



Wednesday, 02 July 2025

KBC Sunrise Market Commentary

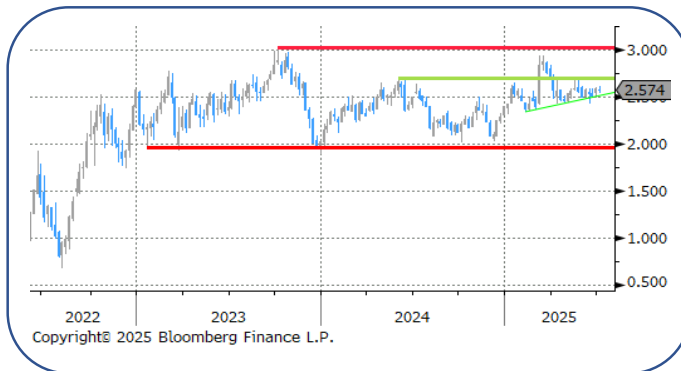
Markets

- The US Senate pulled an all-nighter and squeaked through president Trump's supersized bill.** Vice-president Vance had to break the tie in favour of the bill with a nail-biting 51-50 vote. The Senate's version of the OBBB **now returns to the House**, where a vote is expected today or tomorrow. Voting it down means both chambers need to look for a compromise but that's going to scupper Trump's unofficial July 4th deadline. Either way, after having come this far it's safe to assume the bill will pass eventually, in any case before the end of the year. **US deficits, debt and risk premia & therefore long-term yields will rise.** The near-certain passing of OBBB redirects the short-term spotlights back to trade. When asked yesterday, Trump repeated he's not considering to delay the July 9 deadline (end of the tariff pause). It's unclear whether this is coming from growing frustration with Japan, which Trump seems to making an example out of for other trading partners, including the EU. It's also conflicting with signals from the likes of USTS Bessent. In the end it could just simply be Trump upping the ante ahead of intensive trade talks in the coming days. The impact on markets was in any case limited. Stronger-than-expected US economic data turned out to be the more important driver instead. JOLTS job openings and the manufacturing ISM (although with mixed details) helped pull rates up to 5.3 bps higher at the front end of the curve. Bunds outperformed Treasuries and sent yields between 1.2 and 4.7 bps lower in a bull flattener. Yesterday's Sintra panel conversation between ECB's Lagarde, Fed's Powell and BoJ's Ueda offered nothing materially new. Data dependency remains the buzz word and for Powell that meant **nothing is to be ruled out or in at any meeting**, including (an in our view unlikely) cut in July. The most notable comments actually **came on the sidelines of the ECB symposium** from vice-chair de Guindos on the level of the common currency: 1.17 (EUR/USD) or even 1.20 can be overlooked at, he said, but "something beyond would be much more complicated" in terms of hitting the 2% inflation mark sustainably. Markets seem keen to test the ECB's patience with the first EUR/USD close north of 1.18 since September 2021. The trade-weighted dollar dropped further to 96.82 after having gone as low as 96.37. Dollar weakness is the name of the game, despite a poor attempt to recover some ground this morning. The greenback stays vulnerable for the upcoming batch of data. It's telling how USD failed to benefit yesterday even with yield differentials moving in its favour. The **ADP job report** for June is due today. Consensus expects employment to have grown by 98k after May's meagre 35k. In the UK meanwhile, **PM Starmer tried to save face with another policy reversal in what supposed to be his flagship welfare reforms.** Risking a backlash from rebel Labour MPs, the government dropped the key cost-saving part of the bill. UK Chancellor Reeves' Autumn Budget task is increasingly looking near-impossible. Her options are: cut spending, raise taxes or alter the fiscal rules for a second year straight.

