



Friday, 04 July 2025

KBC Sunrise Market Commentary

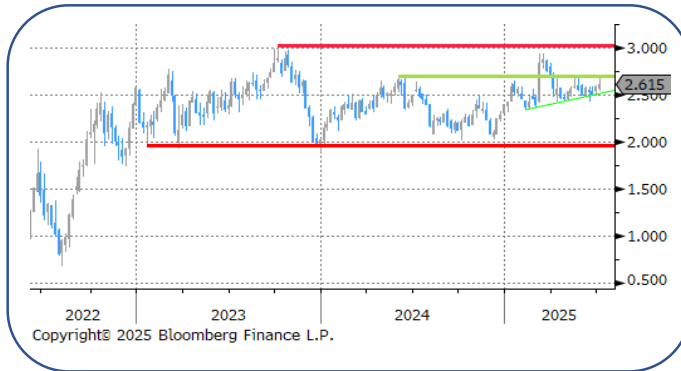
Markets

- Hate him or love him, but US president Trump often gets things done. **He wanted the OBBBA on his desk to be signed into law by July 4th, and he's going to get it.** The US House of Representatives greenlighted the Senate-amended version in a 218-214 vote after some arm-twisting (and probably backdoor sweeteners) yesterday. The price tag is huge: **\$3.4tn in additional federal deficits through 2034. This compares to a \$1.8tn deficit, or well over 6% of GDP, in 2024. The debt ceiling will be raised by a whopping \$5tn**, which according to USTS Bessent "should get us well into 2027". The House passage came after US trading hours (early close ahead of Independence Day) so a first real market reaction isn't due until Monday. US rates nevertheless finished the day higher with net daily changes varying between 6 (30-yr) and almost 10 bps (2-yr). The bear flattening came in the wake of the payrolls report. Job growth and the unemployment rate came in better than expected but not for reasons tied to a strong economy per se. Local and state government jobs contributed to half of the net growth while people dropping out of the labour market resulted in the lower unemployment rate. The headline print nevertheless wrongfooted a more softly positioned market. The US non-manufacturing ISM released afterwards marginally topped consensus estimates as well and kept rates near the intraday highs. The headline number rose from 49.9 to 50.8 (50.5 expected) thanks to a rebound in new orders (51.3), general business activity (54.2). Employment was the weak link. The subindex dropped from 50.7 to 47.2. The US job report only temporarily interrupted the grind lower in European yield markets. Swap rates closed up to 4 bps lower, the belly of the curve outperforming the wings. **The greenback's performance given the rates divergence was poor.** EUR/USD eased from 1.18 to 1.176 while DXY (97.18) continues to struggle near the lows. Part of the dollar gains are already being undone during the Asian session. The pound recovered somewhat of Wednesday's hit along with long-term gilts but we're wary for a sustained comeback. The fiscal debate is casting a shadow over UK assets.
- The **trade narrative is back in full swing** now Trump's bill got approved. **The US president said he'll start sending letters today in which he'll set the tariff level unilaterally** going into the July 9 deadline. Trump floated a rate between 10 and 70%. Countries that dodge the bullet with a trade deal so far are the UK and Vietnam. The US-Sino trade truce runs through mid-August. Talks with Japan have been frustrating Trump lately while those with the EU are running in the background and scheduled to continue over the weekend. An extension to the deadline is not being considered, Trump said, so the stakes are high. We could therefore see markets err to the side of caution, be it in thinned volumes due to the absence of US investors.

