



2 May 2025

## Market stability paves way for small UK rate cut

- US S&P 500 and FTSE All-Share indices end April down by less than 1%; oil and gas prices slump
- UK 10-year gilt yields fall by over 20bps in April; US yields decline by less and dollar underperforms
- US Fed is likely to keep interest rates unchanged, but with a risk of a softening of its guidance
- Bank of England poised to cut interest rates by 25bps to 4.25%, avoiding a larger 50bps reduction

This report provides a summary of key economic indicators, important events and financial market trends over the past week and looks ahead to the coming week.

### Stock markets claw back losses...

As the tumultuous month drew to an end, the US S&P 500 index was down by 'only' 0.8% in April, having plunged by more than 10% at its nadir shortly after President Trump's 'liberation' day tariff pronouncements. The FTSE All-Share index also fell by just 0.6% compared to end-March. Markets have gradually priced out worst-case scenarios for US tariff policy, helped by the 90-day pause on higher levies and other concessions, as well as reports of progress in trade negotiations with several countries, including belatedly with China.

April also saw a significant fall of more than 20bps in UK 10-year gilt yields. Oil prices dropped sharply, reflecting weaker demand and little support from supply cuts. Gas prices have also fallen. US Treasury yields declined but relatively modestly, and the dollar underperformed against other major currencies, falling the most against the Swiss franc, Japanese yen and the euro. Gold, meanwhile, surged to new highs.

### ...but surveys reflect economic concerns

The negative economic impact has been evident in business and consumer surveys, but has yet to fully emerge in the 'hard' data. The US Conference Board survey revealed a plunge in consumer confidence to a near five-year low in April. In the UK, the Lloyds Business Barometer reported a sharp fall in confidence, aligning with the recent decline in the PMI surveys.

Among the 'hard' data, backward-looking Q1 GDP growth was surprisingly strong in the Eurozone at 0.4%. UK Q1 GDP is not out until 15 May, but could be as strong

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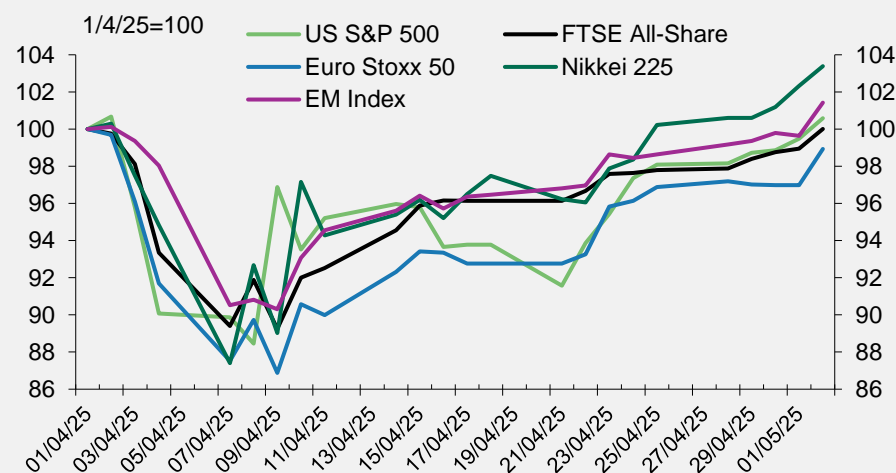
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**Chart 1: Global equities have recovered most of their losses**



Source: Bloomberg, Lloyds Bank Market Insights

## Central bank previews

- US Federal Reserve decision – Wednesday 7 May (19:00 BST)
- Bank of England policy – Thursday 8 May (12:00 BST)

as 0.7%. However, we are likely to see weaker Eurozone and UK growth in Q2 due to tariff uncertainty. In comparison, US Q1 GDP fell by 0.3% annualised, but the numbers were heavily distorted by a pre-tariff surge in imports. Underlying activity is also likely to weaken in the US in Q2, although data volatility will make it more difficult to get a 'clean' read of trends.

## US labour data point to gradual decline

Volatile US GDP means a lot of focus will be on labour market indicators, including the monthly employment numbers. Job openings fell in March and the latest weekly jobless claims data picked up. Nonfarm payrolls rose by 177k in April, slightly more than expected, but the prior two months were revised down by 58k in aggregate. Earnings grew by 0.2%, less than forecast. Overall, the evidence points to a gradual labour market slowdown, which will likely continue over several months, providing the Federal Reserve space to assess the balance of risks between weaker growth and stronger inflation.

