



Tuesday, 27 May 2025

KBC Sunrise Market Commentary

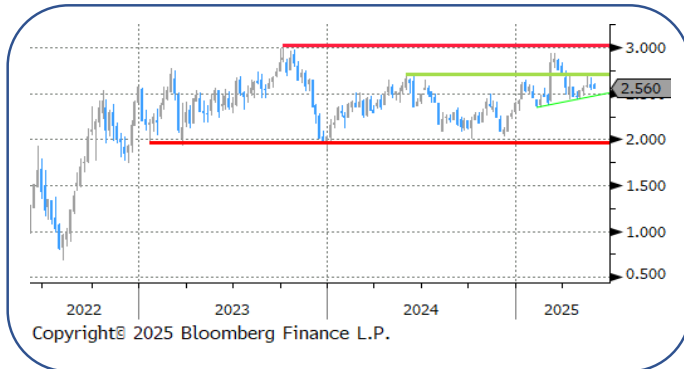
Markets

- The single currency has a new poster girl.** ECB President Lagarde picked her moment. In absence of UK and US investors, she pulled maximum attention with **a speech on Europe's role in a fragmented world**. Foundations that seemed unshakeable begin to shift and create the opening for **"a global euro moment"**. Which has to be earned of course. Current fracturing of the global order caused by the US trade strategy poses short-term economic risks for Europe with exports accounting for close to one fifth of added value. Long term, there could be opportunities with the change landscape **questioning the dominant role of the dollar**, opening the door for the euro to play a greater international role. In past experiences of shifts in the global FX landscape (suspension of gold convertibility or ending Bretton Woods), **a decline in the standing of the dollar pushed investors into gold** as on neither occasion, there was a robust alternative currency to take over at short notice. Lagarde points out that things are different now **with the euro currently already accounting for 20% of global FX reserves** compared with 58% (lowest since 1994) in the case of the US dollar. Investors aren't convinced yet though, as the share of gold in global FX reserves recently started increasing again, also reaching 20%. For the euro to become cornerstone of the financial system, **Europe must first ensure it has a solid and credible geopolitical foundation by maintaining a steadfast commitment to open trade and underpinning it with security capabilities**. Lagarde sports the EU's largest network of trade agreements in the world with the single currency used as invoice currency in around 40% of global trade. The ECB can help the euro's attractiveness by working on a potential digital euro, pursuing initiatives to enhance cross-border payments in euro And by extending swap and repo lines to key partners. Usage in trade needs to go hand in hand with robust military partnerships. The current USD dominance is not just a product of economic fundamentals, but it is powerfully reinforced by US security guarantees. **Investors like assets in regions that can honour alliances with hard power**. A major shift on this military part is currently under way in Europe. Second, **Europe must reinforce its economic foundation** to make Europe a top destination for global capital, enabled by deeper and more liquid capital markets. Simply put: **Europe needs a more liquid supply of safe assets to invest in**. Lagarde refers to the competitiveness report from her predecessor, Draghi, and warns for self-defeating fragmentation. Economic logic tells us that **public goods need to be jointly financed**. And this joint financing could provide the basis for Europe to gradually increase its supply of safe assets. Finally, **Europe must bolster its legal foundation by defending the rule of law** – and by uniting politically so that we can resist external pressures. While Europe can improve by dropping single veto voting systems, she especially **takes a swing at the US here** by pointing out that investors have significant doubts on the stability of the US legal and institutional framework as witnessed by **the highly unusual simultaneous sell-off in USD, US treasuries and US stocks** after "Liberation Day". Increasing the international role of the euro can have several positive implications for the euro area. It **would allow EU governments and businesses to borrow at lower cost**, helping boost internal demand when external demand is becoming less certain. It would insulate from FX fluctuations, **protecting Europe from more volatile capital flows** and it would **protect Europe from sanctions or other coercive measures**.

News & Views

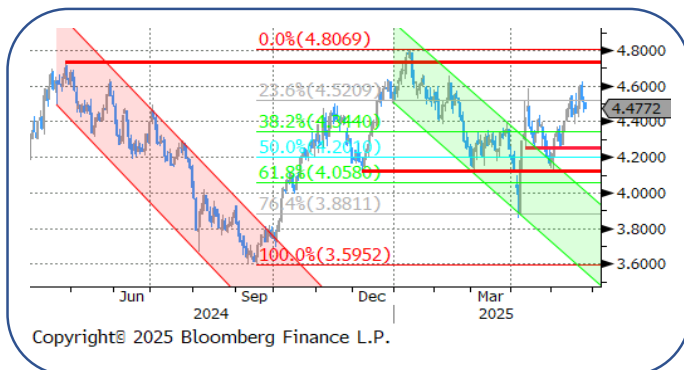
- The head of the UK's Debt Management Office (DMO) told the Financial Times that the agency is shifting to shorter-term borrowing.** The average maturity of UK debt is around 14 years. That's significantly higher than the US' +/- 6 years and longer than most other government bond markets. But UK (and global) long-term bond yields are at elevated levels over fiscal concerns and amid waning demand from institutional investors, the pension industry in particular. The UK 30-yr yield hit the highest level since 1998 last week. This is **threatening the government compliance to its self-imposed fiscal rules**. Chancellor Reeves resultingly tweaked them in the autumn budget of 2024, was forced to cut spending and raise taxes in the spring update of 2025 and will most likely face the issue again in the 2025 autumn budget.

