10 June 2025

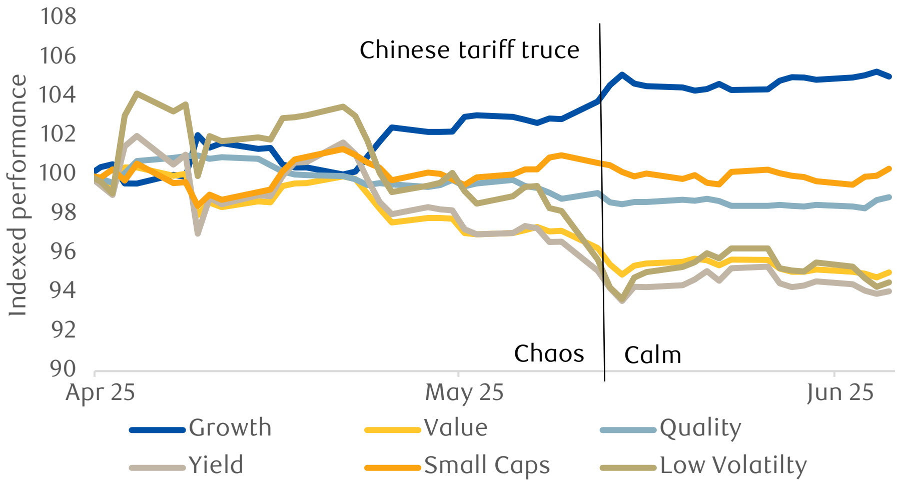
Markets in a Minute

Key highlights

- **Calm in the markets**: Markets entered a holding pattern in the second half of May, but this may soon change as the tariff deferral period comes to an end.
- **Silver prices recover**: The ratio of gold to silver has been stretched by recent trade anxiety but there's scope for a recovery in silver prices.
- **European Central Bank (ECB) cuts interest rates:** The ECB cut interest rates by 25 basis points, bringing the deposit rate down to 2%.

Watch the latest Markets in a Minute video with **Guy Foster** Chief Strategist and **Janet Mui** Head of Market Analysis

Calm has returned to markets despite continued drama in the news



Source: LSEG Datastream

As we enter the summer period, it's worth reflecting on what a hectic year this has been for markets. But more recently, there's been a period of unusual calm. This isn't a period of calm in which markets rally, we've essentially already experienced that. This has been a period in which markets have actually done very little.

There's normally some kind of rotation taking place between sectors and styles at all times, but for the second half of May, the markets entered a bit of a holding pattern.

The calm began following the relief rally sparked by the deferral of the 'Liberation Day' tariffs and coincided with the de-escalation of mutual tariffs between the U.S. and China. Those events gave rise to the markets' new favourite acronym TACO – Trump Always Chickens Out.

During this period of calm there has been plenty of news to potentially rock markets. The Trump administration has been stressing the challenges of reaching an agreement with China. It's also trying to pass a bill that will allow it to impose taxes on foreign investments if other countries impose unfair taxes on the U.S. That bill, at least ostensibly, has been the cause of infighting within the president's former inner circle. It's been largely ignored by the equity market but has been causing anxiety for bond investors due to the bond issuance it would promise in the future. All the while the TACO accusation was brought to President Trump's attention and this could prompt him to push back against it.

