



Thursday, 03 July 2025

KBC Sunrise Market Commentary

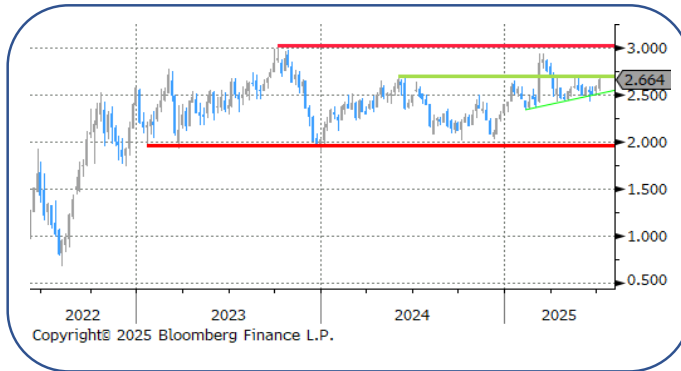
Markets

- UK gilts crashed yesterday. Yields on the long-end of the curve surged by almost 20 bps (30-yr) over fiscal concerns. **The worrying state of public finances in the UK** (and elsewhere) **have become an evergreen but moved into the spotlights again after PM Starmer**, pressured by internal revolt, **ditched the £5bn cost-saving part from the welfare bill**. It puts even more strain on the already extremely tight budget Chancellor Reeves has to work with. She now has to look for additional spending cuts or another rise in tax for the yearly October budget if Reeves wants to adhere to her self-imposed fiscal rules. A third option is changing (ie. loosen) those rules. That risks unnerving markets, though. **Such accounting tricks are mere window-dressing** and do not improve the deficit situation, on the contrary. That's why Reeves consistently ruled it out after having altered them once ahead of the October 2024 Budget. **But if Reeves won't, maybe another Chancellor will**. Speculation for Reeves to be sacked surged in yesterday's House of Commons session where a questioned Starmer failed to back his running Chancellor. A visibly upset Reeves shedding a tear added to the drama – and perhaps even to the yield rally. **The pound joined the sell-off** with EUR/GBP soaring to the highest levels since mid-April in the mid 0.86/87 area. It will be tricky for UK assets to get out of the crosshairs now. Markets ex UK suffered collateral damage. Both the US and European yield curve bear steepened. The former rose between 1.2-3.8 bps with the dip following the disappointing ADP job report easily wiped out. European swap yields rose 1-5.2 bps. Even Japanese yields rise 6 bps and counting at the long end, despite a successful 30-yr auction. The euro and dollar balanced each other, resulting in a status quo around EUR/USD 1.18. DXY (96.77) has troubles leaving the recent multiyear lows behind. **It could be make or break for the greenback today** with the **June payrolls and non-manufacturing ISM** scheduled for release. EUR/USD is eager for an upside break out of the upward sloping trend channel, all the way back to the 2021 high. A further drop in DXY below the recent troughs implies a return to 94.65 and 95.24 initially before the 2021 low of 89.21. Employment growth is expected to rise by 106k with a minor uptick in the unemployment rate to 4.3%. The ISM would recover from the sub 50 print in May to 50.6, barely suggesting growth. Both the dollar and front-end yields are keen to spot any weaknesses after Powell's communication twist. The long end in theory is better supported by the fiscal topic – the OBBBA is currently stuck in the House over a failed procedural vote – but we could see that curve segment joining the front lower as well in case of a miss.

News & Views

- The National Bank of Poland yesterday unexpectedly cut its policy rate by 25 bps to 5%**, conflicting with signals coming from several MPC members recently. In its policy statement the NBP now assesses that **inflation in the coming months might fall below the upper bound** of the NBP's target band (2.5% +/- 1%pt). Inflation in June printed at 4.1% and the NBP expects that the still-to-be-published core reading will be close to May's 3.3%. The new forecast for growth over the 2025-2027 period didn't profoundly change (2025: 2.9%-4.3%, 2026: 2.1%-4.0%, 2027: 1.3%-3.7%), but **inflation was downwardly revised**, in particular for this year (2025: median 4.0% from 4.9%, 2026: 3.1% from 3.4%, 2027: 2.4% from 2.5%). The NBP gave few indications on future rate cuts. Further decisions will depend on incoming information regarding prospects for inflation and economic activity. Fiscal policy stance, developments in demand pressure and situation in the labour market in subsequent quarters, as well as the level of administered energy prices, are factors of uncertainty. Governor Glapinski will comment the decision at press conference later today. The zloty declined from the EUR/PLN 4.25 area to close near EUR/PLN 4.2655.
- Anna Hughes, head the Australian debt office (Australian Office of Financial Management), said the agency is **considering to scale back the issuance of ultra-long bonds as funding via those bonds is becoming ever more expensive**, Bloomberg reported. The AOFM plans to issue A\$150 bln worth of bonds this year with the focus on the 10-y part of the curve. Higher yields at the very long end of the curve might cause the agency to become more flexible in its issuances intentions at those tenors. The considerations of the AOFM **mirror similar assessments by other major sovereign issuers** as market concerns on high fiscal deficits cause broad-based steepening of yield curves. Even after some easing of late the Australian 30-y yield stands near 4.85% vs 4.25 for the 2-y yield, with the RBA still in an easing cycle.

