Wednesday, 25 June 2025

KBC Sunrise Market Commentary

Markets

- The **ceasefire in the antinuclear attack of Isreal against Iran triggered a standard relief- risk on rebound.** Oil supply not being disrupted in the Strait of Hormuz sent Brent crude prices all the way down from $80/b at the start of the week to currently $68/b. US (S&P 500 1.1%) and European equity indices (EuroStoxx +1.44) rebounded, with the former closing less than 1% from the all-time record. Despite this overall sentiment, **US and European interest rate markets parted ways. US yields declined up to 5 bps across the curve, with the focus on cyclical weakness and the potential/presumed consequences for Fed policy going forward.** A miss in the **US Consumer confidence** (conference board; headline 93 from 98.4, with both current conditions and expectations materially weaker than expected) triggered a first downleg. The move was almost immediately extended during Fed Powell's hearing before the House financial committee. The Fed Chair repeated that the US economy and labour market remain in a solid position, allowing the Fed to wait before considering rate moves, especially as tariffs are likely to push inflation up. At the same time, **Powell emphasized for the first time that lower inflation and/or a weaking labour market could mean an earlier rate cut.** Especially after recent soft comments from the likes of Fed Bowman and Waller, markets read this as raising chances for accelerated Fed easing. **The July meeting is too early for the Fed to get more clarity, but options for September and beyond are opening up. Focus in European/German interest markets turned to the supply side** as the German government approved the budget framework for 2025-29. It highlighted the need for an additional €500bn(+) of borrowing. The German Finance agency immediately raised its Q3 bond issuance target from €66.5bn to €81.5bn. German yields added between 1.3 bps (2-y) and 6.5 bps (30-y). Lower oil prices, a loss of interest rate support and lingering structural issues pushed the trade-weighted dollar (DXY) close to the 96.7 YTD low (97.85). EUR/USD even touched a minor new YTD top just north of 1.1631. The broader risk-off move also supported a comeback of sterling (EUR/GBP 0.853 from 0.856) even as BoE Bailey in a hearing before Parliament admitted that the UK economy/labour market is heading for some excess capacity, supporting further gradual easing.

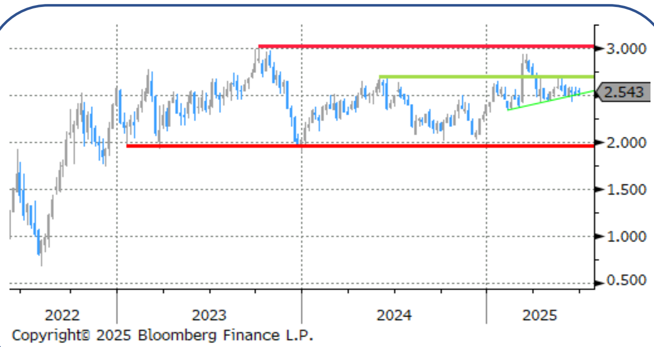
- **Asian markets maintain a modest risk-on bias this morning.** US yields ease slightly further. **The dollar holds yesterday's losses.** The eco calendar on both sides of the Atlantic is thin. Headlines from the NATO will dominate to newswires. The **Czech National Bank** is expected to keep its policy rate unchanged at 3.5%. With the dollar near key technical support (DXY and EUR/USD) we look out for further follow-through price action. In case of a sustained break (DXY 98 area, EUR/USD 1.1630/40), the technical picture of the US currency deteriorates further.

News & Views

- **New EU car registrations rose by 1.6% Y/Y in May.** However, YTD they are 0.6% lower compared with the first five months of 2024. Hybrid-electric cars are most popular so far this year, accounting for 35.1% of registrations, followed by petrol cars (28.6%) and battery electric vehicles (15.4%). New battery-electric car sales reached 701,089 units. Three of the four largest markets in the EU, accounting for 62% of all battery-electric car registrations saw gains YTD: Germany (+43.2%), Belgium (+26.7%), and the Netherlands (+6.7%). This contrasted with France, which saw a decline of 7.1%. The combined market share of petrol and diesel cars fell to 38.1%, down from 48.5% over the same period in 2024. In Belgium, petrol cars remain most popular (42.2% share YTD), followed by battery electric vehicle (33.3% YTD) and hybrid electric vehicles (12%).

