



Monday, 16 June 2025

KBC Sunrise Market Commentary

Markets

- Israeli strikes against Iranian energy facilities** dominate headlines this morning and **temporary pushed Brent crude prices from \$75/b to \$78/b**, matching last week's high. Attacks and counterattacks enter their third day. On Friday, **geopolitical event risk pulled global stock markets over 1% lower. Higher oil prices intervened with typical risk-off correlations.** Core bonds sold off with German Bunds underperforming US Treasuries. German yields added 4 bps (2-yr) to 5.7 bps (10-yr) across the curve. Changes in the US ranged between +2 bps and +3 bps. **The supply-side energy shock further complicates central banks' quest to get inflation sustainably back to 2%.** In theory, they should ignore this supply shock, especially as it could dampen growth as well. That's of course an easier thing to do when inflation is running comfortable below 2% instead of the current situation of still-above target price pressure. Visibility on the strength of the disinflationary process will be very low in coming months. Flying in the dark on inflation ceteris paribus implies sticking to longer policy rate pauses. Recall that lower oil prices (together with a stronger euro) triggered last week's substantial downward revision to CPI forecasts this year and next and a final 25 bps ECB rate cut. **The US dollar got some temporary reprieve after reaching multi-year lows earlier last week.** Since the US turned net energy exporter in 2019, the dollar and oil prices became positively correlated especially during oil supply shocks and geopolitical tensions. Closing at EUR/USD 1.1549, the greenback remains vulnerable to further losses though. Especially as geopolitics often only have a short shelf-date as market-moving theme.
- Geopolitical headlines trump today's light eco calendar** with only the June Empire Manufacturing survey and a \$13bn 20-yr US bond auction scheduled. The ever more uncertain context risks complicating tonight's auction more than last week's well-received 10-yr and 30-yr sales. **Market focus shifts later this week to central bank meetings** in Japan (tomorrow), the US and Sweden (Wednesday) and the UK, Norway and Switzerland (Thursday). The Fed will keep its policy rate unchanged. **The updated Summary of Economic Projections likely shows downward GDP revision and upwardly changed CPI forecasts.** As long as the US labour market shows no signs of cracking, the only needle in the Fed's compass is inflation. **Risks for the dot plot are equally skewed to the hawkish side.**

News & Views

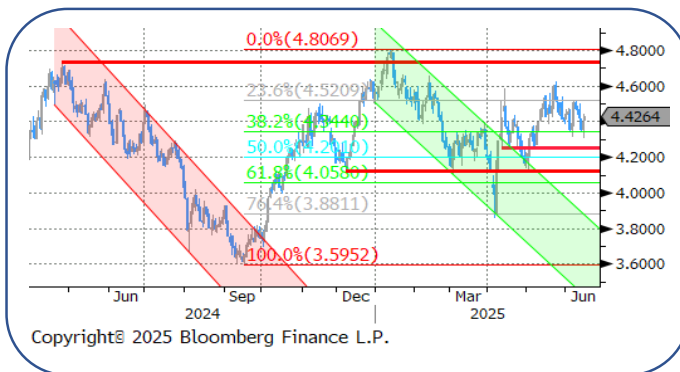
- Rating agency Fitch stripped Belgium of its double A-rating on Friday.** The downgrade from AA- to A+ with a stable outlook reflects a structural weakening of the fiscal position over the last few years, offsetting the strengths of its diversified and wealthy economy. Fitch said that **existing fiscal imbalances remain only partially addressed.** The government outlined some 4.7% of GDP in gross savings to be implemented gradually until 2029. But Fitch citing Belgium's Court of Audit warned for an overestimation with a third of the savings coming from second-round effects. Meanwhile, already sizeable ageing-related costs are likely to increase further while higher defense spending adds to fiscal pressures. **It expects the debt ratio to continue to rise amid fiscal deficits remaining close to 5% of GDP over the medium term.** This years' shortfall would mount to 5.5%, up from 4.5% in 2024. Debt would exceed 110% of GDP by end-2026 from 104.7% last year and keep rising thereafter. Fitch projects GDP growth to slow to 0.8% in 2025.
- Chinese consumption was unexpectedly strong in May.** Retail sales rose by 6.4% y/y, easily topping the 4.9% expected and quickening from April's 5.1%. The statistics office said that "[...] the efforts to stabilize economy and promote development have paid off." Other elements have contributed as well, including an earlier than usual start of the shopping festival. That's **raising questions about the durability of last month's improvement**, particularly in the still-challenging (trade) environment. **A mild slowdown in industrial production** (5.8% from 6.1% y/y), **in fixed asset investments** (3.7%) **and the continued slump in the property sector** (-10.7%, deepening from 10.3%) are indicative of that. China's yuan is unaffected by the numbers. USD/CNY holds steady at the recent lows around 7.18.

