



Thursday, 05 June 2025

## KBC Sunrise Market Commentary

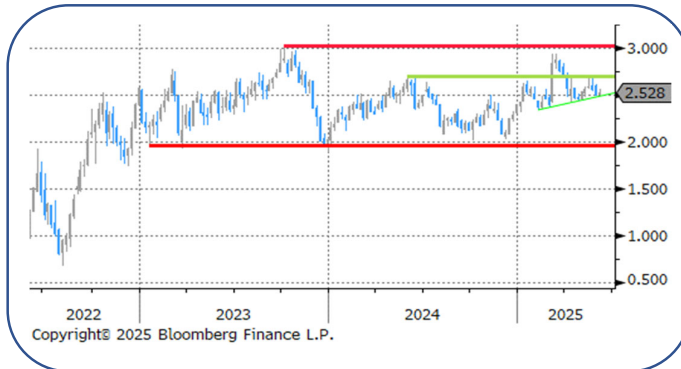
### Markets

- Markets and Fed governors are still in the process of **navigating the implications of the 'stagflationary dichotomy' for policy going forward**. Fed's Kashkari in an interview held the line that, at least for now, the Fed has the time to assess the impact on inflation that hasn't returned to target yet, even as uncertainty via several channels (e.g. investment) might weigh on activity at some point in the future. **Markets yesterday switched attention to growth rather than to inflation risks**. ADP growth slowed sharply (37k vs 114k expected), followed by a disappointing services ISM. The headline index dropped below the 50 mark (49.9) and poor new orders (46.4) suggest more trouble ahead. At the same time, a better reading for employment (50.7) and a further rise in the prices paid subseries (68.7) were ignored. **US yields dropped 8.5 bps (2-y) to 10.4 bps (30-y)**. Aside from softening Fed rate cut expectations, **the strong performance at the long end of the curve** also caught the eye. For now, investors don't feel the need to further push the deficit theme. Shorts at the long end of the curve apparently took some chips off the table. **The real reality check will come with tomorrow's US payrolls**. German yields this time fully disconnected from the US with investors in wait-and-see modus ahead of today's ECB meeting. Yields change less than 2 bps across the curve. **The dollar suffered from the combined ADP/ISM miss, but the damage could have been bigger**. No technically important barriers were challenged (DXY close 98.78; EUR/USD 1.1417). **US equities** simply maintained recent gains, even as the stalemate in trade negotiations between the US and most of its main trading partners persists.
- This morning, the focus in Asian markets was on **a Japanese 30-y bond auction**. Bonds rally after the sale even as the bid-cover ratio was far from convincing. As in the US yesterday, this suggests that the pressure at the long end of the curves(s) might be easing, at least temporarily. **US markets probably face an 'interlude ahead of tomorrow's payrolls**, with only the trade balance data and jobless claims scheduled for release. **Question is whether the ECB policy decision will bring some more inspiring insights for European investors**. Anything different from a 25 bps cut to 2.0% would be a huge surprise. The market focus will be on the now ECB staff projections and the press conference from ECB's Lagarde. Staff projections will probably confirm that the ECB will meet its inflation target over the policy horizon. Interesting to see the assessment on growth, as recent hard data mostly were better than expected. With the ECB now 'deep' in neutral territory, we expect chair Lagarde to switch to a highly data/tariffs depended bias with little directional guidance. **With still more than one additional 25 bps cut discounted, we expect the downside in European yields be rather well protected**.

### News & Views

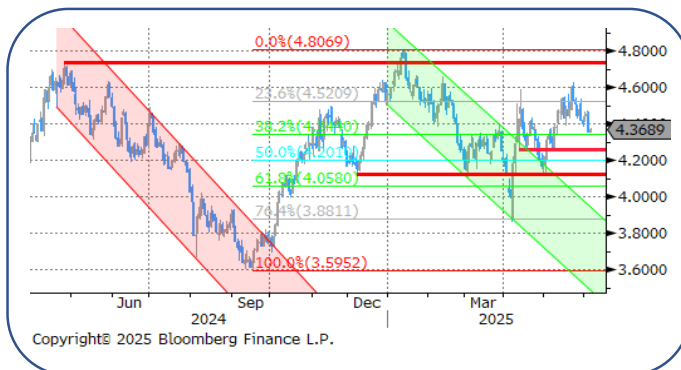
- The **Bank of Canada** kept its **policy rate for second consecutive meeting unchanged at 2.75% yesterday**. Growth was slightly stronger than the BoC had forecast in Q1. The pull-forward of exports to the United States and inventory accumulation boosted activity, with final domestic demand roughly flat. The economy is expected to be considerably weaker in Q2 as these effects reverse. The labour market has softened, particularly in trade-intensive sectors, and unemployment has risen to 6.9%. The BoC's preferred measures of core inflation moved up while the elimination of the federal consumer carbon tax reduced headline inflation by 0.6 ppt (1.7% in April instead of 2.3%). Household inflation expectations are rising over tariff treats with many businesses saying they'll pass on higher costs. The BoC holds a wait-and-see approach as it balances the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs. **The Canadian dollar extended gains against the USD as some expected a rate cut or at least a softer signal from the BoC**. USD/CAD closed at its lowest level since October (1.3678). Canadian money markets discount another 25 bps rate cut after Summer.
- The **US Congressional Budget Office (CBO)** calculated that US President Trump's big beautiful bill would increase budget deficits by \$2.4tn over the next 10 year compared with doing nothing. The bill would lower tax revenues by \$3.75tn while cutting spending by around \$1.3tn. In a separate report, **the CBO said that the tariffs in place as of May 13 would reduce budget deficits by \$2.8tn over a decade if they remain, or more than the deficit increase from the bill**. They didn't take into account macro-economic effects with import duties expected to lift inflation by an average of 0.4% this year and next while reducing growth by 0.6% by 2035. Those estimates are obviously subject to significant uncertainty.

