



Monday, 26 May 2025

KBC Sunrise Market Commentary

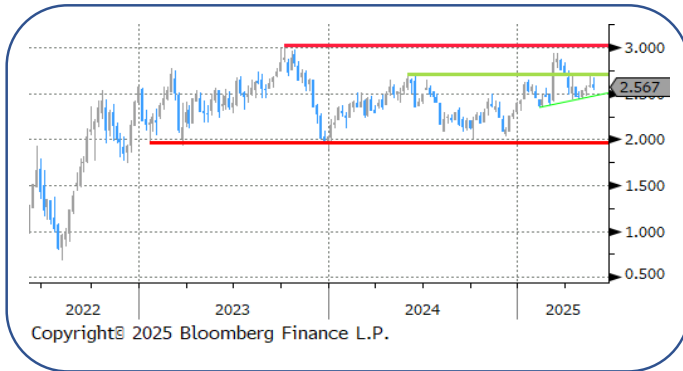
Markets

- US President Trump unexpectedly dropped a bomb on Friday by recommending a 50% tariff on EU goods effective immediate June 1st** as he believed that the bloc wasn't negotiating in good faith. Treasury Secretary Bessent added that he hoped it would light a fire under the EU. Apparently it did. A phone call between Commission President von der Leyen and US President Trump resulted in the latter **pushing the negotiation deadline back to July 9** (in line with the previous end date of the 90-day pause), but the consequence of a "no-deal" remains the **50% tariff rather than the 20% reciprocal tariff charted in Washington's Rose Garden on Liberation Day**. Von der Leyen said that Europe is ready to advance talks swiftly and decisively with Trump cherishing the very nice call.
- Trump's rant on social media **covered an otherwise quite trading session by risk aversion on Friday**. European stock markets lost 2% by the closing bell while US benchmarks suffered a setback of up to 1%. German Bunds rallied with yields sliding 6 to 7 bps across the curve as investors reverted to upping ECB rate cut bets. If any, the episode highlights what Lagarde labelled "unpredictable uncertainty", making it very hard to assess economic and inflationary consequences. US Treasuries initially spiked higher, but failed to stick with gains. Daily US yield changes varied between -1.8 bps and +0.2 bps with the belly of the curve outperforming the wings. The US dollar sold off with the trade-weighted greenback closing at 99.11 from a start at 99.89. A test of the April low (97.92) is in the making. **Friday's reaction function shows that Trump's bullying tactics trigger "sell America" vibes with investors**. EUR/USD's rise on Friday is testament to that: 1.1362 from 1.1281.
- Risk sentiment improves this morning** with the July 9 deadline back in place. Stakes are now higher though. **German Bund and European equity futures undo most of Friday's moves**. EUR/USD extends its march beyond 1.14. It's probably too early to draw firm conclusions as **the absence of UK (Spring Bank Holiday) and US (Memorial Day) investors squeezes market volumes today**. We warn to get over-enthused and stick with **a negative bias against the dollar**. The EMU eco calendar is empty. **ECB president Lagarde** speaks on Europe's role in a Fragmented World and it's unclear whether she'll touch on monetary policy during sideline interviews.

News & Views

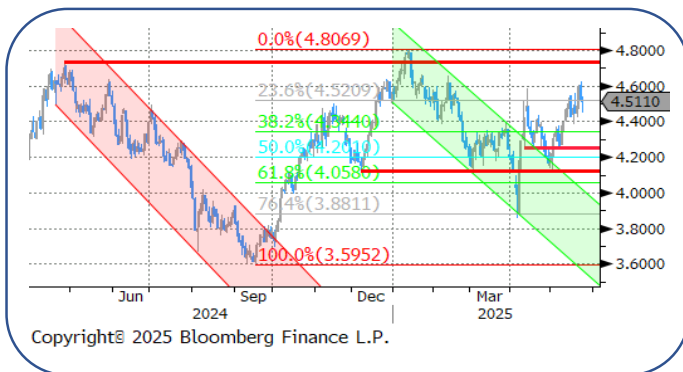
- Moody's raised the outlook on Italy's Baa3 rating to positive from stable**, reflecting **the improved fiscal outlook** against the backdrop of a better-than-expected fiscal performance in 2024 and the **stable domestic political environment**. Last year's budget deficit came in at 3.4% compared to the 3.8% projected. Moody's expects a further decline to 3% by 2026 as **widening primary surpluses offset rising interest payments**. The debt ratio should rise through 2027 (138.4% from 135.3% in 2024) before moving to a gradual declining trend from 2028. The positive outlook is also supported by **a robust labour market, sound household and corporate balance sheets and a healthy banking sector**. Together with further expected improvements in Italy's external position they support economic resilience and reduce Italy's susceptibility to event risk. Its Baa3-rating takes into account Italy's large, wealthy economy and effective institutions and governance relative to rating peers. Moody's adds, however, that the high debt burden remains a constraint on its credit profile.
- European officials familiar with the matter said they're increasingly confident that **Bulgaria will soon meet all requirements for adopting the euro**. With a history of narrow deficits, a low debt ratio and currency stability, above-target inflation was one of the final sticking points after the Russian invasion triggered a spike in prices. The European Commission together with the ECB is concluding the convergence report. Its release is due for early June. A positive assessment followed by EU leaders' blessing at the end of June summit **may pave the way for Bulgaria's euro adoption from the beginning of 2026**.