Graphs



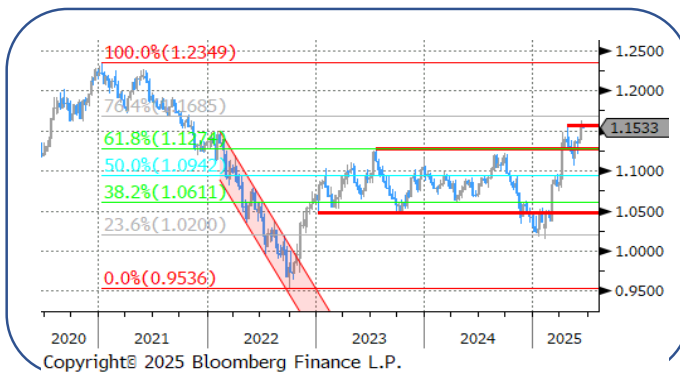
GE 10y yield

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.



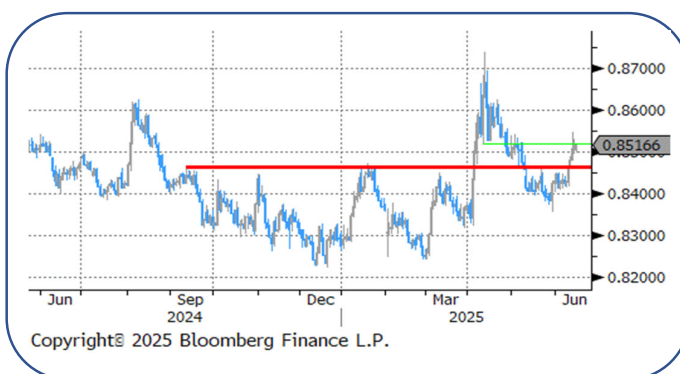
US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening.** It suggests steady policy rates at least until after summer, supporting the bottom below front end yields. **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

Monday, 16 June		Consensus	Previous
US			
14:30	Empire Manufacturing (Jun)	-6.3	-9.2
UK			
1:01	Rightmove House Prices MoM/YoY (Jun)	-0.30%A/-0.80%A	0.60%/1.20%
EMU			
11:00	Labour Costs YoY (1Q)	--	3.70%
China			
3:30	New Home Prices MoM (May)	-0.22%A	-0.12%
3:30	Used Home Prices MoM (May)	-0.50%A	-0.41%
4:00	Retail Sales YoY/YTD YoY (May)	6.40%A/5.00%A	5.10%/4.70%
4:00	Industrial Production YoY/YTD YoY (May)	5.80%A/6.30%A	6.10%/5.40%
4:00	Fixed Assets Ex Rural YTD YoY (May)	3.70%A	4.00%
4:00	Surveyed Jobless Rate (May)	5.00%A	5.10%
4:00	Property Investment YTD YoY (May)	-10.70%A	-10.30%
4:00	Residential Property Sales YTD YoY (May)	-2.80%A	-1.90%
Poland			
14:00	CPI Core MoM/YoY (May)	-0.10%/3.30%	0.60%/3.40%
Events			
9:00	ECB's Nagel Gives Speech in Frankfurt		
12:30	ECB's Cipollone Speaks in Milan		
18:00	ECB's Nagel Speaks in Chemnitz		
19:00	U.S. To Sell USD13 Bln 20-Year Bond		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,40	0,04		US	3,95	0,04	DOW	42197,79	-769,83
DE	2,54	0,06		DE	1,86	0,04	NASDAQ	19406,83	-255,65
BE	3,11	0,08		BE	1,96	0,04	NIKKEI	38270,36	436,11
UK	4,55	0,07		UK	3,94	0,07	DAX	23516,23	-255,22
JP	1,45	0,04		JP	0,76	0,01	DJ euro-50	5290,47	-70,35
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,09	3,63	3,72	€STR	1,9250	0,0020			
5y	2,25	3,64	3,77	Euribor-1	1,9170	0,0250	SOFR-1	4,3164	0,0024
10y	2,56	3,86	4,07	Euribor-3	2,0040	0,0290	SOFR-3	4,3123	0,0026
				Euribor-6	2,0560	0,0040	SOFR-6	4,2266	0,0051
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1549	-0,0035		EUR/JPY	166,37	0,15	CRB	309,90	7,14
USD/JPY	144,07	0,59		EUR/GBP	0,8511	0,0002	Gold	3452,80	50,40
GBP/USD	1,3571	-0,0042		EUR/CHF	0,9369	-0,0018	Brent	74,23	4,87
AUD/USD	0,6487	-0,0046		EUR/SEK	10,9532	0,0102			
USD/CAD	1,3588	-0,0016		EUR/NOK	11,4492	-0,0627			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague		Bratislava	
Jan Cermak	+420 2 6135 3578		+421 2 5966 8820
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Budapest	
Marek Gabris	+421 2 5966 8809		+36 1 328 99 85
K&H Economics – Markets Budapest			
David Nemeth	+36 1 328 9989		

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