



Wednesday, 11 June 2025

KBC Sunrise Market Commentary

Markets

- The US and China agreed to restore the Geneva trade truce** after a two-day trade talk marathon in London. Both sides accused each other of violating the terms in recent days but have now found common ground. The news broke overnight and after US trading hours. Asian stock markets welcome the news but only cautiously. US equity futures appear to take it with a grain of salt although we should add that the likes of the S&P 500 have never really retraced on the trade matter when things escalated again. Either way **it shows that markets are done with headline-based trading and instead wait for actual results**. And trade negotiations between the two largest economies of the world have merely just begun. The stoic dollar reaction is telling the same story. EUR/USD holds on to above 1.14, a level around it has been oscillating for all of June so far. DXY kept steady nearby 99. One of the largest FX moves were reserved for the pound. EUR/GBP shot up from as low as 0.8417 to 0.846. The trigger was a decent but slightly below-consensus labour market report. Wages grew less than expected and a first, preliminary gauge for May showed employment shrunk the most since the pandemic erupted in 2020 (-109k). Our feeling, however, is that this figure that's subject to heavy revisions was more of a good excuse for GBP profit-taking rather than anything else. US Treasuries traded mixed across the curve. The front underperformed (+1.6 bps). The 3-yr \$58bn auction tailed slightly but left no material traces. The onus remains on tonight's 10-yr and especially tomorrow's 30-yr sale. Longer maturities shed up to 1.3 bps. German bunds outperformed with net daily changes varying between -1.7 and -4.4 bps in a bull flattener.
- Today's economic calendar centers around **US CPI**. Consensus expects the headline reading to rise by 0.2% m/m and accelerate to 2.4% y/y from 2.3%. The core gauge should add 0.3% m/m to 2.9% y/y. It will be interesting to see a **potential first impact of the trade tariffs**, in particular on goods inflation. But that won't change the Fed's policy decision of next week. If anything, after Friday's payrolls it will only make the job (at least from a communication point of view) easier: **a resilient labour market, an economy not derailing so far and inflation above target with risks tilted to the upside means sticking to the sidelines for the time being**. Current US money market pricing implies a Fed rate cut by October at the earliest. We find that reasonable given the circumstances. Barring major CPI surprises, the front end of the curve probably won't budge much. The long end is eyeing tonight's bond auction while the US dollar is stuck in directionless, sideways trading.

News & Views

- In an interview with Bloomberg yesterday, the Governor of the Czech national Bank (CNB), **Alex Michl indicated that the CNB needs to keep its policy rate at the current level (3.5%) for some time**. The CNB governor elaborated that the country still **needs a high and positive real interest rate** to keep inflation low in the longer term. The CNB in May after a pause further reduced its policy rate by 25 bps to 3.5%. Michl's comments come after May inflation at 0.5% M/M and 2.4% Y/Y (up from 1.8% Y/Y in April) printed slightly higher than expected. In this respect, the CNB yesterday in a monthly comment on its website, analyzed that the rebound in May was expected and mainly due to higher volatile food prices. The outcome stays close to CNB spring forecasts. At the same time, the CNB indicates that **inflation is not yet stabilized and requires a cautious monetary policy**. Especially core inflation increased to 2.8% and will stay close to this level in the months ahead. This reflects the cost of owner-occupied housing, which is accelerating due to strong house price growth. As a result, market services inflation remains elevated (4.6%), even though there are signs of a slight slowdown in the growth of other services prices (in restaurants, for example). The Czech koruna is well bid of late and trades near the strongest levels since June year (EUR/CZK 24.75 area).
- Brazilian inflation in May eased slightly more than expected to 0.26% M/M and 5.32% Y/Y** (from 0.43% M/M and 5.53% Y/Y in April). The slowdown was mainly driven by a slower rise in food prices (0.17%), lower transportation costs (-0.37%) and a decline in prices of household goods (-0.27%). On the other hand, higher electricity prices accelerated housing costs (1.19%). Even so, inflation still **surpasses the central bank's target** (3.0% +/- 1.5%). The bank raised its policy rate by 50 bps to 14.75% at the May meeting and vowed a data-dependent and flexible approach. The central bank meets next week. Even after the May inflation easing the debate remains open whether it will be enough for the bank to pause its tightening cycle or raise rates further.

Graphs



GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2.0%, 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**. The ECB nearing the end of its easing cycle might reinforce this process.



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

Wednesday, 11 June		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-3.90%
14:30	CPI MoM/YoY (May)	0.20%/2.40%	0.20%/2.30%
14:30	CPI Ex Food and Energy MoM (May)	0.30%/2.90%	0.20%/2.80%
14:30	Real Avg Hourly Earning YoY (May)	--	1.50%R
14:30	Real Avg Weekly Earnings YoY (May)	--	1.80%R
20:00	Federal Budget Balance (May)	-\$314.0b	-\$347.1b
Japan			
1:50	PPI MoM/YoY (May)	-0.20%A/3.20%A	0.30%R/4.10%R
Hungary			
8:30	CPI MoM/YoY (May)	0.00%/4.30%	0.20%/4.20%
Events			
11JUN	Polish lawmakers hold vote of no confidence called by PM Tusk		
10:00	ECB Wage Tracker (TBC)		
11:30	Germany to Sell EU3 Billion of 2.5% 2035 Bonds		
19:00	U.S. To Sell USD39 Bln 10-Year Notes		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4.47	0.00		US	4.02	0.01		DOW	42866.87	105.11
DE	2.52	-0.04		DE	1.85	-0.02		NASDAQ	19714.99	123.75
BE	3.06	-0.04		BE	1.94	-0.02		NIKKEI	38394.97	183.46
UK	4.54	-0.09		UK	3.92	-0.08		DAX	23987.56	-186.76
JP	1.46	-0.01		JP	0.76	-0.01		DJ euro-50	5415.38	-6.14
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	2.07	3.72	3.71	€STR	2.1740	0.0040				
5y	2.24	3.73	3.76	Euribor-1	1.9610	-0.0010		SOFR-1	4.3129	-0.0011
10y	2.55	3.95	4.05	Euribor-3	1.9540	-0.0010		SOFR-3	4.3230	-0.0010
				Euribor-6	2.0440	-0.0090		SOFR-6	4.2720	0.0026
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1425	0.0003		EUR/JPY	165.51	0.39		CRB	299.34	-2.17
USD/JPY	144.87	0.30		EUR/GBP	0.8462	0.0035		Gold	3343.40	-11.50
GBP/USD	1.35	-0.0051		EUR/CHF	0.9399	0.0014		Brent	66.87	-0.17
AUD/USD	0.6522	0.0006		EUR/SEK	10.9674	0.0083				
USD/CAD	1.3671	-0.0029		EUR/NOK	11.5479	0.0551				

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