## Fed on hold, soften its guidance?

In the upcoming week, two central banks will take centre stage. The US Federal Reserve is expected to keep interest rates unchanged on Wednesday despite political pressure. Meanwhile, the Bank of England is anticipated to cut rates the following day. The Fed has not lowered rates since December, when they were adjusted to the 4.25-4.50% range. However, there is a possibility that Chair Powell might soften the policy guidance, hinting at a potential rate cut in the near future. This would leave the door open for a June rate cut, though not guaranteeing it, and markets are not fully pricing in a move until July. Clearer signs of a weakening labour market along with confidence that any inflationary effects from tariffs are temporary could increase expectations for earlier and larger rate cuts.

## Bank of England to cut and keep gradual approach

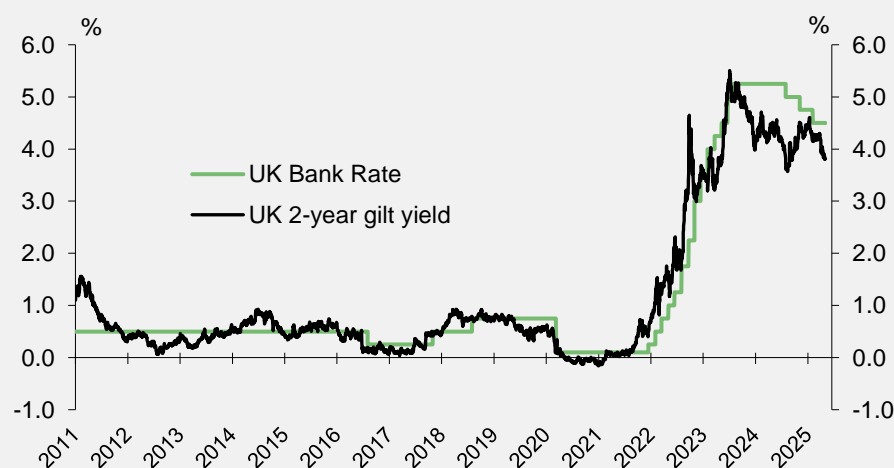
The Bank of England's expected 25bps cut in Bank Rate to 4.25% aligns with its 'gradual and careful' approach to easing policy every other meeting, i.e. a move each quarter. A larger half-point cut is unlikely, though one MPC member, Swati Dhingra, may vote for it. Q1 GDP growth is likely to be strong, while CPI inflation is expected to exceed 3% in April (data due 21 May) due to rises in regulated prices, including household energy. However, the recent drop in global energy prices could lead to a lower inflation peak in H2, previously forecast by the BoE at 3.7% in Q3. This is likely academic, as policymakers will focus on ongoing 'stickiness' in underlying inflation and the medium-term outlook. We expect the Bank to maintain its 'gradual and careful' guidance on further rate moves for now. That may change if downside growth risks materialise.

The Bank of England is poised to announce an interest rate cut on 8 May and is expected to maintain its 'gradual and careful' approach to further easing, as it updates its forecasts for growth and inflation.

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Chart 2: Markets anticipate further reductions in the UK Bank Rate



Source: Bloomberg, Lloyds Bank Market Insights

# Central Bank Preview:

5-9 May 2025

## US Federal Reserve decision – Wed 7 May (19:00 BST)

The Federal Reserve seems set to leave interest rates unchanged at next week's policy update, marking the third successive time they have been left on hold. Recent comments from Fed policymakers suggest that even the most dovish are content with this position for now. Current market pricing sees only about a 10% probability of a May cut, making an immediate policy change unlikely.

Less certain is what will be said regarding future actions. This is not one of the meetings when Fed policymakers update their forecasts so there will not be any changes to its 'dot plot' of interest rate projections. Both the press statement and Fed Chair Powell's press conference will be watched closely for any changes to the message.

At the Fed's last update in March, Powell emphasised the high level of uncertainty around the impact of the new administration's economic policies. He noted that it was hard to gauge whether upside risks to inflation or downside risks to growth were more likely from aggressive rises in trade tariffs. Given that monetary policy was felt to be in a 'good place' following last year's rate cuts, the consensus was to leave policy on hold until the picture becomes clearer.

