



Monday, 07 July 2025

KBC Sunrise Market Commentary

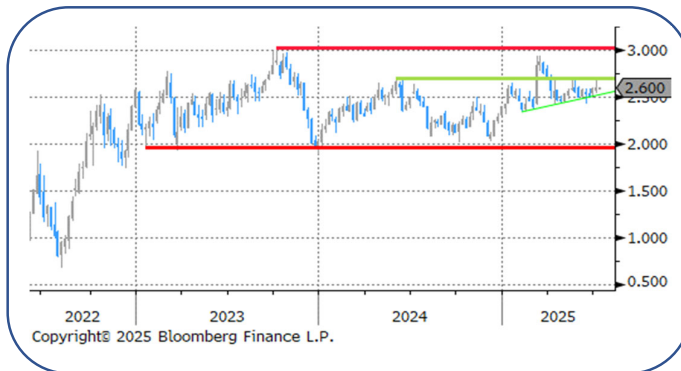
Markets

- With US markets closed for Independence Day and little in the way of important data, **European markets couldn't but take a cautious approach going into the weekend.** With the US budget (One Big Beautiful Bill act) approved in Congress, the focus evidently turned the US July 9 tariff deadline. Markets recently balanced between hope and doubt. Without any guidance from US markets, doubt dominated European trading. The EuroStoxx50 ceded 1.02%. European bond markets showed a mild safe haven bid, with German yields trading between little changed (30-y) and -1.8 bps (2-y). **ECB's Villeroy** again elaborated on the risk of inflation undershooting the target. However, for now markets understand that in current context of low visibility on trade/global growth, there is little reason to aggressively front run on additional ECB easing beyond the 1.75% cycle low that is currently discounted for the turn of the year. On FX markets the dollar (DXY) gained marginally (97.2) extending a tentative bottoming out process post Thursday's 'better-than-expected' payrolls. Still EUR/USD closed slightly higher at 1.1778.
- This morning, markets are trying to cope with multiple layers of uncertainty as the US will move to the next phase in imposing trade tariffs.** President Trump is sending letters to (about) 12(+) countries informing them on the higher tariffs they will face. However, US Treasury secretary Bessent indicated that these tariffs will start on August 1, **providing some space for trading partners to do concessions.** At the same time, the US still also intends to announce some 'finalized' (frame)work trade agreements. **This set-up in a first instance leaves markets with plenty of uncertainty.** Will August 1 become a next informal deadline? Which countries will get higher tariffs? Will they in some cases even go higher than the top tariffs announced on April 2? This morning, US president Trump even added **a new layer of uncertainty as he threatened countries aligning with 'anti-American policies of BRICS' with an additional 10% tariff.** However, the US president didn't specify what this 'alignment' exactly contains. **One can assume a series of unexpected 'plot twists' over the coming hours/days, which are impossible to anticipate.** Markets this morning are starting the week with **something between paralysis and a guarded risk off.** Most Asian equities are trading with modest losses (<1.0%) and so do US equity futures. US Treasuries rise with yields declining about 2.5 bps at the short end of the curve. Even after last week's payrolls apparently are still **pondering the chances of a restart of the Fed easing cycle if the US data were to weaken later this year.** The dollar gains marginally. The currencies of countries that face higher tariffs might be vulnerable in a first stage. Even so, the post April 2 experience in mind, we assume that a broad-based USD rebound will be difficult in a context of US induced trade-protectionism. Aside from the trade storyline, the eco calendar this week contains **few important (US) eco data.** The Reserve Bank of Australia (Tuesday) and the Reserve Bank of New Zealand (Wednesday) will decide on policy. **Post the OBBB, we also keep a close eye on the first series of US Treasury auctions (3-y Tuesday; 10-y Wednesday, 30-y Thursday).**

