



Tuesday, 01 July 2025

KBC Sunrise Market Commentary

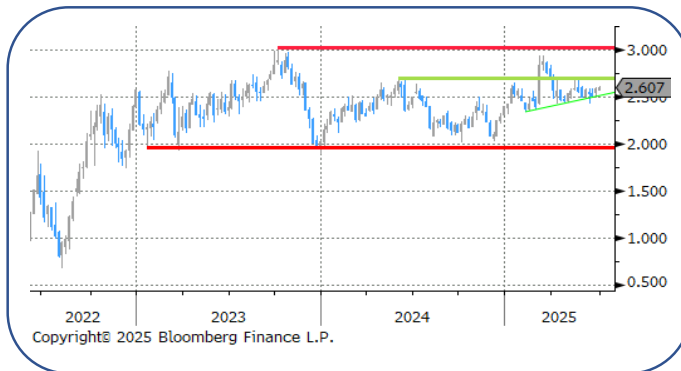
Markets

- The US dollar capped the first half of 2025 with the weakest performance YtD since 1973 and new multiyear low.** The trade-weighted index closed at 96.88, the weakest level since February 2022. EUR/USD rose for an eighth day straight with the pair now testing the upper bound of the upward sloping trend channel near the 1.18 big figure. USD/JPY technical looks a bit less disastrous but the duo weakened yesterday nonetheless to 144.03. GBP isn't in the best shape either – EUR/GBP shot up to 0.858 yesterday – but still outperformed the dollar. Cable returned the very recent highs north of 1.37. We've seen no particular trigger for yesterday's dollar weakness. It's simply the **result of ongoing overall (US) policy uncertainty, an unsustainable fiscal path and the prospect of (aggressive) Fed cuts later this year.** Touching on these individually, we've seen some positive noises coming one the trade front regarding the likes of the EU – which according to Bloomberg yesterday said it would accept a 10% universal tariff in return for exemptions on key sectors such as pharma and semiconductors. A potential (framework of a) deal is beneficial for the currency involved in the first place, in this case the euro, despite the amount of details that would still needed to be worked out afterwards. **Japan is on the other side of the spectrum** with president Trump lashing out at the country and threatening to send it a letter with a unilaterally set import tariff rate. In terms of unsustainable public finances, the Senate is in the process of voting on dozens of amendments to the \$3.3tn deficit-raising BBB that eventually culminate in a final up-or-down vote on the bill. **The latter is expected for this afternoon.** Increasing bets for Fed rate cuts, finally, have also weighed on the dollar recently. Since Powell's subtle tweak before Congress last week, **markets are eager to spot any speck of weakness in economic data.** That's how they'll look at this week's releases as well, **starting today with the US manufacturing ISM and JOLTS job openings.** It makes both the dollar and US yields vulnerable for further losses. The latter dropped another 2.8-6.1 bps in a bull flattener. We're wary for the long end of the curve though, with the mega bill underway. It's what we see in Europe as well, where the long end started underperforming the front particularly in the wake of Merz' fiscal whatever it takes early March and yesterday again (Germany +3 bps in the 30-yr). US President Trump meanwhile send a letter to Fed chair Powell, listing all the countries with lower policy rates than the US and insisting on him to lower rates. "Jerome - You are, as usual, "Too Late". You have cost the USA a fortune and continue to do so. You should lower The Rate – by a lot! Hundreds of Billions of Dollars Being lost! No Inflation." Mr Late better be on time today with the highlight of the ECB's Sintra event: a panel chat that includes ECB's Lagarde, BoE's Bailey, BoJ's Ueda and himself.

News & Views

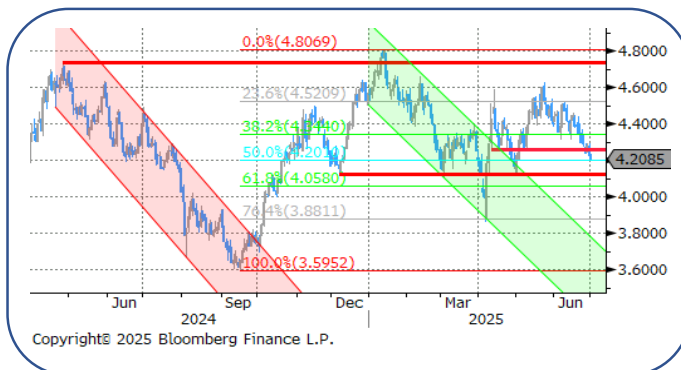
- The quarterly Tankan confidence survey of the Bank of Japan indicates that activity remains quite resilient** despite overall uncertainty, in particular on trade. The headline large manufacturing index improved from 12 in Q1 to 13 in Q2. A similar index of the non-manufacturing sector eased slightly from 35 to 34, but both indices printed stronger than expected. Companies are turning a bit less confident on the upcoming quarter (12 & 27 respectively) but the also these measures remained stronger than expected. Big companies (both sectors combined) expect capital investment to rise by 11.5% fiscal year 2025. **Japanese firms expect CPI inflation to stay above the 2% target both short-term and longer term** (1-y 2.4%, 3-y ahead 2.4% and 5-y ahead 2.3%). While the BoJ recently turned a bit more cautious on the timing of further easing, **today's survey at least suggests the debate on the timing/pace of further policy normalization is here to stay** and might become again more concrete when uncertainty on trade eases later this year. The yen strengthens modestly this morning, with USD/JPY drifting below the 144 big figure (143.65).
- According to the price measure from the UK retail industry group BRC, **shop prices accelerated in June from -0.1% Y/Y to 0.4% Y/Y. It was the first positive reading since July of last year.** The rise was mainly driven by a further **substantial monthly rise in food prices** (0.7% M/M from 0.4% in May) raising the Y/Y measure from 2.8% to 3.7%. The rise in non-food shop prices remained more modest at 0.1% M/M keeping this measure in negative territory Y/Y (-1.2% from 1.5%). BRC comments that "Within three months of the costs imposed by last Autumn's Budget kicking in, headline shop prices have returned to inflation for the first time in close to a year. Food inflation showed little sign of slowing down, particularly in fresh produce, where prices of meat have been impacted by high wholesale prices and more expensive labour costs".