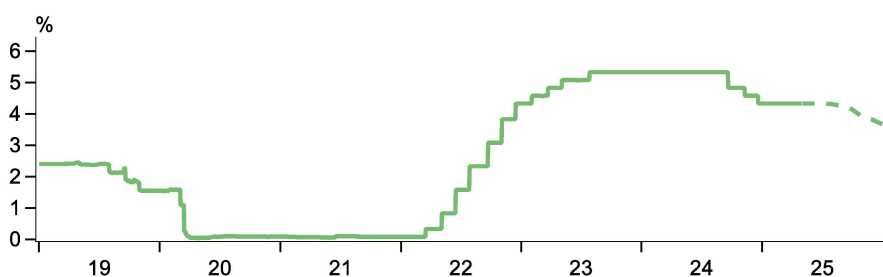
This suggests merely repeating that guidance this time. The economic picture remains cloudy and President Trump's 90-day suspension of many tariffs is not due to expire until after the Fed's June policy meeting so the outlook may still be unclear by then. However, some Fed policymakers now favour earlier rate reductions and markets are pricing in around 100bps of cuts for this year. 'Hawkish' guidance from the Fed risks prompting another sell-off.

Against this background, the Fed may soften its guidance, indicating that a cut may be closer. Powell has previously said he expects interest rates to fall this year as inflation moves closer to target and he can now point to recent downside surprises in inflation data. While tariffs remain a key uncertainty, Powell can argue that longer-term inflation expectations will remain well anchored, making any upward impact transient. Consequently, the Fed can pay more attention to indications that economic activity may be weakening. The intention with a nuanced message may be to open up the possibility of a move at either the next update in June or the following one in July while still leaving room to wait longer if necessary. Such a message may satisfy markets for now and reduce some political pressure on the Fed.

### Fed funds target range

Lloyds forecast	4.25%-4.50%
Consensus	4.25%-4.50%
Previous	4.25%-4.50%

### Markets now looking for significant Fed rate cuts this year



Source: Macrobond, Lloyds Bank Market Insights

# Central Bank Preview:

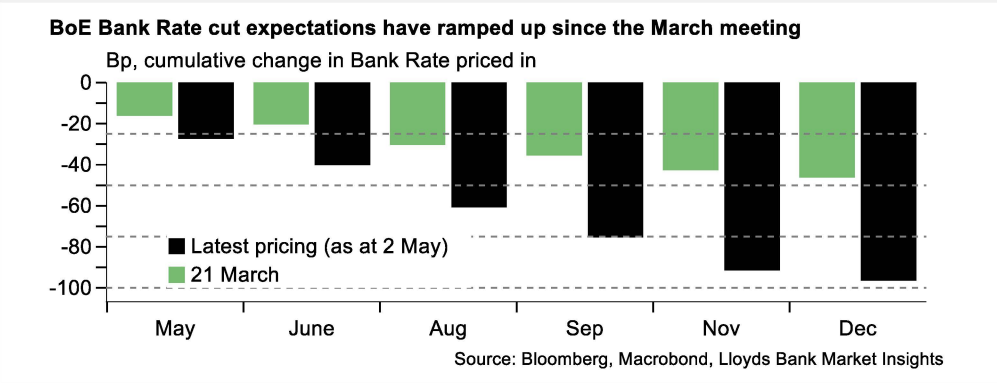
5-9 May 2025

## Bank of England decision – Thu 8 May (12:00 BST)

The Bank of England makes its next policy announcement on 8 May at midday (BST) alongside the publication of its latest quarterly Monetary Policy Report (MPR), followed shortly afterwards by Governor Bailey’s press conference at 12:30BST. We expect the Monetary Policy Committee (MPC) to cut Bank Rate by 25bps to 4.25%, an outcome widely anticipated by financial markets (~27bp of easing priced in at the time of writing). Our central case is for an 8-1 vote split, with Swati Dhingra opting for a larger 50bps move.

Coming after similar reductions in February and in August and November of last year, such an outturn would be in keeping with the narrative of a gradual lowering of interest rates adopted so far by the MPC. However, with the latest policy meeting taking place against a backdrop of recent US tariff announcements, key attention will be on whether the MPC signals the need for interest rates to come down more swiftly. However, as there seems to be less unanimity on the likely impact on inflation, we suspect that the MPC will for now retain its current forward guidance that “a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate”. The Bank’s updated economic projections will make the case for further easing. For more analysis, please see: [Bank of England Preview \(May\): Another gradual step lower.](#)

