



Sunrise



Wednesday, 18 June 2025

KBC Sunrise Market Commentary

Markets

- Stronger than expected US retail sales in the control group** briefly interrupted an outperformance of US Treasuries yesterday. Spending in these selected goods categories feeds into the government's GDP calculation and rose by 0.4% M/M (vs 0.3% expected and with small upward revision to April numbers). It marked a contrast with headline retail sales falling by 0.9% M/M, dragged down in particular by auto and gas sales. **Slightly weaker May industrial production numbers** (-0.2% M/M) and **further deteriorating homebuilder sentiment** in June supported a rapid turnaround in the temporary setback for US Treasuries with the US yield curve significantly bull flattening during US trading hours. Turned out that **something else was cooking**. First it was confirmed that the Fed will meet on June 25 on **changes to the supplementary ratio**. Overnight, people close to discussions suggested that top US bank regulators want to change the enhanced supplementary ratio which applies to the largest US banks. They want to **reduce this key capital buffer by up to 1.5 ppt from the current 5%**. Whether or not US Treasuries will be carved out from the calculation isn't clear. US Treasury Secretary Bessent last month suggested that lowering the eSLR rule could easily reduce Treasury yields by tens of basis points by **freeing up balance sheet to enhance buying/liquidity in the Treasury market**. Critics warn that banks might opt to use the additional room for capital distributions to shareholders rather than for Treasury market intermediation. Ongoing discussions in any case prove that **authorities start using every trick in the book to prevent an unwarranted further increase in (LT) bond yields as monetary policy is focused on fighting (upside) inflation (risks)**. US yields lost 1.5 bps (2-yr) to 6.5 bps (30-yr) yesterday. The German yield curve bear flattened slightly with yields rising by up to 2.6 bps (2-yr). Stock markets and oil prices for now err on the side of caution when it comes to a possible escalation in the Israeli-Iran conflict. Key equities indices lost 0.5%-1% with Brent crude sticking above \$75/b. **The dollar profited from the risk/oil-combination and proposals to alleviate potential stress on the Treasury market with EUR/USD dipping towards 1.15.**
- The US central bank will keep its policy rate unchanged tonight (4.25%-4.50%). **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. Despite the ongoing inflation crusade and while we're convinced that the Fed will keep a steady course over summer, we have the feeling that markets are eager to react to any, if any, soft elements in the press statement or in Powell's press conference. **Together with geopolitical risks, it makes us err on the side of caution given tomorrow's US public holiday (Juneteenth).**

News & Views

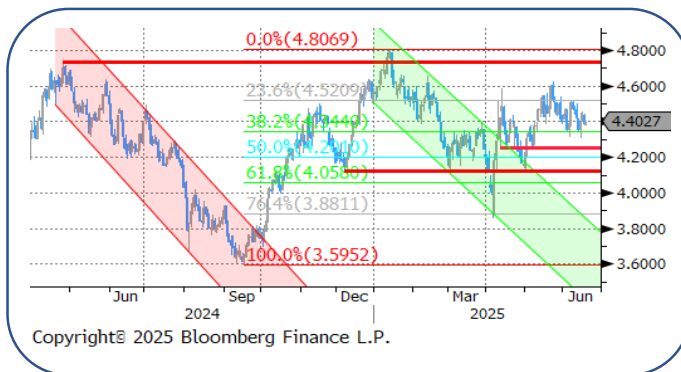
- Hungary's parliament yesterday approved the budget for election year 2026.** It entails what prime minister earlier called **"Europe's biggest family tax reduction programme"**. From 2026 on, mothers <40 with two children will be exempt from personal income tax. This comes on top of an already-announced doubling of income tax benefits for families in two stages by January. Other key allocations of the budget include HUF 5600bn for family support programs, HUF 4000bn for education and around HUF 3900bn for healthcare. Defense spending should reach over HUF 2000bn, meeting the 2% NATO target. Minimum wages will increase by 13% and there's a guaranteed 13th month pension. **Hungary is targeting a budget deficit of 3.7%, down from an estimated 4.1% this year. Public debt is forecasted to drop from 73.1% this year to 72.3%. It assumes a 4.1% economic growth and inflation of 3.6%.**
- The EC proposes an overhaul to debt securitization rules** in a move that could **free up bank capital and stimulate lending** as well as **help integrate the currently fragmented EU capital markets**. The plans include **lowering capital charges for banks holding these securitized assets** and **cutting red tape for investors and issuers**. A sense of urgency and political will for the reforms grew amongst others after Mario Draghi's EU competition report in 2024. EU leaders earlier that year in a special Council meeting also mandated the Commission for **"relaunching the European securitization market, including through regulatory and prudential changes, using available room for manoeuvre"**. Industry officials welcomed the plans and say it could attract into the hundreds of billions in financing.

