



Thursday, 26 June 2025

KBC Sunrise Market Commentary

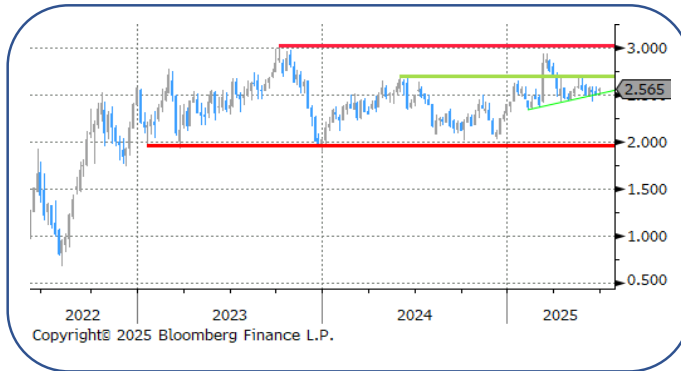
Markets

- Trends from Tuesday continued yesterday.** The German yield curve further bear steepened after the approval of the German budget, rubberstamping €500 bln additional debt issuance through 2029. German yields changed between -0.8 bps (2-y) and +2.6 bps (30-y). **US Treasuries outperformed** even as Fed Chair Powell in the second part of his semi-annual testimony before the Senate held to a cautious wait-and-see approach, pondering the expected inflationary impact of tariffs. Even so, **markets feel that softer US labour market data and/or a milder than expected inflationary compared to the Fed's base-line scenario still might result in faster easing than what is guided in the (median) dot plot.** US yields in a bull steepening move eased between -4.4 bps (2-y) and 0.25 bps (30-y). A September 25 bps Fed cut is now (slightly more) than fully discounted. **Interest rate differentials this time did matter and further pressured the dollar. EUR/USD jumped beyond the 1.1631 ST top (close 1.166).** DXY just didn't touch the 97.60 YTD low. However, the **WSJ overnight elaborating on previous rumours that Trump is considering to nominate a successor for Fed Chair Powell sooner than is usually the case (in September or October, or maybe even sooner) pushed the dollar beyond these technical barriers.** Even as Powell will serve its term until May next year, market expectations on a more growth supportive approach from the new Chair might at least do part of the job with respect to money market positioning, further reducing USD interest rate support. Brent oil closed little changed near \$ 68p/b. The Nasdaq (+0.31%) is only a whisker away from its all-time record.
- Today's eco calendar in EMU is thin. In the US, the May trade balance, durable goods orders and jobless claims are scheduled for release. They are not the most important ones, but high/higher than expected jobless claims still might further fuel the debate on frontloading Fed easing. Later the US Treasury will sell \$44 bln of 7-y notes with markets keeping an eye at the Senate processing the big beautiful budget bill. In Europe, **EU leaders join for a summit in Brussels.** The war in Ukraine and sanctions against Russia probably will dominate the headlines. From an eco/market point of point, we look out for potential comments on a bigger international role for the euro. While this wouldn't yield a big surprise/'new news', it at least would be perfectly in line with current market momentum as markets are considering alternatives for the US dollar. At 1.168, EUR/USD is testing 76% retracement of the 2021/2022 decline, the final resistance opening up the way for a full retracement to 1.2349 early 2021 top.

News & Views

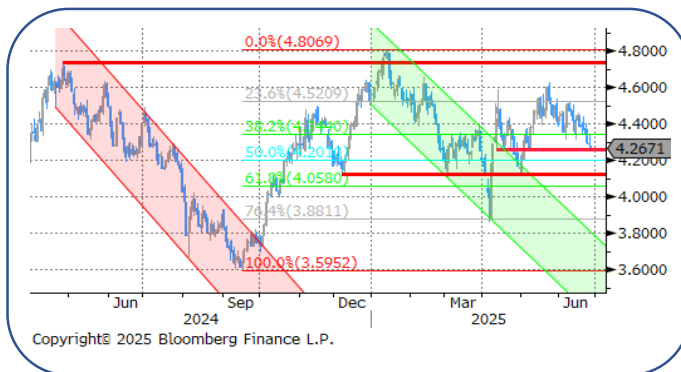
- The **Czech National Bank kept its policy rate unchanged at 3.5%** yesterday with CNB governor Michl indicating that **Czech rates may stay unchanged "for some time"**. A relatively tight policy is still needed given pro-inflationary risks around the outlook. Headline inflation will be above the 2% central bank target for the rest of the year and core inflation will remain elevated over the entire forecast horizon. Domestic inflation risks include inertia in services inflation (including imputed rent) and food inflation, a further stronger recovery in lending activity (especially property), additional growth in public sector spending and continued rapid wage growth related to the tight labour market. The longer term impact of increasing barriers to international trade are unclear. Short term, they might weigh on growth (and inflation). The downside risks of a weakening German economy is countered by the planned fiscal stimulus of the new government. **The Czech koruna strengthened further after the CNB hinted at the end of the normalization cycle with EUR/CZK testing the Ytd low at 24.72.** Czech swap rates rose by 2.8 bps to 4.7 bps with the front end underperforming as markets reduced any remaining easing bets.
- The **Hong Kong Monetary Authority (HKMA) took out HKD 9.42bn from circulation this morning to defend the ceiling of the USD/HKD linked exchange rate system (7.75-7.85).** Last month, the HKMA pumped HKD 129.4bn currency into the system when genuine USD-weakness triggered a test of the peg's floor. The subsequent abundance of liquidity in the HKD market led to a decline in HKD interbank rates, and the widened HKD-USD interest rate differential incentivized carry trade activities that sold HKD for USD, causing the HKD exchange rate to weaken. Other factors like the peaking of stock dividend payout season, the FX conversion of HKD proceeds raised from recent IPO's or bond issuance by non-local companies for repatriation and the wrapping up of the seasonal half-year-end funding preparation collectively added to the HKD weakening. The HKMA will continue to closely monitor market developments and the external environment to ensure the orderly operation of the Hong Kong dollar markets.

