



Monday, 02 June 2025

## KBC Sunrise Market Commentary

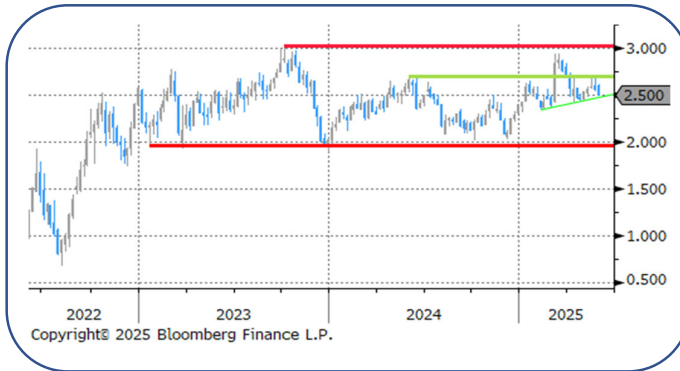
### Markets

- **'Trade noise' is moving again to the fore, further complicating any eco-driven market reaction function.** Soft US data (US Q1 GDP was upwardly revised to -0.2% Q/Qa, but with a setback in private consumption and a soft core PCE deflator; claims were also higher than expected) triggered a setback in US yields on Thursday. **April US PCE deflators**, remained benign despite uncertainty on trade/tariffs and confirmed this yield decline/steepening on Friday. US yield changes ranged between 4.1 bps (2-y) and +1.4 bps (30-y). After a decline on Thursday, German yields ceded less than 1bp across the curve on Friday. German May inflation was close to expectations (0.2% M/M and 2.1 Y/Y). Aside from the data, headlines on trade showed that uncertainty on the topic is here to stay. A federal US court of appeal paused an earlier court ruling assessing the Liberation Day tariffs as being illegal. Still, the essence on the issue remains subject to further court decisions. On Friday, **US president Trump openly accused China of violating the Geneva trade truce reached earlier last month.** Comments from the US administration indicated that China exports of rare earths was a source of conflict. Uncertainty caused some investor caution going into the weekend (Nasdaq -0.32%). The dollar basically closed the session little changed (DXY 99.33, EUR/USD 1.135).
- **Trade-related uncertainty continues dominating the market talk this morning.** US president Trump announced to raise the import duties on the import of **steel and aluminum from 25% to 50%** starting June 4. **Chinese officials equally accused the US of violating the consensus reached in Geneva**, warning they might take additional action to defend their interests. **The flaring up of trade-related tensions causes markets to start the week with a risk-off bias.** (Nikkei -1.3%, S&P 500 future -0.5%). The dollar is losing ground against the likes of the yen (USD/JPY 143.4) and the euro (EUR/USD 1.1375). **For now, the uncertainty again hardly helps US Treasuries, with yields even rising marginally this morning.** Trade uncertainty probably will continue to set the tone for trading today though **the US manufacturing ISM is worth keeping an eye on.** **Later this week**, we have US JOTS job openings (tomorrow), the ADP report and services ISM (Wednesday) and the payrolls (Friday). **A big negative labour market surprise probably remains necessary for the Fed (and markets) to change their assessment on a cautious Fed approach also in H2.** In Europe, May CPI inflation tomorrow (expected headline 2% and core 2.5%) is the final input ahead of Thursday's ECB policy meeting. **For now, we see stocks and the dollar as most vulnerable to the trade noise. The impact, especially on US interest markets is far less straightforward.**

### News & Views

- **The eight OPEC+ countries that in 2023 announced additional voluntary production cuts, will continue returning to normal output levels.** In December of last year, they agreed to start a gradual and flexible return of the 2.2mn b/d of production cuts. They started the process with a larger than expected 320k b/d in April, followed by 411k b/d increases in May and June. Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman on Saturday agreed **on a similar output hike for July (411k b/d) on Saturday.** The gradual increases may be paused or reversed subject to evolving market conditions, allowing for flexibility to continue to support oil market stability. **Oil prices trade higher this morning (Brent > \$64/b) as markets were wrongfooted by earlier rumours that the eight OPEC+ countries could speed up the reversal** of their additional cuts with an output hike of up to 600k b/d in for July.
- **Polish PM Tusk's pro-European candidate Trzaskowski narrowly lost the second round of Polish presidential elections.** The Warsaw mayor lost against the candidate of the previous, nationalist, Law and Justice party (PiS). Nawrocki won 50.9% of the vote against 49.1% for Trzaskowski. **The outcome deals a blow to Tusk's reform agenda which has been partly held hostage by a presidential veto since taking office in 2023.** The previous Polish president, Duda, another PiS nominee, blocked amongst others the planned judicial overhaul. **The Polish zloty loses ground this morning with EUR/PLN jumping from 4.24 to 4.27. A test of EUR/PLN 4.30 is in the cards..**

## 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, 02 June		Consensus	Previous
<b>US</b>			
16:00	ISM Manufacturing (May)	49.5	48.7
16:00	ISM Prices Paid (May)	69.0	69.8
16:00	ISM New Orders (May)	--	47.2
16:00	ISM Employment (May)	--	46.5
16:00	Construction Spending MoM (Apr)	0.20%	-0.50%
<b>Japan</b>			
2:30	Jibun Bank Japan PMI Mfg (May F)	A: 49.4	49
<b>UK</b>			
10:30	Net Consumer Credit (Apr)	1.2b	0.9b
10:30	M4 Money Supply YoY (Apr)	2.80%	3.40%
10:30	S&P Global UK Manufacturing PMI (May F)	45.1	45.1
8:00	Nationwide House PX MoM/NSA YoY (May)	0.0%/2.80%	-0.60%/3.40%
<b>EMU</b>			
10:00	HCOB Eurozone Manufacturing PMI (May F)	49.4	49.4
<b>Events</b>			
2:00	Fed's Waller Speaks on Economic Outlook		
11:30	EU to Sell Bonds		
12:00	Riksbank's Thedeen Holds Speech		
16:15	Fed's Logan Participates in Moderated Q&A		
18:45	Fed's Goolsbee Participates in Moderated Q&A		
23:30	BOE's Mann Speaks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,40	-0,02		US	3,90	-0,04	DOW	42270,07	54,34
DE	2,50	-0,01		DE	1,78	0,01	NASDAQ	19113,77	-62,10
BE	3,02	-0,01		BE	1,89	0,00	NIKKEI	37473,84	-491,26
UK	4,65	0,00		UK	4,02	0,03	DAX	23997,48	64,25
JP	1,51	0,01		JP	0,77	0,03	DJ euro-50	5366,59	-4,51
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	2,02	3,58	3,81	€STR	2,1610	0,0000			
5y	2,18	3,60	3,85	Euribor-1	1,9960	0,0050	SOFR-1	4,3180	0,0001
10y	2,50	3,86	4,13	Euribor-3	1,9950	-0,0010	SOFR-3	4,3177	-0,0032
				Euribor-6	2,0690	0,0130	SOFR-6	4,2450	-0,0142
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1347	-0,0023		EUR/JPY	163,46	-0,46	CRB	290,43	-0,33
USD/JPY	144,02	-0,19		EUR/GBP	0,8432	0,0008	Gold	3315,40	-28,50
GBP/USD	1,3459	-0,0033		EUR/CHF	0,9333	-0,0019	Brent	62,78	-0,57
AUD/USD	0,6431	-0,0011		EUR/SEK	10,8854	0,0202			
USD/CAD	1,3739	-0,0070		EUR/NOK	11,5869	0,0726			

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