



Thursday, 22 May 2025

## KBC Sunrise Market Commentary

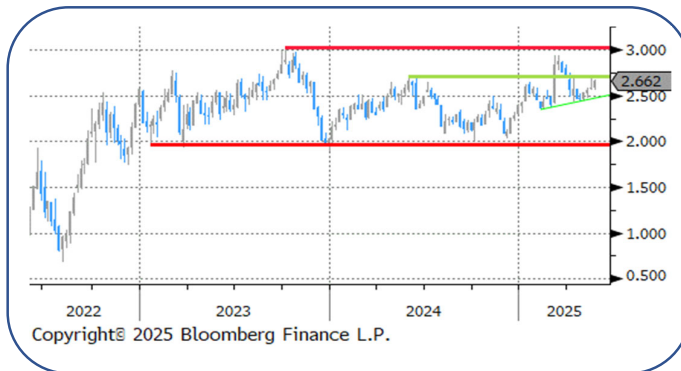
### Markets

- Yesterday's US 20-yr \$16bn bond sale was a rough one.** The auction tailed 1.2 bps vs the 5.035% WI yield with lower-than-average demand. US yields ripped higher, extending earlier gains. Net daily changes varied between +4.8 bps in the 2-yr to 12.9 bps for the 20-yr. The US 30-yr yield added 12.3 bps to 5.09% and rapidly closes in on the 2023 high of 5.17%. The 5% coupon, the highest since the 20-yr tenor was reintroduced in 2020, wasn't considered enough and is **a writing on the wall**. Investors shun long-term US debt given fiscal risks to an already unsustainable deficit situation. Conditions ahead of the auction were suboptimal, to put it mildly. Shortly before the sale, House Speaker Mike Johnson said there was agreement on one of the last remaining hurdles (SALT, Medicaid), potentially paving the way for Trump's bill to be approved by the House later today. Adding to the negative vibes was a Japanese sale that flopped on Tuesday. **The tenor was the same, market concerns similar.** It launched Japanese yields with maturities from 20 year on to the highest levels since at least 25 years. That prompted calls on the Bank of Japan to revise its bond buying taper plans, specifically those affecting the long end of the curve. But one of the most dovish BoJ board members said this morning he currently sees no need to. In the plan laid out last year and which is up for an interim review at June's policy meeting, monthly buying should halve to JPY 3tn by March 2026. Japanese yield again add several bps. The bad US auction weighed on Wall Street with losses mounting to 2% (Dow Jones) as well as on the dollar. The trade-weighted index closed sub 100, EUR/USD rose to 1.133. USD/JPY eased to 143.7 and drops further to 143.3 in Asian trading this morning. JPY largely ignores an understanding between finance minister Kato and his US counterpart Bessent that FX rates should be determined by the market. Both met in the sidelines of the G7 summit in Canada and ongoing FX talks with the likes of South Korea and Taiwan is fueling speculation of the US using tariffs to arm-wrestle the broader region in letting local currencies strengthen.
- The calendar has the sole important economic data for this week on offer: **PMI business confidence indicators**. We suspect the European reading to come in to the better side of expectations as trade fever eased over the last couple of weeks. We keep a close eye at the price subseries. Input cost increased slowed last month but selling prices continued to pick up. **The combination of improving economic conditions and still-strong price pressures keeps European yields supported.** They have been joining the broader move higher, particularly at the long end of the curve. The 30-yr swap is the one to watch for today, with the yield currently testing the 1.5 year high seen in March. We expect EUR/USD to move higher with 1.1573 (April high) serving as the first technical resistance level.

### News & Views

- Lower growth than previously expected slowed the efforts of fiscal consolidation by New Zealand**, the proposal of the new budget showed this morning. The government expects a **budget deficit at 2.6% of GDP** in the fiscal year 2025/2026 (NZD 12.1 bln), compared to the expected 2.3% at in December last year. The government intends to return to a budget balance in the fiscal year 2028/29. Treasury takes a 1.2% growth into account for 2025 (from 2.1%) before accelerating to 3.1% in 2026. Both are still higher than the projections of the central bank. The lower deficit reduction plan also slowed the decline in the government debt ratio. **This is expected to peak at 46.0% in 2027/28.** In a first comment after the budget presentation, rating agency **S&P indicated that the elevated fiscal and current account deficits weigh on the credit rating**. S&P nevertheless expects that the country's public debt will stabilize at a favourable level compared to most rating peers. New-Zealand has AA+ rating with a stable outlook. The kiwi dollar eases slightly this morning against the dollar to NZD/USD 0.5925.
- The Japanese composite PMI in May slipped back in contraction territory**, from 51.2 in April to 49.8 in May. The decline in the overall index was driven by a further contraction in out in the manufacturing sector (48.0 from 48.9) while activity in the services sector slowed materially from 524 to 50.4. S&P Global comments **that demand conditions looked more fragile**, with new business across both manufacturing and service sectors falling for the first time in nearly a year and foreign demand declining for the second straight month. Cost pressures remained elevated in May, but there were tentative signs that input price inflation is cooling. Business confidence is the second lowest recorded since the initial wave of the COVID-19 pandemic, due to uncertainty on the future trade environment and foreign demand clouding the outlook for the year ahead.

