to a record low of 50.8 while inflation expectations shot up to a whopping 7.3% for the year ahead and 4.6% for the longer-term gauge (5-10yr). The latter is on the Fed's radar, with policymakers looking closely for spillovers to financial market expectations. Favourable interest rate differentials outweighed the downgrade and pushed EUR/USD into a slightly lower close around 1.116 but only to reverse course in current Asian trading hours again. Moody's decision and with it the long-term US yield rise, is dampening the risk mood. US stock futures point at a 1% lower open. FI is zooming in on the US 30-yr yield today. Trump's Big Beautiful Bill cleared a hurdle late on Sunday in the key US House Budget Committee, allowing it to advance further. **To the extent it's risk premia driving yields higher, we don't think higher yields per se are dollar supportive**. The eco calendar is pretty empty in terms of data today but **features a lot of talks**. **US President Trump has scheduled a phone call with his Russian counterpart Putin** to discuss the ongoing war with the aim of securing a truce to allow for broader and in-depth negotiations. **The EU and UK meanwhile are having their first summit since Brexit took effect in 2020** during which they'll sign a security and defence partnership. It's the centerpiece of what should be a reset in the post-Brexit relationship that involves deeper economic co-operation. The Financial Times reported of a breakthrough in Sunday night talks over politically sensitive subjects such as fishing, food trade and youth mobility. We're also on the lookout for trade talks after US Treasury Secretary Bessent warned that tariff rates would go back to the levels Trump announced on Liberation Day if countries are "not negotiating in good faith". The Financial Times in this respect reported that the EU and US in recent days have begun exchanging negotiation documents, **finally kickstarting serious talks**.

News & Views

- In Romania, the centrist major of the capital of Bucharest, Nicusor Dan won the presidential elections**. Dan gained almost 54% of the votes. His national rival, George Simion a eurosceptic advocating a Trump-style policy and in favour of withdrawing support for Ukraine in its war against Russia, only secured 46% of the votes. The election result came amid the **highest voter turnout in any election** in the country in more than 25 years. First indications suggest that the Romanian currency, **the leu, this morning might regain part of the losses from the sell-off** on the political turmoil from two weeks ago after the first round of the elections. **In presidential elections in Poland yesterday, the candidate of the ruling centrist coalition, Rafal Trzaskowski was reported to have secured 31.2% of the votes**. Trzaskowski is an ally of prime minister Donald Tusk and supports a pro-EU policy, contrary to the approach of outgoing president Duda. **Karol Nawrocki of the Nationalist Law and Justice party PiS received 29.7%**. The advance of Trzaskowski was smaller than forecasted in polls in the run-up to the election. **Both candidates now will face each other in a run-off election on June 1**.
- According to the Financial Times reporting, referring to French and German officials, **Germany has dropped its opposition against nuclear power**. In concreto, German has indicated to France that it will no longer block efforts of France that should lead to **nuclear power to be treated again in par with renewable energy** in EU legislation. Germany backtracking on its opposition against nuclear power is also seen as signal that the new German government of Chancellor Merz is seeking closer cooperation between the two countries. The move is also cited as **opening to way to explore Germany to join France's nuclear defense shield** again potential Russian aggression.

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

Monday, 19 May		Consensus	Previous
UK			
1:01	Rightmove House Prices MoM/YoY (May)	0.60%A/1.20%A	1.40%/1.30%
EMU			
11:00	CPI MoM/YoY (Apr F)	0.60%/2.20%	0.60%/2.20%
11:00	CPI Core YoY (Apr F)	2.70%	2.70%
China			
3:30	New Home Prices MoM (Apr)	-0.12%A	-0.08%
3:30	Used Home Prices MoM (Apr)	-0.41%A	-0.23%
4:00	Retail Sales YoY (Apr)	5.10%A	5.90%
4:00	Industrial Production YoY (Apr)	6.10%A	7.70%
4:00	Fixed Assets Ex Rural YTD YoY (Apr)	4.00%A	4.20%
4:00	Surveyed Jobless Rate (Apr)	5.10%A	5.20%
4:00	Property Investment YTD YoY (Apr)	-10.30%A	-9.90%
4:00	Residential Property Sales YTD YoY (Apr)	-1.90%A	-0.40%
Events			
19-21MAY	Federal Reserve Bank of Atlanta's 2024 Financial Markets Conference		
11:00	European Commission Publishes Spring Economic Forecasts		
11:30	EU to Sell Bonds		
11:30	ECB's Muller Speaks in Tallinn		
14:30	Fed's Bostic Gives Opening Remarks		
14:45	Fed's Jefferson Gives Keynote, Bostic Moderates		
14:45	Fed's Williams Speaks in Moderated Discussion		
19:15	Fed's Logan Gives Remarks, Moderates Panel		
19:30	Fed's Kashkari Participates in Q&A		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.48	0.05		US	4.00	0.04	DOW	42654.74	331.99
DE	2.59	-0.03		DE	1.86	-0.02	NASDAQ	19211.1	98.78
BE	3.13	-0.03		BE	1.99	-0.03	NIKKEI	37501.64	-252.08
UK	4.65	-0.01		UK	4.01	0.02	DAX	23767.43	71.84
JP	1.48	0.02		JP	0.72	0.01	DJ euro-50	5427.53	15.45
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.09	3.71	3.80	€STR	2.1700	-0.0020			
5y	2.25	3.74	3.84	Euribor-1	2.0890	-0.0310	SOFR-1	4.3211	-0.0030
10y	2.53	3.95	4.13	Euribor-3	2.1010	-0.0260	SOFR-3	4.3227	0.0018
				Euribor-6	2.1560	-0.0050	SOFR-6	4.2719	0.0155
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1163	-0.0024		EUR/JPY	162.64	-0.33	CRB	296.08	0.22
USD/JPY	145.7	0.03		EUR/GBP	0.8405	-0.0004	Gold	3187.20	-39.40
GBP/USD	1.3283	-0.0022		EUR/CHF	0.9352	0.0002	Brent	65.41	0.88
AUD/USD	0.6406	0.0000		EUR/SEK	10.9154	0.0344			
USD/CAD	1.3969	0.0010		EUR/NOK	11.5926	-0.0576			

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