Bank rate	
Lloyds forecast	4.25%
Consensus	4.25%
Previous	4.50%



# Weekly economic calendar

Ctry	Time (BST)	Time (EST)	Release/Event	Period	Consensus	Forecast	Previous
<b>MONDAY 05 MAY</b>							
EZ	09:30	04:30	Sentix Investor Confidence	May	-11.0	--	-19.5
US	14:45	09:45	Markit Services PMI	Apr F	51.4	--	51.4
<b>US</b>	<b>15:00</b>	<b>10:00</b>	<b>ISM Non-Manufacturing</b>	<b>Apr</b>	<b>50.2</b>	<b>50.3</b>	<b>50.8</b>
<b>TUESDAY 06 MAY</b>							
CH	02:45	21:45*	Caixin Services PMI	Apr	51.8	--	51.9
FR	07:45	02:45	Industrial Production	Mar	0.3% (-0.2%)	--	0.7% (-0.4%)
SP	08:15	03:15	Services PMI	Apr	54.0	--	54.7
IT	08:45	03:45	Services PMI	Apr	51.4	--	52.0
FR	08:50	03:50	Services PMI	Apr F	46.8	--	46.8
GE	08:55	03:55	Services PMI	Apr F	48.8	--	48.8
UK	09:00	04:00	New Car Registrations	Apr	--	--	(12.4%)
<b>EZ</b>	<b>09:00</b>	<b>04:00</b>	<b>Services PMI</b>	<b>Apr F</b>	<b>49.7</b>	<b>49.7</b>	<b>49.7</b>
<b>UK</b>	<b>09:30</b>	<b>04:30</b>	<b>Services PMI</b>	<b>Apr F</b>	<b>48.9</b>	<b>48.9</b>	<b>48.9</b>
EZ	10:00	05:00	PPI	Mar	-1.4% (2.3%)	-1.6% (2.0%)	0.2% (3.0%)
US	13:30	08:30	Trade Balance	Mar	-\$122.0bn	-\$136.5bn	-\$122.7bn
<b>WEDNESDAY 07 MAY</b>							
GE	07:00	02:00	Factory Orders	Mar	1.0% (1.1%)	--	0.0% (-0.2%)
<b>UK</b>	<b>09:30</b>	<b>04:30</b>	<b>Construction PMI</b>	<b>Apr</b>	<b>46.0</b>	<b>--</b>	<b>46.4</b>
EZ	10:00	05:00	Retail Sales	Mar	-0.1% (1.6%)	0.0% (1.7%)	0.3% (2.3%)
<b>US</b>	<b>19:00</b>	<b>14:00</b>	<b>FOMC Rate Decision (Range)</b>	<b>May 7</b>	<b>4.25%-4.50%</b>	<b>4.25%-4.50%</b>	<b>4.25%-4.50%</b>
<b>US</b>	<b>19:30</b>	<b>14:30</b>	<b>Fed's Powell holds press conference</b>				
<b>THURSDAY 08 MAY</b>							
UK	00:01	19:01*	RICS House Price Balance	Apr	-5%	--	2%
JN	00:50	19:50*	BoJ Minutes of March Meeting				
GE	07:00	02:00	Imports	Mar	0.3%	--	0.8%
GE	07:00	02:00	Exports	Mar	1.0%	--	1.9%
GE	07:00	02:00	Industrial Production	Mar	1.0% (-2.6%)	--	-1.3% (-4.0%)
SW	08:30	03:30	Riksbank Interest Rate	May 8	2.25%	--	2.25%
NO	09:00	04:00	Deposit Rates	May 8	4.50%	--	4.50%
<b>UK</b>	<b>12:00</b>	<b>07:00</b>	<b>Bank of England Bank Rate</b>	<b>May 8</b>	<b>4.25%</b>	<b>4.25%</b>	<b>4.50%</b>
<b>UK</b>	<b>12:30</b>	<b>07:30</b>	<b>BoE's Bailey and colleagues hold press conference</b>				
US	13:30	08:30	Unit Labour Costs	1Q P	5.4%	5.6%	2.2%
US	13:30	08:30	Initial Jobless Claims	May 3	--	230k	241k
US	13:30	08:30	Nonfarm Productivity	1Q P	-0.5%	-0.7%	1.5%
<b>FRIDAY 09 MAY</b>							
CH	00:00	19:00*	Trade Balance (CNY)	Apr	--	--	( ¥ 737bn)
CH	00:00	19:00*	Imports (CNY)	Apr	--	--	(-3.5%)
CH	00:00	19:00*	Exports (CNY)	Apr	--	--	(13.5%)
UK	09:40	04:40	BoE's Bailey speaks				
UK	12:15	07:15	BoE's Pill speaks				
CA	13:30	08:30	Net Change in Employment	Apr	25.0k	--	-32.6k

Bold text denote those releases/events that are expected to attract most market attention.

Data in brackets denote YoY unless stated otherwise. Market consensus estimates are taken from Bloomberg on the date of publication.

\* Released overnight, (r) revised, (p) preliminary, (f) final



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