Graphs



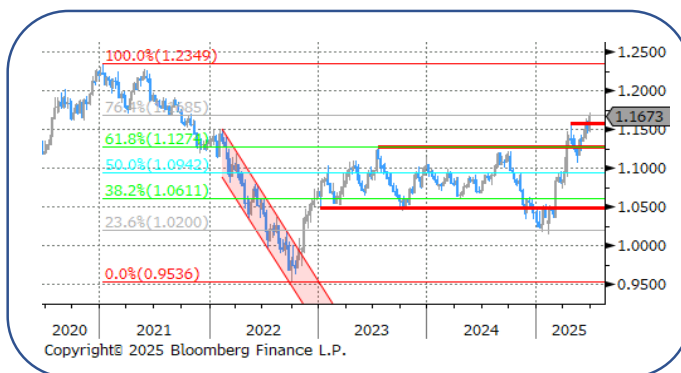
GE 10y yield

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. **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, 26 June		Consensus	Previous
US			
14:30	Advance Goods Trade Balance (May)	-\$86.1b	-\$87.0bR
14:30	Wholesale Inventories MoM (May P)	0.20%	0.20%
14:30	Retail Inventories MoM (May)	-0.10%	-0.10%
14:30	Chicago Fed Nat Activity Index (May)	-0.13	-0.25
14:30	Durable Goods Orders (May P)	8.50%	-6.30%
14:30	Durables Ex Transportation (May P)	0.00%	0.20%
14:30	Cap Goods Orders Nondef Ex Air (May P)	0.10%	-1.50%
14:30	Cap Goods Ship Nondef Ex Air (May P)	-0.10%	-0.10%
14:30	Initial Jobless Claims	243k	245k
14:30	Continuing Claims	1950k	1945k
16:00	Pending Home Sales MoM/NSA YoY (May)	0.10%/-0.40%	-6.30%/-3.50%
17:00	Kansas City Fed Manf. Activity (Jun)	-5	-3
UK			
12:00	CBI Total Dist. Reported Sales (Jun)	--	-43
12:00	CBI Retailing Reported Sales (Jun)	-25	-27
Germany			
8:00	GfK Consumer Confidence (Jul)	-19.2	-19.9
Events			
26-27JUN EU Leaders Summit			
10:30	BOE's Breeden Speaks		
13:00	BOE's Bailey Speaks		
14:45	Fed's Barkin Speaks on the Economy		
15:00	Fed's Hammack Gives Opening Remarks		
19:00	U.S. To Sell USD44 Bln 7-Year Notes		
19:15	Fed's Barr Speaks on Community Development		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4,29	0,00		US	3,78	-0,04		DOW	42982,43	-106,59
DE	2,57	0,02		DE	1,84	-0,01		NASDAQ	19973,55	61,02
BE	3,12	0,02		BE	1,96	-0,01		NIKKEI	39561,95	619,88
UK	4,48	0,01		UK	3,86	-0,02		DAX	23498,33	-143,25
JP	1,41	0,02		JP	0,73	0,00		DJ euro-50	5252,01	-45,06
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>-1d</u>	<u>-2d</u>
3y	2,07	3,47	3,63	€STR	1,9250	-0,0010				
5y	2,25	3,49	3,69	Euribor-1	1,9760	0,0420		SOFR-1	4,3288	0,0050
10y	2,57	3,74	4,01	Euribor-3	1,9930	-0,0040		SOFR-3	4,2961	-0,0123
				Euribor-6	2,0360	-0,0050		SOFR-6	4,1619	-0,0235
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>		Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1659	0,0050		EUR/JPY	169,33	1,07		CRB	296,62	-0,35
USD/JPY	145,24	0,30		EUR/GBP	0,8531	0,0004		Gold	3343,10	9,20
GBP/USD	1,3664	0,0049		EUR/CHF	0,9383	0,0033		Brent	67,68	0,54
AUD/USD	0,6513	0,0024		EUR/SEK	11,0602	-0,0027				
USD/CAD	1,3726	0,0001		EUR/NOK	11,8129	0,0606				

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			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

Discover more insights at www.kbceconomics.be

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