Graphs



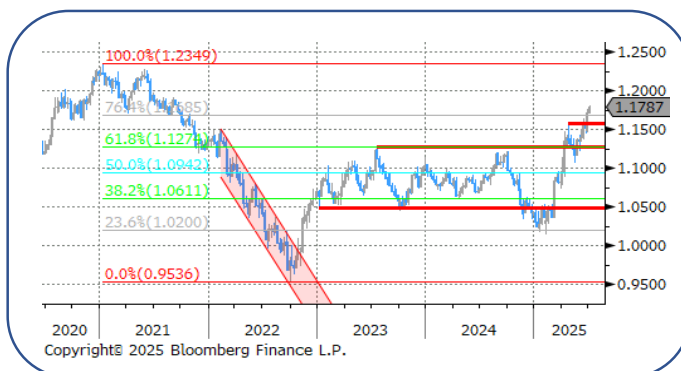
GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2%, reaching neutral territory.** The ECB moved 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 with market focus fluctuating between 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. **LT bond yields' trend higher on President Trump's big, beautiful, deficit-increasing bill recently stalled again on renewed growth concerns.** This market flip-flopping between the fiscal and economic theme is here to stay.



EUR/USD

Trump's explosive policy mix (DOGE, tariffs, big beautiful bill) triggered uncertainty on future US economic growth and sustainability of public finances with markets **showing a loss of confidence in the dollar.** **EUR/USD is in a buy-the-dip pattern on track with a medium term target at 1.2349.** The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation.



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. **Recent UK eco data led money markets back to discounting an additional two rather than one BoE rate cut this year.** Sterling suffered a new setback, bouncing off strong technical support around EUR/GBP 0.84.

Calendar & Table

Tuesday, 1 st July		Consensus	Previous
US			
15:45	S&P Global US Manufacturing PMI (Jun F)	52.0	52
16:00	ISM Manufacturing (Jun)	48.8	48.5
16:00	JOLTS Job Openings (May)	7300k	7391k
Japan			
01:50	Tankan Large Mfg Index (2Q)	13A	12
01:50	Tankan Large Mfg Outlook (2Q)	12A	12
01:50	Tankan Large Non-Mfg Index (2Q)	34A	35
01:50	Tankan Large Non-Mfg Outlook (2Q)	27A	28
02:30	S&P Global Japan PMI Mfg (Jun F)	50.1A	50.4
07:00	Consumer Confidence Index (Jun)	33.5	32.8
UK			
01:01	BRC Shop Price Index YoY (Jun)	0.40%A	-0.10%
08:00	Nationwide House PX MoM / NSA YoY (Jun)	0.10/3.10%	0.50%/3.50%
10:30	S&P Global UK Manufacturing PMI (Jun F)	47.7	47.7
EMU			
10:00	ECB 1 Year CPI Expectations (May)	3.10%	3.10%
10:00	ECB 3 Year CPI Expectations (May)	2.00%	2.50%
10:00	HCOB Eurozone Manufacturing PMI (Jun F)	49.4	49.4
11:00	CPI MoM / YoY (Jun P)	0.30%/2.00%	0.00%/--
11:00	CPI Core YoY (Jun P)	2.30%	2.30%
Germany			
09:55	Unemployment Change (000's) (Jun)	15.0k	34.0k
09:55	Unemployment Claims Rate SA (Jun)	6.40%	6.30%
China			
03:45	Caixin China PMI Mfg (Jun)	50.4A	48.3
Norway			
10:00	DNB/NIMA PMI Manufacturing (Jun)	--	51.2
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Jun)	--	53.6
Events			
09:30	ECB's Guindos Chairs Panel in Sintra		
10:40	ECB's Elderson Chairs Panel in Sintra		
12:40	ECB's Schnabel Chairs Panel in Sintra		
15:30	ECB Lagarde, Fed Powell, BOE Bailey, BOJ Ueda, BOK Rhee		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.23	-0.05		US	3.72	-0.03	DOW	44094.77	275.50
DE	2.61	0.02		DE	1.86	0.00	NASDAQ	20369.73	96.27
BE	3.16	0.01		BE	1.98	0.00	NIKKEI	40050.94	-436.45
UK	4.49	-0.01		UK	3.82	-0.02	DAX	23909.61	-123.61
JP	1.40	-0.04		JP	0.74	-0.01	DJ euro-50	5303.24	-22.40
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	2.10	3.40	3.58	€STR	1.9210	-0.0070			
5y	2.27	3.43	3.65	Euribor-1	1.9340	0.0180	SOFR-1	4.3316	0.0083
10y	2.61	3.69	3.98	Euribor-3	1.9440	0.0050	SOFR-3	4.3019	0.0050
				Euribor-6	2.0490	0.0130	SOFR-6	4.1467	-0.0035
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1787	0.0069		EUR/JPY	169.78	0.30	CRB	297.28	-2.46
USD/JPY	144.03	-0.62		EUR/GBP	0.8583	0.0041	Gold	3307.70	20.10
GBP/USD	1.3732	0.0016		EUR/CHF	0.9348	-0.0011	Brent	66.74	-0.06
AUD/USD	0.6581	0.0052		EUR/SEK	11.1482	0.0321			
USD/CAD	1.3608	-0.0081		EUR/NOK	11.8788	0.0701			

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