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.



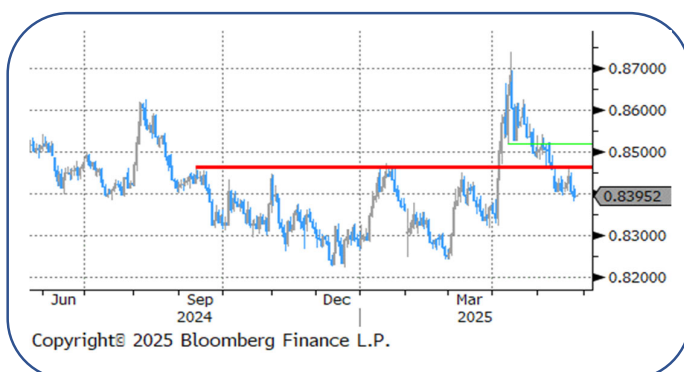
US 10y yield

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

Tuesday, 27 May		Consensus	Previous
US			
14:30	Durable Goods Orders (Apr P)	-7.80%	7.50%R
14:30	Durables Ex Transportation (Apr P)	0.00%	-0.40%A
14:30	Cap Goods Orders Nondef Ex Air (Apr P)	-0.10%	-0.20%A
14:30	Cap Goods Ship Nondef Ex Air (Apr P)	-0.10%	0.10%A
15:00	FHFA House Price Index MoM (Mar)	-0.10%	0.10%
15:00	House Price Purchase Index QoQ (1Q)	--	1.40%
15:00	S&P CoreLogic CS 20-City MoM SA/YoY NSA (Mar)	0.20%/4.50%	0.40%/4.50%
16:00	Conf. Board Consumer Confidence (May)	87.1	86
16:00	Conf. Board Present Situation (May)	--	133.5
16:00	Conf. Board Expectations (May)	--	54.4
16:30	Dallas Fed Manf. Activity (May)	-23.1	-35.8
Japan			
1:50	PPI Services YoY (Apr)	3.10%A	3.30%R
UK			
1:01	BRC Shop Price Index YoY (May)	-0.10%A	-0.10%
12:00	CBI Total Dist. Reported Sales (May)	--	-26
12:00	CBI Retailing Reported Sales (May)	--	-8
EMU			
11:00	Consumer Confidence (May F)	--	-15.2
11:00	Economic Confidence (May)	94.1	93.6
11:00	Industrial Confidence (May)	-10.5	-11.2
11:00	Services Confidence (May)	1.0	1.4
Germany			
8:00	GfK Consumer Confidence (Jun)	-20	-20.6
France			
8:45	CPI EU Harmonized MoM/YoY (May P)	0.10%/0.90%	0.70%/0.90%
8:45	CPI MoM/YoY (May P)	0.10%/0.90%	0.60%/0.80%
Hungary			
14:00	Central Bank Rate Decision	6.50%	6.50%
Events			
9:00	ECB's Villeroy Speaks in Paris ()		
10:00	Fed's Kashkari Speaks at Bank of Japan Event ()		
18:00	ECB's Nagel Speaks in Mannheim ()		
18:20	SNB's Schlegel Speaks in Basel ()		
19:00	U.S. To Sell USD69 Bln 2-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.51	0.00		US	3.99	0.00	DOW	41603.07	0.00
DE	2.56	-0.01		DE	1.78	0.02	NASDAQ	18737.21	0.00
BE	3.09	-0.02		BE	1.92	0.01	NIKKEI	37747.02	215.49
UK	4.68	0.00		UK	3.98	0.00	DAX	24027.65	398.07
JP	1.47	-0.05		JP	0.73	0.01	DJ euro-50	5395.33	69.02
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.04	3.66	3.81	€STR	2.1680	-0.0020			
5y	2.21	3.69	3.87	Euribor-1	2.0960	0.0070	SOFR-1	4.3236	0.0000
10y	2.55	3.94	4.18	Euribor-3	2.0390	-0.0010	SOFR-3	4.3270	0.0000
				Euribor-6	2.0890	-0.0120	SOFR-6	4.2845	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1387	0.0025		EUR/JPY	162.65	0.74	CRB	296.66	0.00
USD/JPY	142.85	0.29		EUR/GBP	0.8394	-0.0001	Gold	3394.50	0.00
GBP/USD	1.3564	0.0027		EUR/CHF	0.9348	0.0017	Brent	64.74	-0.04
AUD/USD	0.6486	-0.0002		EUR/SEK	10.8335	0.0007			
USD/CAD	1.3737	0.0006		EUR/NOK	11.4959	0.0110			

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