## 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 in May 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, 05 June		Consensus	Previous
<b>US</b>			
14:30	Trade Balance (Apr)	-\$66.0b	-\$140.5b
14:30	Initial Jobless Claims	235k	--
14:30	Continuing Claims	1910k	--
<b>Japan</b>			
1:30	Real/Labor Cash Earnings YoY (Apr)	-1.80%A/2.30%A	-1.80%R/2.30%R
1:30	Cash Earnings-Same Sample Base YoY (Apr)	2.60%A	2.70%R
<b>UK</b>			
10:30	DMP 3M Output Price Expectations (May)	3.80%	3.80%
10:30	DMP 1 Year CPI Expectations (May)	3.20%	3.10%
<b>EMU</b>			
11:00	PPI MoM/YoY (Apr)	-2.10%/1.10%	-1.60%/1.90%
14:15	ECB Deposit Facility Rate	2.00%	2.25%
14:15	ECB Main Refinancing Rate	2.15%	2.40%
14:15	ECB Marginal Lending Facility	2.40%	2.65%
<b>Germany</b>			
8:00	Factory Orders MoM/WDA YoY (Apr)	-1.50%/3.90%	3.60%/3.80%
<b>Italy</b>			
10:00	Retail Sales MoM/YoY (Apr)	0.40%/--	-0.50%/-2.80%
<b>China</b>			
3:45	Caixin China PMI Composite (May)	49.6A	51.1
3:45	Caixin China PMI Services (May)	51.1A	50.7
<b>Sweden</b>			
8:00	CPI MoM/YoY (May P)	0.20%/0.40%	0.10%/0.30%
8:00	CPIF MoM/YoY (May P)	0.30%/2.50%	0.20%/2.30%
8:00	CPIF Excl. Energy MoM/YoY (May P)	0.30%/2.60%	0.50%/3.10%
<b>Events</b>			
05:35	Japan to Sell 30-Year Bonds		
9:45	BOE's Greene Speaks		
10:30	BOE's Breeden Speaks		
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
14:45	ECB President Christine Lagarde Holds Press Conference		
18:00	Fed's Kugler Speaks at Economic Club of NY		
19:30	Fed's Harker Speaks on Economic Outlook		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,36	-0,10		US	3,87	-0,08	DOW	42427,74	-91,90
DE	2,53	0,00		DE	1,80	0,01	NASDAQ	19460,49	61,53
BE	3,07	0,01		BE	1,92	0,01	NIKKEI	37539,33	-208,12
UK	4,61	-0,03		UK	4,01	-0,02	DAX	24276,48	184,86
JP	1,46	-0,04		JP	0,76	-0,01	DJ euro-50	5405,15	29,45
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	2,03	3,56	3,77	€STR	2,1730	0,0010			
5y	2,20	3,58	3,82	Euribor-1	1,9540	0,0070	SOFR-1	4,3106	-0,0024
10y	2,51	3,84	4,10	Euribor-3	1,9600	-0,0110	SOFR-3	4,3093	-0,0064
				Euribor-6	2,0640	-0,0100	SOFR-6	4,2224	-0,0277
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1417	0,0045		EUR/JPY	163,01	-0,73	CRB	296,55	-0,26
USD/JPY	142,77	-1,20		EUR/GBP	0,8424	0,0012	Gold	3399,20	22,10
GBP/USD	1,3554	0,0037		EUR/CHF	0,9345	-0,0024	Brent	64,86	-0,77
AUD/USD	0,6492	0,0030		EUR/SEK	10,944	0,0000			
USD/CAD	1,3678	-0,0042		EUR/NOK	11,5477	-0,0044			

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