News & Views

- National Bank of Poland President Glapinski yesterday labeled Wednesday's unexpected 25 bps rate cut from 5.25% to 5% as a "cautious adjustment"** and not the start of an easing cycle. The NBP lowered its policy rate with the backing of lower CPI projections, especially for this year, with inflation expected to fall within the 1%-point tolerance band around the 2.5% inflation target in coming months. The tone of the policy statement opened the door for a sequence of rate cut, but Glapinski closed that with his hawkish comments. **He highlighted inflation risks coming from loose fiscal spending, energy prices and trade tensions.** The zloty profited from the conflicting U-turn and erased all of Wednesday's losses, ending the day at EUR/PLN 4.24 from 4.2650. A rebound in Polish swap rates was short-lived as Glapinski nevertheless offered a path to a September rate cut. The curve bull steepened again with daily losses of up to 8 bps at the front end of the curve (19 bps 2-day cumulative).
- UK Chancellor Reeves is expected to announce a shake-up of UK pensions in her Mansion House speech** on July 15 including plans to look at the amount companies and their staff set aside for retirement, according to reporting by the Financial Times. The review was initially expected by the end of 2024 but delayed after an angry backlash over the £25bn increase in National Insurance contributions announced in last year's autumn Budget.

Graphs



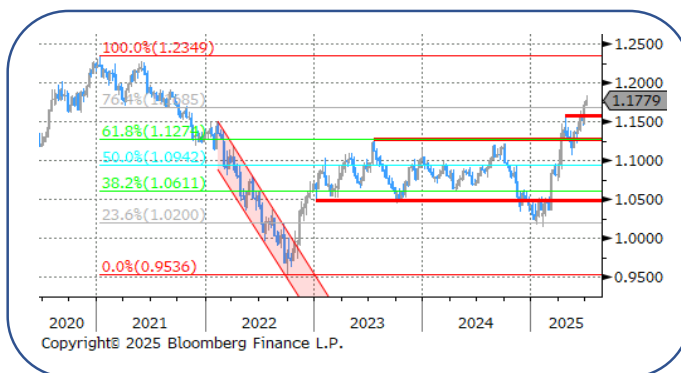
GE 10y yield

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

Friday, 4 July		Consensus	Previous
UK			
10:00	New Car Registrations YoY (Jun)	--	1.60%
10:30	S&P Global UK Construction PMI (Jun)	48.5	47.9
EMU			
11:00	PPI MoM / YoY (May)	-0.30%/0.60%	-2.20%/0.70%
Germany			
08:00	Factory Orders MoM / WDA YoY (May)	-0.20%/5.70%	0.60%/4.80%
09:30	HCOB Germany Construction PMI (Jun)	--	44.4
France			
08:45	Industrial Production MoM / YoY (May)	0.30%/0.10%	-1.40%/-2.10%
08:45	Manufacturing Production MoM / YoY (May)	--/--	-0.60%/-1.60%
Events			
10:00	ECB's Elderson Speaks in Luxembourg		
12:00	Belgium to Sell Bonds through ORI auction		
14:15	ECB's Villeroy Speaks in Aix-en-Provence		
19:30	BOE's Taylor Speaks		
US markets closed for Independence Day			

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.35	0.07		US	3.88	0.10	DOW	44828.53	344.11
DE	2.62	-0.05		DE	1.83	-0.03	NASDAQ	20601.1	207.97
BE	3.16	-0.04		BE	1.95	-0.03	NIKKEI	39843.24	57.34
UK	4.54	-0.07		UK	3.84	-0.04	DAX	23934.13	144.02
JP	1.44	0.00		JP	0.74	-0.02	DJ euro-50	5343.15	24.43
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.08	3.54	3.60	€STR	1.9220	-0.0010			
5y	2.25	3.55	3.68	Euribor-1	1.8740	-0.0150	SOFR-1	4.3351	0.0111
10y	2.58	3.80	4.02	Euribor-3	1.9370	-0.0210	SOFR-3	4.3315	0.0494
				Euribor-6	2.0310	-0.0020	SOFR-6	4.2150	0.0844
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1757	-0.0042		EUR/JPY	170.39	0.90	CRB	299.93	-0.78
USD/JPY	144.93	1.27		EUR/GBP	0.8610	-0.0043	Gold	3342.90	-16.80
GBP/USD	1.3655	0.0019		EUR/CHF	0.9350	0.0004	Brent	68.80	-0.31
AUD/USD	0.6571	-0.0013		EUR/SEK	11.2687	0.0405			
USD/CAD	1.3583	-0.0007		EUR/NOK	11.8211	-0.0492			

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