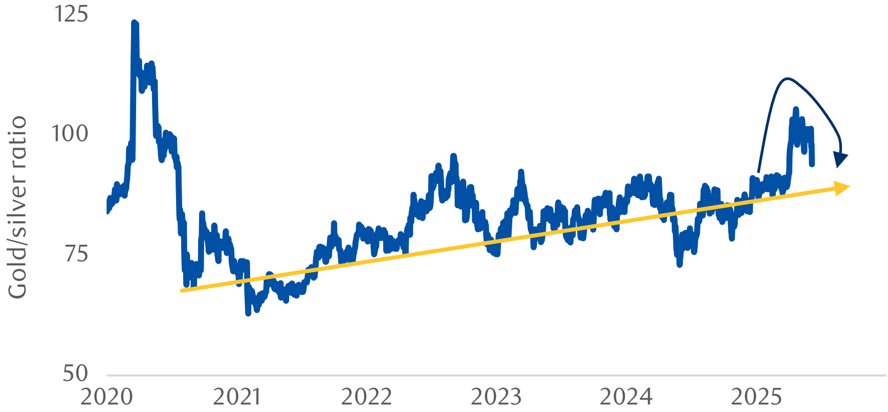
So, there's been plenty to potentially worry the market over the last few weeks, but it has managed to cope with that anxiety for now. We can't be sure why that is, but an obvious potential catalyst is the end of the deferral of those 'Liberation Day' tariffs, now just a month away.

Figure of the week

139,000

Strong U.S. jobs growth again in May, although other indicators weakened.

The ratio of gold and silver prices became stretched after the 'Liberation Day' tariffs and should correct as fundamentals reassert themselves



Source: LSEG Datastream

The de-escalation of trade talks doesn't discourage the trend of central banks adding to their reserves of gold, which is likely to be a long and slow-moving phenomenon. However, gold has risen whenever trade fears have escalated and has slid back as they ease. This can be seen in the ratio of gold to other metals, most notably precious ones like silver.

The ratio of gold to silver has been rising over time because silver doesn't have such an acute restriction on supply that gold does – for this reason, silver has tended to be a poor man's gold in an investment sense. However, currently silver supply is quite limited, making it seem like an attractive metal in its own right. Therefore, with the ratio of gold to silver stretched by recent trade anxiety, there's scope for a recovery in silver prices, which took effect last week.

Beyond this correction in the ratio, precious metals, in particular gold, should benefit from America's abdication of its role of reserve currency as well as concerns over the expanding U.S. fiscal deficit.

The euro rally, despite falling relative interest rates, echoes previous market responses to political developments

The ECB has cut interest rates by 25 basis points, bringing the deposit rate down to 2%. Despite this, the ECB's policy rate is now considered broadly neutral, and future rate decisions will depend on the evolution of the trade backdrop. The ECB has maintained its gross domestic product (GDP) forecast for the year but expects growth to slow down in subsequent quarters due to trade policy uncertainty.

The ECB's stance is data-dependent, and it is open-minded about the direction of its next rate move. The labour market is tight, with low unemployment and moderating wage growth. Loan demand is picking up, and monetary policy is no longer considered restrictive. The deposit rate is now broadly neutral, and markets are pricing in one more rate cut this year.

The implications for investors are that the euro is likely to appreciate over the longer term, despite current bond yield spreads moving against it. The euro has been creeping higher, and some investors are questioning whether it can break out to higher levels. However, extraordinary developments such as the Trump administration's policies can justify deviations from relative interest rate fundamentals. This happened before when the euro rallied due to populist governments failing to win European elections before it eventually fell again due to the victory by the Five Star Movement in Italy.

Longer-term, the path of least resistance for the euro appears to be up, driven by higher inflation in the U.S. compared to the Eurozone and a cheap currency relative to estimates of purchasing power parity. If Europe can avoid being at the centre of another crisis, it seems reasonable to believe that the euro rally has further to go.

Overall, investors should keep a close eye on the trade backdrop and the ECB's policy decisions, as these will have a significant impact on the euro's trajectory.

Coming up

- **Technology news:** Although earnings season has all but ended, Apple will be holding its developer conference and Nvidia CEO Jensen Huang will speak at London Tech Week.
- **Bond appetite:** As the Senate consider the Trump administration's tax bill, the U.S. Treasury will be issuing a 30-year bond, testing the rate at which investors will lend to the government.
- **More inflation data:** The consumer price index (CPI) report from the U.S. will again reveal any evidence of tariff-related price increases.