- **The Council and the European Parliament reached a provisional deal on the proposal amending the gas storage regulation,** which extends by two years member states' existing obligations to have enough gas in storage before the winter season. The agreement keeps the existing binding target of 90% of gas storage **but provides flexibility to reach it anytime between 1 October and 1 December instead of the current 1 November deadline.** Intermediary storage targets are indicative, to give predictability of storage levels while leaving sufficient flexibility for market participants to purchase gas throughout the year when it is more convenient.

Graphs

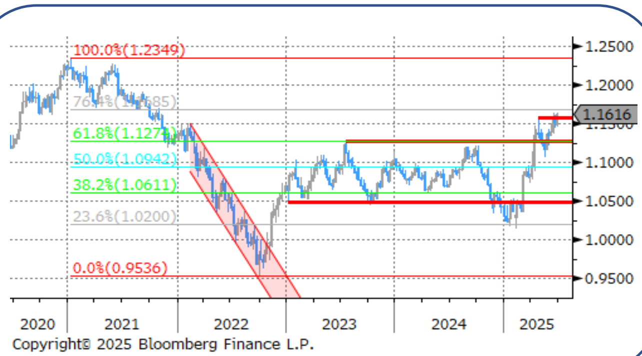


GE 10y yield

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, 25 June		Consensus	Previous
US			
16:00	New Home Sales Total/MoM (May)	693k/-6.70%	743k/10.90%
Japan			
1:50	PPI Services YoY (May)	3.30%A	3.40%R
EMU			
6:00	EU27 New Car Registrations (May)	1.60%A	1.30%
France			
8:45	Consumer Confidence (Jun)	89	88
Czech Republic			
14:30	**Repurchase Rate**	**3.50%**	**3.50%**
Events			
10:45	BOE's Lombardelli Speaks		
16:00	Fed's Powell Testifies Before Senate Committee		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	Close	-1d		**2-year**	Close	-1d	**Stocks**	Close	-1d
US	4,29	-0,05		**US**	3,83	-0,04	**DOW**	43089,02	507,24
DE	2,54	0,04		**DE**	1,85	0,01	**NASDAQ**	19912,53	281,56
BE	3,11	0,02		**BE**	1,97	0,01	**NIKKEI**	38897,25	106,69
UK	4,47	-0,02		**UK**	3,87	-0,02	**DAX**	23641,58	372,57
JP	1,40	-0,02		**JP**	0,72	-0,02	**DJ euro-50**	5297,07	75,17
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	2,06	3,49	3,64	**€STR**	1,9260	0,0010			
5y	2,23	3,50	3,70	**Euribor-1**	1,9340	0,0450	**SOFR-1**	4,3238	0,0002
10y	2,56	3,74	3,99	**Euribor-3**	1,9970	-0,0340	**SOFR-3**	4,3084	0,0010
				Euribor-6	2,0410	0,0050	**SOFR-6**	4,1854	-0,0143
Currencies	Close	-1d		**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1,1609	0,0031		**EUR/JPY**	168,26	-0,94	**CRB**	296,97	-8,08
USD/JPY	144,94	-1,21		**EUR/GBP**	0,8528	-0,0032	**Gold**	3333,90	-61,10
GBP/USD	1,3615	0,0091		**EUR/CHF**	0,9350	-0,0058	**Brent**	67,14	-4,34
AUD/USD	0,6489	0,0029		**EUR/SEK**	11,0629	-0,0506			
USD/CAD	1,3725	-0,0009		**EUR/NOK**	11,7523	0,0737			

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