



Tuesday, 03 June 2025

KBC Sunrise Market Commentary

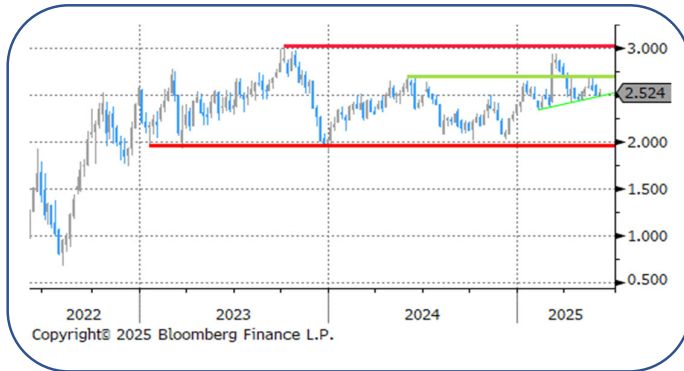
Markets

- Markets clearly struggled to find a coherent directional storyline yesterday. A new layer of trade uncertainty (US potentially raising steel tariffs to 50%, mutual US-China accusations of not meeting the Geneva agreements) caused investors to start with a guarded risk off bias, weighing on the dollar and on equities. Core yields kept an upward bias (higher risk premia? inflation fears?). **The US manufacturing ISM confirmed the stagflationary risk related to US trade policy.** Activity data disappointed. The headline index eased further in contraction territory (48.5), showing little relief from the truce in reciprocal tariffs. Some sub-series (production, orders, employment) were less negative but remain sub 50. A sharp decline in imports suggests further supply chain complications. Elevated prices paid (69.4) confirmed ongoing stagflationary risks. In a first reaction, yields, the dollar and equities declined further. Subsequent rebound, especially in equities, was a bit remarkable. US indices reversed losses and closed in positive territory (S&P 500 +0.41%). **US yields added about 3-4 bps across the curve. We see the move mainly as technical in nature with markets holding recent ST ranges.** In a similar move to the US, German yields added between 1.3 bps (2-y) and 3.2 bps (30-y). With respect to the risk persistent high long term yields, **central bankers and government issuers recently indicated they might take action to restore the supply balance.** In this respect, **BOE's Catherine Mann** addressed the tensions between unwinding the BoE's balance sheet via QT and at the same time easing policy via (gradual) rate cuts. This suggests some internal debate on the pace of QT to be decided for October. The minutes of a meeting between the BOJ and financial institutions this morning also illustrates this issue. Question is whether changing supply across the curve will be enough to manage the broader issue of excessive deficits risk premia. The dollar post-ISM closed near the intraday lows (DXY 98.7, EUR/USD 1.1441).
- Asian markets show no clear trend this morning. A weak Caixin manufacturing PMI (cf infra) triggered further calls for new stimulus. A Japanese 10-y bond auction met decent demand. USD rebounds slightly. Today, the EMU flash May CPI is expected to print at 0.0% M/M and 2.0% Y/Y (core expected at 2.4% from 2.7%). We don't expect the data to change markets' assessment the Thursday's expected 25 bps rate cut. The focus turns to the staff forecast and Lagarde's guidance (pause?). In the US, **JOLTS job openings** are interesting, but markets probably will wait for Friday's payrolls to draw any conclusion on the (length of the) Fed's current wait-and-see stance. Even as there is some 'improvement' this morning YTD lows in the dollar (DXY, EUR/USD) stay within reach.

