Thursday, 19 June 2025

KBC Sunrise Market Commentary

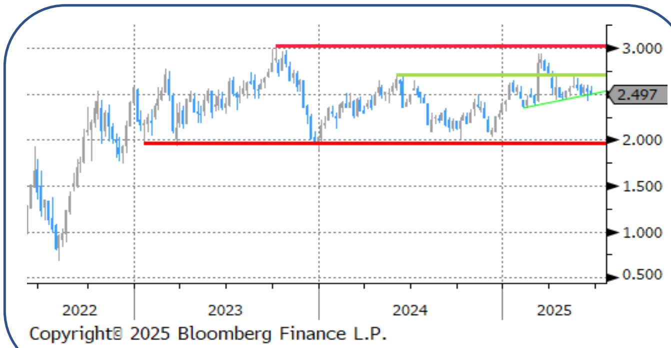
Markets

- **The Fed kept its policy rate unchanged yesterday at 4.25%-4.50% and sticks with its wait-and-see attitude.** The current centerpiece holds: the price stability target is at bigger risk than the maximum employment target and therefore warrants an extension of the rate pause. Especially with inflation still above 2% while the current unemployment rate is in line with the projected NAIRU (4.2%). Compared to March, **the Fed lifted its projected inflation path for both headline and core inflation** by 0.3 ppt this year (3% & 3.1%), 0.2 ppt next year (both 2.4%) and 0.1 ppt in 2027 (both 2.1%). **The growth outlook is weaker** (1.4%-1.6%-1.8% from 1.7%-1.8%-1.8%) with the unemployment rate expected to be grinding slightly higher (4.5%-4.5%-4.4% from 4.4%-4.3%-4.3%). At the press conference, Fed Chair Powell acknowledged that the US central bank has to be **humble about its ability to forecast how the dust will settle** in the aftermath of US President Trump's domestic (big beautiful bill) and trade policy. Testament to that is **the split in views/suggestions on the level of the policy rate by year-end** (only six months to go) in the updated dot plot. Views range between status quo (7) over one (2), two (8) or even three (2) policy rate cuts. Powell suggested that they were **going to learn a great deal more over the summer on tariffs** as they work their way through the economy. He added that **the timing for rate cuts could come quickly or could not come quickly.** We stick to the view that once/if the labour market starts deteriorating (eg break Fed's SAHM recession rule), **the Fed will revert to last year's playbook** and initially use bigger rate cuts (50 bps) moving its way to a more neutral stance. **The exact timing is very hard to pinpoint** (very earliest in September). Looking at the market reaction, **Fed Chair Powell succeeded in showcasing confidence while actually still navigating by the stars under cloudy skies.** Daily changes on the US yield curve were limited to -1 bp. EUR/USD closed exactly unchanged at 1.1480. The scorecard for key US equity benchmarks varied between -0.1% for Dow and +0.13% for Nasdaq. Investors probably also remained sidelined **awaiting potential US involvement in Israeli attacks against Iran**('s nuclear treat) **and given today's US public holiday** (Juneteenth). European focus switches to central bank meetings in Switzerland (back to 0%), Norway (still unchanged) and the UK (sticking with quarterly cutting cycle so unchanged today and new rate cut in August). Sterling is vulnerable to more losses is BoE emphasizes most recent weak labour market report and with probability of August 25 bps rate cut currently at 70%.