Graphs



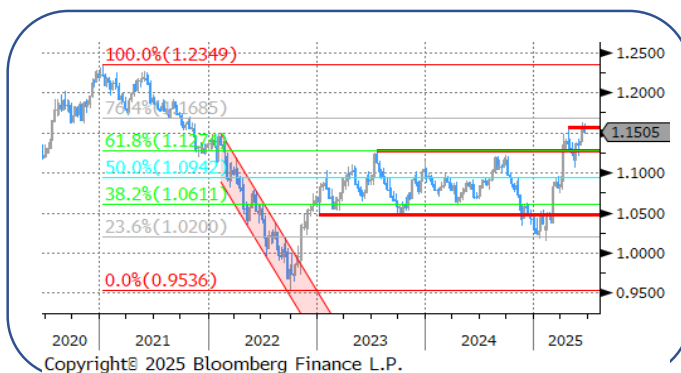
GE 10y yield

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.



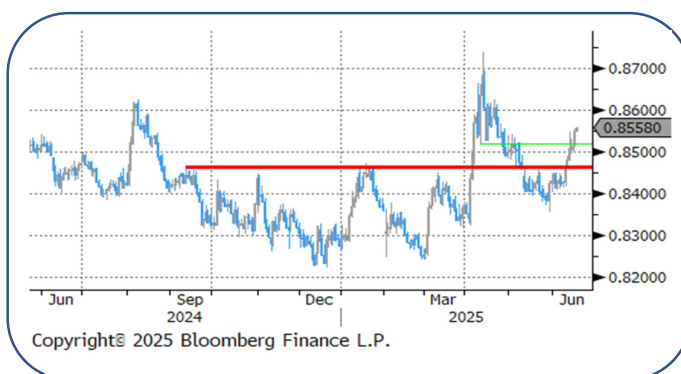
US 10y yield

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

Wednesday, 18 June		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	12.50%
14:30	Housing Starts Total/MoM (May)	1350k/0.00%	1361k/1.60%
14:30	Building Permits Total/MoM (May P)	1422k/0.80%	1422k/-4.00%
14:30	Initial Jobless Claims	245k	248k
14:30	Continuing Claims	1941k	1956k
20:00	FOMC Rate Decision	4.25%/4.50%	4.25%/4.50%
20:00	FOMC Median Rate Forecast Current Yr	3.875%	3.875%
20:00	FOMC Median Rate Forecast Next Yr	3.375%	3.375%
20:00	FOMC Median Rate Forecast+2 Yrs	3.125%	3.125%
20:00	FOMC Median Rate Forecast Long-Run	3.125%	3.00%
22:00	Net Long-term TIC Flows (Apr)	--	\$161.8b
Japan			
1:50	Trade Balance Adjusted (May)	-¥305.5bA	-¥349.2bR
1:50	Exports/Imports YoY (May)	-1.70%A/-7.70%A	2.00%/-2.20%
1:50	Core Machine Orders MoM/YoY (Apr)	-9.10%A/6.60%A	13.00%/8.40%
UK			
10:30	House Price Index YoY (Apr)	--	6.40%
8:00	CPI MoM/YoY (May)	0.20%/3.30%	1.20%/3.50%
8:00	CPI Core YoY (May)	3.50%	3.80%
8:00	CPI Services YoY (May)	4.80%	5.40%
8:00	CPIH YoY (May)	3.90%	4.10%
8:00	RPI MoM/YoY (May)	0.20%/4.20%	1.70%/4.50%
EMU			
10:00	ECB Current Account SA (Apr)	--	50.9b
11:00	CPI MoM/YoY (May F)	0.00%/1.90%	0.00%/1.90%
11:00	CPI Core YoY (May F)	2.30%	2.30%
Sweden			
9:30	Riksbank Policy Rate	2.00%	2.25%
Events			
9:30	ECB's Elderson Speaks in Brussels		
10:45	ECB's Escriva Speaks in Milan		
11:30	Germany to Sell Bonds		
11:30	ECB's Villeroy Speaks in Milan		
12:15	ECB's Knot Speaks in Milan		
15:00	ECB's Panetta Speaks in Milan		
16:30	ECB's Nagel, Villeroy, Panetta, Knot, Escriva, Centeno		
17:00	ECB's Lane Chairs Panel		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.39	-0.06		US	3.95	-0.01	DOW	42215.8	-299.29
DE	2.54	0.01		DE	1.87	0.03	NASDAQ	19521.09	-180.12
BE	3.11	0.01		BE	1.97	0.03	NIKKEI	38818.98	282.24
UK	4.55	0.02		UK	3.92	0.02	DAX	23434.65	-264.47
JP	1.46	0.00		JP	0.75	-0.01	DJ euro-50	5288.68	-50.89
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.09	3.63	3.69	€STR	1.9240	0.0000			
5y	2.25	3.64	3.74	Euribor-1	1.8970	-0.0140	SOFR-1	4.3213	0.0012
10y	2.56	3.86	4.05	Euribor-3	2.0230	0.0220	SOFR-3	4.3251	-0.0061
				Euribor-6	2.0710	0.0170	SOFR-6	4.2496	-0.0029
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1480	-0.0081		EUR/JPY	166.79	-0.56	CRB	314.01	3.84
USD/JPY	145.29	0.54		EUR/GBP	0.8549	0.0034	Gold	3406.90	-10.40
GBP/USD	1.3429	-0.0149		EUR/CHF	0.9374	-0.0035	Brent	76.45	3.22
AUD/USD	0.6475	-0.0049		EUR/SEK	10.9655	-0.0006			
USD/CAD	1.3679	0.0108		EUR/NOK	11.4147	-0.0439			

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