Graphs



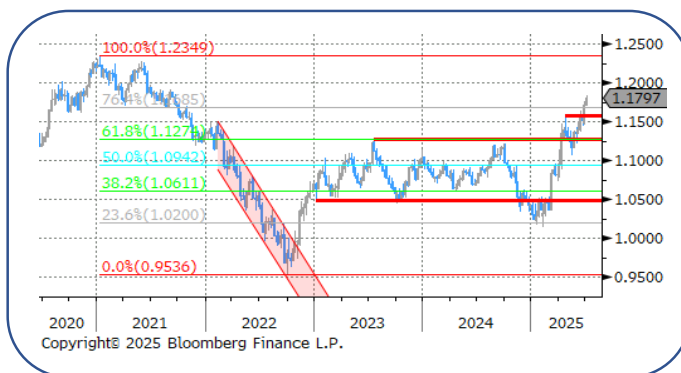
GE 10y yield

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, 3 July		Consensus	Previous
US			
14:30	Trade Balance (May)	-\$71.0b	-\$61.6b
14:30	Change in Nonfarm Payrolls (Jun)	106k	139k
14:30	Change in Private Payrolls (Jun)	100k	140k
14:30	Change in Manufact. Payrolls (Jun)	-2k	-8k
14:30	Nonfarm Payrolls 3-Mo Avg Chg (Jun)	--	135k
14:30	Two-Month Payroll Net Revision (Jun)	--	-95k
14:30	Unemployment Rate (Jun)	4.30%	4.20%
14:30	Labor Force Participation Rate (Jun)	62.40%	62.40%
14:30	Underemployment Rate (Jun)	--	7.80%
14:30	Average Hourly Earnings MoM / YoY (Jun)	0.30%/3.80%	0.40%/3.90%
14:30	Average Weekly Hours All Employees (Jun)	34.3	34.3
14:30	Initial Jobless Claims	241k	236k
14:30	Initial Claims 4-Wk Moving Avg	--	245.00k
14:30	Continuing Claims	1962k	1974k
15:45	S&P Global US Services PMI (Jun F)	53.1	53.1
15:45	S&P Global US Composite PMI (Jun F)	52.8	52.8
16:00	Factory Orders (May)	8.20%	-3.70%
16:00	Factory Orders Ex Trans (May)	0.20%	-0.50%
16:00	ISM Services Index (Jun)	50.6	49.9
Japan			
02:30	S&P Global Japan PMI Composite (Jun F)	51.5A	51.4
02:30	S&P Global Japan PMI Services (Jun F)	51.7A	51.5
UK			
10:30	DMP 1 Year CPI Expectations (Jun)	3.00%	3.00%
10:30	DMP 3M Output Price Expectations (Jun)	3.50%	3.70%
10:30	S&P Global UK Services PMI (Jun F)	51.3	51.3
10:30	S&P Global UK Composite PMI (Jun F)	50.7	50.7
EMU			
10:00	HCOB Eurozone Services PMI (Jun F)	50	50
10:00	HCOB Eurozone Composite PMI (Jun F)	50.2	50.2
China			
03:45	Caixin China PMI Composite (Jun)	51.3A	49.6
03:45	Caixin China PMI Services (Jun)	50.6A	51.1
Sweden			
08:30	Swedbank/Silf PMI Services (Jun)	--	50.8
08:30	Swedbank/Silf PMI Composite (Jun)	--	50.3
Events			
10:30	Bank of England Bank Liabilities/Credit Conditions Surveys		
10:30	Spain to Sell 2.4% 2028, 3.15% 2035 and 3.5% 2041 Bonds		
10:50	France to Sell 3.2% 2035, 3.6% 2042 and 3.75% 2056 Bonds		
13:30	ECB Publishes Account of June Policy Meeting		
17:00	Fed's Bostic Gives Speech on Monetary Policy		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.28	0.04		US	3.78	0.01	DOW	44484.42	-10.52
DE	2.66	0.09		DE	1.86	0.01	NASDAQ	20393.13	190.24
BE	3.20	0.06		BE	1.98	0.01	NIKKEI	39692.18	-70.30
UK	4.61	0.16		UK	3.88	0.05	DAX	23790.11	116.82
JP	1.45	0.01		JP	0.75	0.00	DJ euro-50	5318.72	36.29
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.10	3.46	3.64	€STR	1.9230	0.0020			
5y	2.29	3.49	3.73	Euribor-1	1.8890	-0.0170	SOFR-1	4.3239	-0.0080
10y	2.62	3.74	4.08	Euribor-3	1.9580	-0.0030	SOFR-3	4.2821	-0.0172
				Euribor-6	2.0330	-0.0180	SOFR-6	4.1306	-0.0150
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1799	-0.0007		EUR/JPY	169.49	0.16	CRB	300.71	4.66
USD/JPY	143.66	0.24		EUR/GBP	0.8653	0.0064	Gold	3359.70	9.90
GBP/USD	1.3636	-0.0110		EUR/CHF	0.9345	0.0005	Brent	69.11	2.00
AUD/USD	0.6584	0.0001		EUR/SEK	11.2282	0.0397			
USD/CAD	1.359	-0.0056		EUR/NOK	11.8703	-0.0159			

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