News & Views

- **Brazil's central bank (BCB) hiked rates yesterday to a 19-year high of 15%.** Inflation is running above the 3% target and even **above the 4.5% ceiling of the tolerance range.** The economy is resilient amid low unemployment and government spending, offsetting the risks that global trade uncertainty poses. A ***"significantly contractionary monetary policy"*** stance in such circumstances is required, the BCB said. Brasilia has hiked rates for a seventh time straight since last September. Yesterday's is **likely to be the final one for an extended period though.** The BCB said that *"if the expected scenario materializes, the Committee foresees an interruption of the rate hiking cycle to examine its yet-to-be-seen cumulative impacts."* It assumes a long enough stable rate at 15% should **bring down inflation eventually to 3.6% in 2026.** Brazilian prices rose by 5.32% in May. This compared to the post-pandemic peak of 12.13% which back then required a 13.75% policy rate. The Brazilian currency has yet to respond to yesterday's after-market decision but **the real had a bumper year so far.** After hitting a record low against end 2024, the real strengthened against the USD from USD/BRL 6.2 to 5.5 currently.
- **Australian employment fell by 2.5k in May, falling short of the 21.2k expectations.** The drop followed a 88k surge in April and came on the account of part-time jobs (-41k). Australia's bureau of statistics reported a similar drop in the amount of the unemployed, leading to a steady unemployment rate of 4.1%, the head of the ABS labour department said. The participation rate ticked lower from 67.1% to 67%, still among the highest rates in the series' history. That suggests **the labour market, despite May's drop, is still in good shape.** With inflation, especially underlying gauges, in the high end of the 2-3% target range, it means **the central bank needs to tread carefully with rate cuts.** The RBA cut in May to 3.85% and saw the policy rate settling around 3.2% next year. Money markets attach an 80% probability for a next move in July. The Australian dollar's reaction was a muted one. AUD/USD trades around 0.648.

Graphs

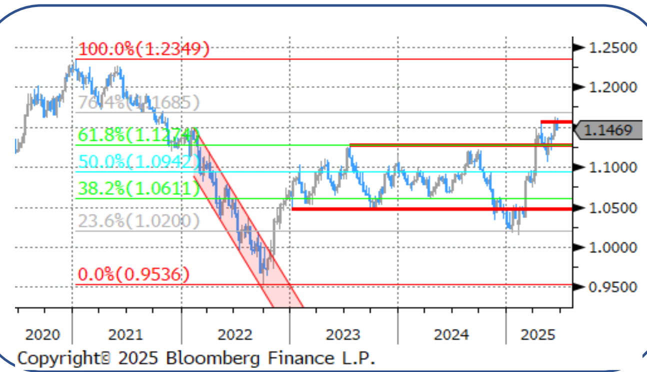


GE 10y yield

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

Thursday, 19 June		Consensus	Previous
UK			
13:00	**Bank of England Bank Rate**	**4.25%**	**4.25%**
EMU			
11:00	Construction Output MoM/YoY (Apr)	--/--	0.10%/-1.10%
Norway			
10:00	**Deposit Rates**	**4.50%**	**4.50%**
Switzerland			
9:30	**SNB Policy Rate**	**0.00%**	**0.25%**
Events			
19JUN	**US financial markets closed for Juneteenth**		
09:30	**ECB's Lagarde Speaks at Ukraine Conference**		
10:00	SNB's Schlegel Speaks After Rate Decision		
10:30	ECB's Villeroy speaks in Florence		
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
11:00	ECB's Nagel Speaks in Milan		
11:45	ECB's Guindos Speaks in Milan		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.39	0.00		US	3.94	-0.01	DOW	42171.66	-44.14
DE	2.50	-0.04		DE	1.84	-0.03	NASDAQ	19546.27	25.18
BE	3.07	-0.04		BE	1.95	-0.02	NIKKEI	38530.77	-354.38
UK	4.50	-0.05		UK	3.89	-0.04	DAX	23317.81	-116.84
JP	1.42	-0.04		JP	0.72	-0.03	DJ euro-50	5266.91	-21.77

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.06	3.62	3.68	€STR	1.9220	-0.0020			
5y	2.22	3.63	3.72	Euribor-1	1.8760	-0.0210	SOFR-1	4.3218	0.0005
10y	2.52	3.85	4.01	Euribor-3	2.0140	-0.0090	SOFR-3	4.3261	0.0010
				Euribor-6	2.0610	-0.0100	SOFR-6	4.2414	-0.0082

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1480	0.0000	EUR/JPY	166.62	-0.17	CRB	314.40	0.39
USD/JPY	145.13	-0.16	EUR/GBP	0.8554	0.0005	Gold	3408.10	1.20
GBP/USD	1.3422	-0.0007	EUR/CHF	0.9400	0.0027	Brent	76.70	0.25
AUD/USD	0.6509	0.0034	EUR/SEK	11.0769	0.1114			
USD/CAD	1.3695	0.0016	EUR/NOK	11.4562	0.0415			

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