Graphs



GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2.25% in April, reaching neutral territory**. The ECB now moves to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to US assets intensifies. This slowed the rise in LT yields when market focus shifted from tariff wars to public finances.



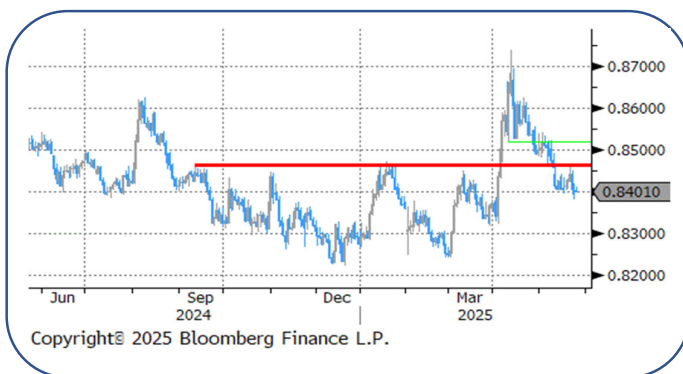
US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening**. It suggests steady policy rates at least until after Summer, supporting the bottom below front end yields. **Long term bond yields trend higher again as President Trump's big, beautiful, deficit-increasing bill moves its way through US Congress**.



EUR/USD

Trump's explosive policy mix (DOGE, tariffs) triggered uncertainty on future US economic growth with markets **also showing loss of confidence in the dollar**. **EUR/USD is in a buy-the-dip pattern** even as short-term interest rate differentials are in the euro's disadvantage.



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, 26 May		Consensus	Previous
Sweden			
8:00	PPI MoM/YoY (Apr)	--/--	-3.00%
Events			
26MAY	US (Memorial Day) and UK (Spring Bank Holiday) financial markets closed		
15:30	ECB's Nagel Speaks in Berlin		
16:30	ECB's Lagarde Speaks in Berlin		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.51	-0.02		US	3.99	0.00	DOW	41603.07	-256.02
DE	2.57	-0.08		DE	1.76	-0.07	NASDAQ	18737.21	-188.52
BE	3.11	-0.06		BE	1.91	-0.07	NIKKEI	37519.57	359.10
UK	4.68	-0.07		UK	3.98	-0.05	DAX	23629.58	-369.59
JP	1.51	-0.03		JP	0.73	0.00	DJ euro-50	5326.31	-98.17
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.05	3.66	3.81	€STR	2.1700	-0.0030			
5y	2.23	3.69	3.87	Euribor-1	2.0890	0.0010	SOFR-1	4.3236	0.0006
10y	2.57	3.94	4.18	Euribor-3	2.0400	-0.0090	SOFR-3	4.3270	-0.0006
				Euribor-6	2.1010	-0.0170	SOFR-6	4.2845	0.0095
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1362	0.0081		EUR/JPY	161.91	-0.54	CRB	296.66	0.39
USD/JPY	142.56	-1.45		EUR/GBP	0.8396	-0.0010	Gold	3394.50	70.90
GBP/USD	1.3537	0.0118		EUR/CHF	0.9331	-0.0021	Brent	64.78	0.34
AUD/USD	0.6488	0.0077		EUR/SEK	10.8328	-0.0404			
USD/CAD	1.3731	-0.0126		EUR/NOK	11.4849	-0.0273			

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