



Friday, 20 June 2025

KBC Sunrise Market Commentary

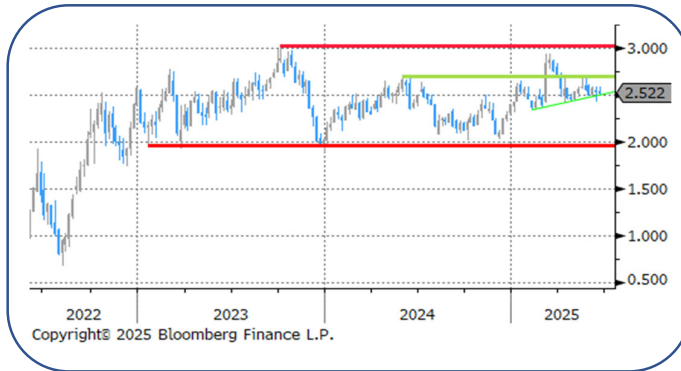
Markets

- Lacking guidance from US markets (closed for Juneteenth) and with hardly any EMU data scheduled for release, the EMU yield curve showed some modest bear steepening (German 2-y unchanged, 30-y +2.8 bps). The Fed decision on Wednesday maybe served as a reminder that overall uncertainty/low visibility is a reason for markets not to front-run on a softer CB tilt. Basically, that was also the message from [the BoE policy decision](#). The BOE left its policy rate unchanged (4.25%). The BoE acknowledging a softer labour market is supporting the case for the MPC to continue reducing policy restriction a quarterly pace (next step in August). Even so, considering recent bumpy inflation path, the MPC reiterates that policy has to remain restrictive for now and that *'a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate'*. UK yields regained a few bps. Money markets trade in line with the BOE reducing the policy rate by a cumulative 50 bps by year end. Sterling regained modest ground against the euro (close 0.854) but the overall picture didn't change. In technical trading EUR/USD hovered in the upper half of the 1.14 big figure (close 1.1495). The Eurostoxx 50 lost 1.33%, mainly on geopolitical uncertainty.
- This morning, [the market focus turns again to the war between Israel and Iran](#) and the potential involvement of the US. President Trump indicates that he will decide within two weeks. Asian equity markets show some modest relieve, but in essence, this also suggests that this additional layer of uncertainty might be here to stay for some time to come. With the tariff deadline on July 9 and the US budget approval target near July 4, early July will become very crowded for the US administration to decide on several key topics. [In the meantime, markets might still be haunted by 'back-and-forth noise' as those deadlines are coming closer](#). This might also be the case today, with only second tier data on the agenda in Europe and the US. US yields show no clear trend this morning. DXY eases to 98.65. EUR/USD regains the 1.15 barrier (1.152). Recent oil-driven USD outperformance apparently is losing momentum as oil eases slightly this morning on the potential two-week decision period. The price action this week confirms the USD being captured in a sell-on-upticks pattern. Last week's EUR/USD top (1.1631) remains the first technical reference. At the time of finishing this report, [UK May retail sales are reported to have declined much more than expected](#) (-2.7% M/M and -1.3% Y/Y). Sterling feels some renewed headwind with EUR/GBP heading toward 0.8545.

News & Views

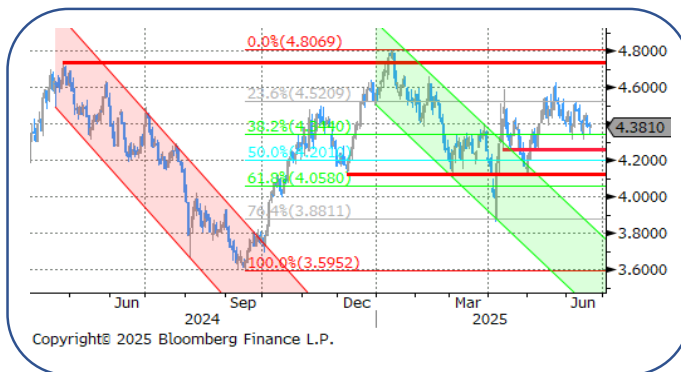
- [Japanese inflation](#) in May slowed from 3.6% to 3.5% on a headline level. But the underlying gauge quickened again and more than expected with the Bank of Japan's preferred gauge (ex. food) rising to 3.7%. Excluding the two readings in December 2022 and January 2023 that came during the post-pandemic surge, it is [the highest print since the early eighties](#). CPI ex food and energy prices accelerated from 3% to 3.3%. Adding rising services price inflation to 1.4% on solid wage growth means that central bank confidence in inflation sustainably returning to the 2% target will surely strengthen. [The BoJ](#) left the policy rate unchanged earlier this week amid lingering (trade) uncertainty but [minutes released this morning showed that Tokyo will hike if the economic \(and inflation\) outlook is met](#). That appears to be the case for now. We believe Japanese money markets are underestimating the probability of higher policy rates later this year with BoJ officials for the time being purposely being guarded in their communication. A hike in December this year is given only a 50% chance and that barely changed after this morning's numbers. [JPY reacted stoic as a result near USD/JPY 145.3](#).
- In [a draft EU statement](#) seen by the Financial Times that's circulating ahead of an EU leader summit June 26-27, France has lobbied EU countries into pledging [additional measures that may raise the euro's profile as a global reserve currency](#). The statement asks the bloc's institutions including the ECB "to explore actions to reinforce the international role of the euro" now that of the dollar appears to be waning. The FT cited people familiar with Paris' thinking that investors are looking for a safe haven from US Treasury debt and so, for one, the EU should issue more joint debt. [IMF's Georgieva concurred on Thursday, calling it "not by chance" that investors looking for quality safe assets](#) are now parking so much in gold these days. The call to action was reinforced by ECB Lagarde's "global euro moment" speech end May. ECB chief economist Lane earlier this month said that [joint bonds](#) are one way to respond to an "undersupply of safe assets" but also cited a Blanchard paper that proposes replacing a proportion of national European government bonds with Eurobonds.