# Graphs



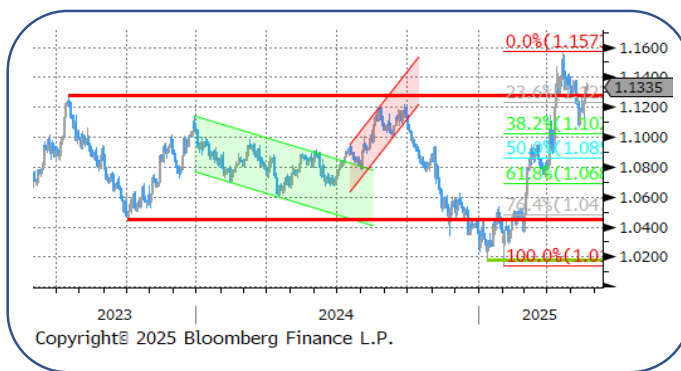
## GE 10y yield

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, 22 May		Consensus	Previous
<b>US</b>			
14:30	Chicago Fed Nat Activity Index (Apr)	-0.25	-0.03
14:30	<b>Initial Jobless Claims</b>	<b>230k</b>	<b>229k</b>
14:30	Continuing Claims	1882k	1881k
15:45	S&P Global US Manufacturing PMI (May P)	49.9	50.2
15:45	S&P Global US Services PMI (May P)	51.0	50.8
15:45	<b>S&amp;P Global US Composite PMI (May P)</b>	<b>50.3</b>	<b>50.6</b>
16:00	Existing Home Sales Total/MoM (Apr)	4.10m/2.00%	4.02m/-5.90%
17:00	Kansas City Fed Manf. Activity (May)	-5	-4
<b>Japan</b>			
2:30	<b>Jibun Bank Japan PMI Composite (May P)</b>	<b>49.8A</b>	<b>51.2</b>
2:30	Jibun Bank Japan PMI Mfg (May P)	49.0A	48.7
2:30	Jibun Bank Japan PMI Services (May P)	50.8A	52.4
<b>UK</b>			
10:30	<b>S&amp;P Global UK Composite PMI (May P)</b>	<b>49.3</b>	<b>48.5</b>
10:30	S&P Global UK Manufacturing PMI (May P)	46.1	45.4
10:30	S&P Global UK Services PMI (May P)	50.0	49
12:00	CBI Trends Total Orders (May)	-24	-26
12:00	CBI Trends Selling Prices (May)	22	23
<b>EMU</b>			
10:00	HCOB Eurozone Manufacturing PMI (May P)	49.2	49
10:00	HCOB Eurozone Services PMI (May P)	50.5	50.1
10:00	<b>HCOB Eurozone Composite PMI (May P)</b>	<b>50.6</b>	<b>50.4</b>
<b>Germany</b>			
10:00	IFO Business Climate (May)	87.3	86.9
10:00	IFO Current Assessment (May)	86.6	86.4
10:00	IFO Expectations (May)	88.0	87.4
9:30	HCOB Germany Manufacturing PMI (May P)	48.8	48.4
9:30	HCOB Germany Services PMI (May P)	49.5	49
9:30	<b>HCOB Germany Composite PMI (May P)</b>	<b>50.3</b>	<b>50.1</b>
<b>France</b>			
9:15	HCOB France Manufacturing PMI (May P)	48.9	48.7
9:15	HCOB France Services PMI (May P)	47.7	47.3
9:15	<b>HCOB France Composite PMI (May P)</b>	<b>48.1</b>	<b>47.8</b>
<b>Belgium</b>			
15:00	Business Confidence (May)	-14.0	-14.7
<b>Events</b>			
9:00	ECB's Holzmann Speaks in Vienna		
10:20	ECB's Vujcic Speaks in Opatija, Croatia		
12:50	BOE's Breeden Speaks		
13:00	BOE's Dhingra Speaks		
14:30	<b>BOE Chief Economist Huw Pill Speaks in Vienna</b>		
13:30	ECB Publishes Account of April 16-17 Policy Meeting		
15:30	ECB's Nagel Gives Press Conference at G-7		
20:00	Fed's Williams Gives Keynote 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	4.60	0.11		US	4.02	0.05	DOW	41860.44	-816.80
DE	2.65	0.04		DE	1.87	0.03	NASDAQ	18872.64	-270.07
BE	3.17	0.05		BE	2.01	0.03	NIKKEI	37004.5	-294.48
UK	4.76	0.05		UK	4.08	0.04	DAX	24122.4	86.29
JP	1.57	0.04		JP	0.73	0.01	DJ euro-50	5454.46	-0.19
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	2.11	3.72	3.88	€STR	2.1690	-0.0030			
5y	2.29	3.77	3.94	Euribor-1	2.0530	-0.0110	SOFR-1	4.3210	0.0018
10y	2.60	4.03	4.24	Euribor-3	2.0460	-0.0140	SOFR-3	4.3275	0.0004
				Euribor-6	2.1130	-0.0080	SOFR-6	4.2740	0.0025
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1331	0.0048		EUR/JPY	162.79	-0.26	CRB	298.57	0.39
USD/JPY	143.68	-0.83		EUR/GBP	0.8442	0.0017	Gold	3341.90	29.30
GBP/USD	1.342	0.0027		EUR/CHF	0.9352	0.0005	Brent	64.91	-0.47
AUD/USD	0.6436	0.0012		EUR/SEK	10.8511	-0.0267			
USD/CAD	1.386	-0.0056		EUR/NOK	11.5255	-0.0514			

## Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
		Prague	+420 2 6135 3535
		Bratislava	+421 2 5966 8820
		Budapest	+36 1 328 99 85
CSOB Economics – Markets Prague			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava			
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest			
David Nemeth	+36 1 328 9989		

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