News & Views

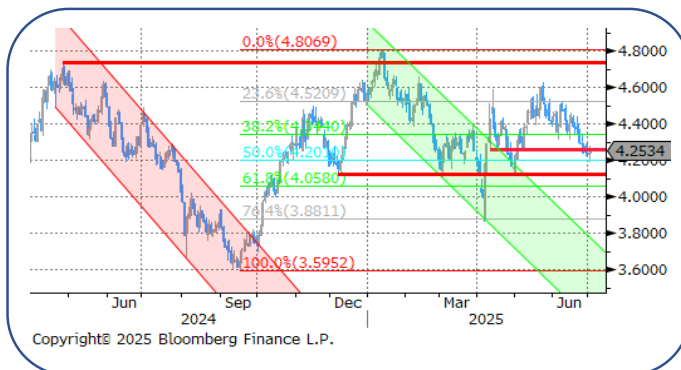
- Headline inflation in South Korea printed at 0.0% M/M, raising the headline measure to 2.2%, up from 1.9%.** Core inflation was unchanged at 2%. In a broader perspective, the data suggest that inflation is on track to hold near the 2% target of the Bank of Korea (BoK). **The BoK cut the policy rate to 2.5% in May.** Governor Rhee attending the Sintra-ECB forum yesterday indicated that Bank of Korea remains **concerned about the impact for the tariffs on growth rather than about inflation risks.** This suggests that the easing cycle will likely continue later this year. However, aside from the activity/inflation balance, the BoK is also keeping a close eye a the financial stability risks as house prices and household debt are again rising, suggesting the need for a gradual approach to further easing.
- Retail sales** in Australia in May again continued the lackluster momentum that is already in place since the end of last year. Sales **grew at a 0.2% below consensus** (0.5%) pace after a stabilization in April. Coming on the back of softer than expected May labour market data and a faster than expected easing of the May monthly inflation measure (published last week at 2.1% from 2.4%) **today's data support the case for the Reserve bank of Australia to further reduce the policy rate** at the upcoming meeting on Tuesday next week. The RBA policy rate currently stands at 3.85% after a second 25 bps rate cut in the current cycle at the May meeting. Despite the prospect for further easing, the Aussie dollar remains well bid against an overall weak US dollar with AUD/USD near 0.658 currently testing the strongest levels since November last year.

Graphs



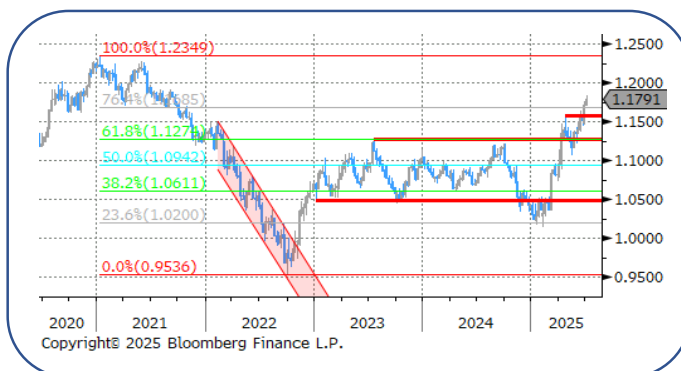
GE 10y yield

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

Wednesday, 2 July		Consensus	Previous
US			
14:15	ADP Employment Change (Jun)	98k	37k
Canada			
15:30	S&P Global Canada Manufacturing PMI (Jun)	--	46.1
EMU			
11:00	Unemployment Rate (May)	6.20%	6.20%
Belgium			
11:00	Unemployment Rate (May)	--	6.40%
Events			
10:00	ECB's Guindos Chairs Panel in Sintra		
11:00	ECB's Cipollone Chairs Panel in Sintra		
11:30	Germany to Sell €6bn of 2035 Bonds		
12:30	ECB's Lane Chairs Panel With BOE's Taylor, Riksbank's Seim		
12:30	BOE's Taylor Speaks		
16:15	ECB's Lagarde Delivers Closing Remarks in Sintra		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.24	0.01		US	3.77	0.05	DOW	44494.94	400.17
DE	2.57	-0.03		DE	1.85	-0.01	NASDAQ	20202.89	-166.84
BE	3.13	-0.02		BE	1.96	-0.01	NIKKEI	39797.44	-188.89
UK	4.45	-0.04		UK	3.83	0.01	DAX	23673.29	-236.32
JP	1.43	0.03		JP	0.75	0.01	DJ euro-50	5282.43	-20.81
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.08	3.45	3.58	€STR	1.9210	0.0000			
5y	2.25	3.47	3.63	Euribor-1	1.9060	-0.0280	SOFR-1	4.3319	0.0004
10y	2.57	3.71	3.94	Euribor-3	1.9610	0.0170	SOFR-3	4.2993	-0.0027
				Euribor-6	2.0510	0.0020	SOFR-6	4.1456	-0.0011
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1806	0.0019		EUR/JPY	169.33	-0.45	CRB	296.05	-1.23
USD/JPY	143.42	-0.61		EUR/GBP	0.8589	0.0006	Gold	3349.80	42.10
GBP/USD	1.3746	0.0014		EUR/CHF	0.9341	-0.0008	Brent	67.11	0.37
AUD/USD	0.6583	0.0002		EUR/SEK	11.1885	0.0403			
USD/CAD	1.3646	0.0038		EUR/NOK	11.8862	0.0074			

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