Graphs



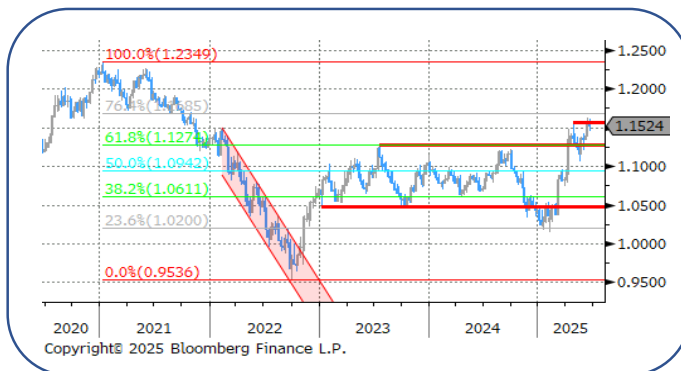
GE 10y yield

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

Friday, 20 June		Consensus	Previous
US			
14:30	Philadelphia Fed Business Outlook (Jun)	-1.5	-4
Japan			
1:30	Natl CPI YoY (May)	3.50%A	3.60%
1:30	Natl CPI Ex Fresh Food YoY (May)	3.70%A	3.50%
1:30	Natl CPI Ex Fresh Food, Energy YoY (May)	3.30%A	3.00%
UK			
1:01	GfK Consumer Confidence (Jun)	-18A	-20
8:00	Public Finances (PSNCR) (May)	--	9.1b
8:00	PSNB ex Banking Groups (May)	--	20.2b
8:00	Retail Sales Ex Auto Fuel MoM/YoY (May)	-0.70/1.80%	1.30%/5.30%
8:00	Retail Sales Inc Auto Fuel MoM/YoY (May)	-0.50%/1.70%	1.20%/5.00%
EMU			
10:00	M3 Money Supply YoY (May)	4.00%	3.90%
16:00	Consumer Confidence (Jun P)	-14.9	-15.2
Germany			
8:00	PPI MoM/YoY (May)	-0.30%/-1.20%	-0.60%/-0.90%
France			
8:45	Business Confidence (Jun)	96	96
8:45	Manufacturing Confidence (Jun)	98	97
8:45	Production Outlook Indicator (Jun)	-12	-13
Belgium			
11:00	Consumer Confidence Index (Jun)	--	-7
China			
3:00	1-Year Loan Prime Rate	3.00%A	3.00%
3:00	5-Year Loan Prime Rate	3.50%A	3.50%
Events			
10:00	ECB Publishes Economic Bulletin		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,39	0,00		US	3,94	0,00	DOW	42171,66	0,00
DE	2,52	0,02		DE	1,84	0,00	NASDAQ	19546,27	0,00
BE	3,12	0,05		BE	1,95	0,00	NIKKEI	38489,98	1,64
UK	4,53	0,04		UK	3,91	0,02	DAX	23057,38	-260,43
JP	1,40	-0,02		JP	0,73	0,00	DJ euro-50	5197,03	-69,88
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,07	3,62	3,69	€STR	1,9170	-0,0050			
5y	2,24	3,63	3,74	Euribor-1	1,8990	0,0230	SOFR-1	4,3209	-0,0008
10y	2,55	3,86	4,03	Euribor-3	2,0360	0,0220	SOFR-3	4,3284	0,0023
				Euribor-6	2,0500	-0,0110	SOFR-6	4,2465	0,0051
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1495	0,0015		EUR/JPY	167,16	0,54	CRB	314,40	0,00
USD/JPY	145,45	0,32		EUR/GBP	0,8537	-0,0017	Gold	3408,10	0,00
GBP/USD	1,3465	0,0043		EUR/CHF	0,9389	-0,0011	Brent	78,85	2,15
AUD/USD	0,6482	-0,0027		EUR/SEK	11,08	0,0031			
USD/CAD	1,37	0,0005		EUR/NOK	11,5417	0,0855			

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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