News & Views

- China's Caixin manufacturing PMI signaled a first deterioration in operating conditions in eight months.** The headline figure slumped from 50.4 to 48.3 (lowest since September 2022) with consensus expecting a slight improvement. **Manufacturing output declined alongside a renewed fall in new orders.** Incoming new work contracted at the quickest pace in over two-and-a-half years. Export orders also shrank at a faster pace. In line with reduced operations, firms cut back on their purchasing activity and lowered their staffing levels. **Turning to prices, average input costs and output charges continued to decline.** Moreover, the rates of reduction accelerated since April. Finally, optimism picked up since April as firms grew more hopeful that trade conditions can improve and the widening of export markets will help to drive sales in the year ahead. Caixin Insight Group suggested that Chinese policy needs further evaluation. "Follow-up actions should be introduced based on actual conditions. More importantly, boosting domestic demand should be grounded in increasing household incomes by improving employment environment, strengthening social security, raising household disposable income, improving market expectations, and ultimately driving a continued economic recovery."
- Polish PM Tusk will seek a confidence vote – which he's unlikely to lose - to shore up support for his pro-European coalition government** after his candidate narrowly lost presidential election against nationalist PiS-nominee Nawrocki. That way, the biggest opposition party holds on to a key mandate which is more than just ceremonial. PM Tusk said he has an "emergency plan" in case of a continued difficult cooperation with the (new) president. Nawrocki is unlikely to side with Tusk to support legislation and is for example strongly opposed to ease the country's strict abortion law. **Polish markets reacted orderly yesterday to the overall status quo. The zloty temporarily spiked to EUR/PLN 4.27 before returning to the 4.24-area.**

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, 03 June		Consensus	Previous
US			
16:00	Factory Orders (Apr)	-3.20%	3.40%R
16:00	Durable Goods Orders (Apr F)	-6.30%	-6.30%
16:00	Cap Goods Ship Nondef Ex Air (Apr F)	-0.10%	-0.10%
16:00	JOLTS Job Openings (Apr)	7100k	7192k
16:00	JOLTS Job Openings Rate (Apr)	--	4.30%
16:00	JOLTS Quits Level (Apr)	3271k	3332k
16:00	JOLTS Quits Rate (Apr)	--	2.10%
16:00	JOLTS Layoffs Level (Apr)	1614k	1558k
16:00	JOLTS Layoffs Rate (Apr)	--	1.00%
EMU			
11:00	CPI MoM/YoY (May P)	0.00%/2.00%	0.60%/2.20%
11:00	CPI Core YoY (May P)	2.40%	2.70%
11:00	Unemployment Rate (Apr)	6.20%	6.20%
Italy			
10:00	Unemployment Rate (Apr)	6.10%	6.00%
Belgium			
11:00	Unemployment Rate (Apr)	--	5.90%
China			
3:45	Caixin China PMI Mfg (May)	48.3A	50.4
Events			
3:30	RBA Minutes of May Policy Meeting		
11:30	Germany to Sell EU4.5 Billion of 1.7% 2027 Bonds		
18:45	Fed's Goolsbee Participates in Moderated Q&A		
19:00	Fed's Cook Discusses Economic Outlook		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,44	0,04		US	3,94	0,04	DOW	42305,48	35,41
DE	2,52	0,02		DE	1,79	0,01	NASDAQ	19242,61	128,84
BE	3,05	0,03		BE	1,91	0,02	NIKKEI	37495,72	25,05
UK	4,67	0,02		UK	4,03	0,01	DAX	23930,67	-66,81
JP	1,49	-0,02		JP	0,77	-0,01	DJ euro-50	5355,56	-11,03
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,02	3,62	3,82	€STR	2,1720	0,0110			
5y	2,19	3,65	3,87	Euribor-1	1,9840	-0,0120	SOFR-1	4,3162	-0,0018
10y	2,52	3,90	4,16	Euribor-3	1,9790	-0,0160	SOFR-3	4,3172	-0,0005
				Euribor-6	2,0630	-0,0060	SOFR-6	4,2512	0,0062
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1441	0,0094		EUR/JPY	163,28	-0,18	CRB	294,93	4,50
USD/JPY	142,71	-1,31		EUR/GBP	0,8447	0,0015	Gold	3397,20	81,80
GBP/USD	1,3544	0,0085		EUR/CHF	0,9348	0,0015	Brent	64,63	1,85
AUD/USD	0,6495	0,0064		EUR/SEK	10,899	0,0136			
USD/CAD	1,3714	-0,0025		EUR/NOK	11,5284	-0,0585			

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
CSOB Economics – Markets Prague		Bratislava	
Jan Cermak	+420 2 6135 3578		+421 2 5966 8820
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Budapest	
Marek Gabris	+421 2 5966 8809		+36 1 328 99 85
K&H Economics – Markets Budapest			
David Nemeth	+36 1 328 9989		

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