News & Views

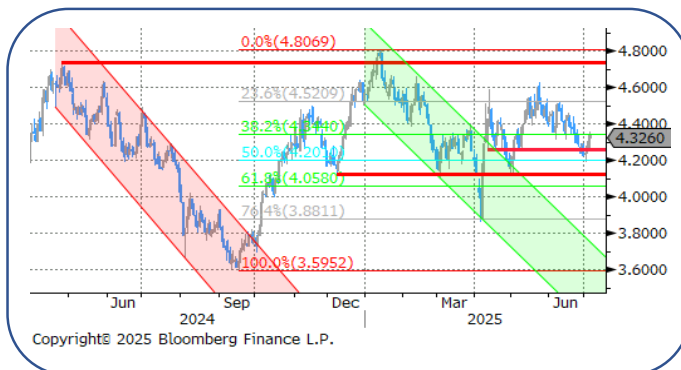
- Saudi Arabia will raise the price of its Arab light crude for Asian customers by more than expected in August.** The price will trade \$2.2 a barrel above the regional (Oman/Dubai) benchmark. The move is seen as the country being confident that the oil market is strong enough to take up the additional supplies the Saudi-led OPEC+ group is bringing. **The oil cartel over the weekend agreed to add 548k barrels a day next month, an even bigger output hike than in each of the three previous months (411k).** Brent oil gapped lower at the open this morning and is currently trading for \$67.9 a barrel.
- Rating agency Moody's said Japan's upcoming upper house election July 20th would be an important one for the country's fiscal health and credit ratings if they end up in new tax cuts.** The elections are crucial for prime minister Ishiba after his ruling Liberal Democratic Party and the coalition partner Komeito lost their majority in the lower house after a snap poll in October last year. Among the campaign pledges are cash handouts to help households cope with inflation. But the government so far resisted **calls from opposition parties for tax cuts.** Moody's said **these could be a negative for its current A1 rating** (with stable outlook, since December 2014), depending on how large and long-lasting they are.

Graphs



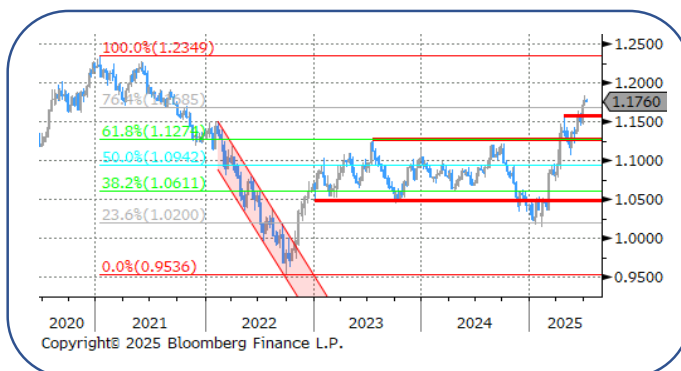
GE 10y yield

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.



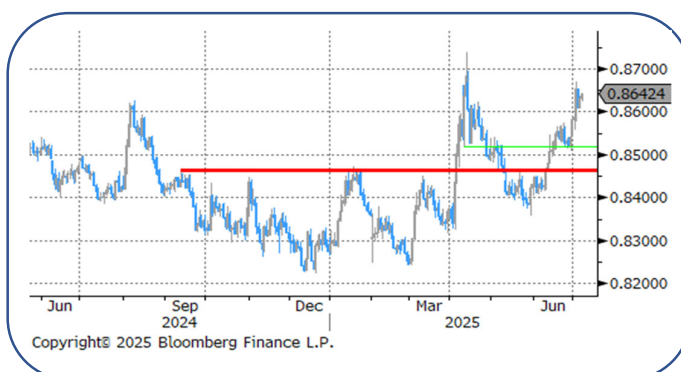
US 10y yield

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

Monday, 07 July		Consensus	Previous
Japan			
1:30	Labor/Real Cash Earnings YoY (May)	1.00%A/-2.90%A	2.00%R/-2.00%R
1:30	Cash Earnings-Same Sample Base YoY (May)	2.80%	2.60%
EMU			
10:30	Sentix Investor Confidence (Jul)	1	0.2
11:00	Retail Sales MoM/YoY (May)	-0.60%/1.40%	0.10%/2.30%
Germany			
8:00	Industrial Production SA MoM/WDA YoY (May)	-0.20%/-0.30%	-1.40%/-1.80%
Norway			
8:00	Industrial Production MoM/WDA YoY (May)	--/--	2.10%/0.30%
Sweden			
8:00	CPI MoM/YoY (Jun P)	0.10%/0.40%	0.10%/0.20%
8:00	CPIF MoM/YoY (Jun P)	0.20%/2.50%	0.10%/2.30%
8:00	CPIF Excl. Energy MoM/YoY (Jun P)	0.40%/2.90%	0.20%/2.50%
Events			
10:00	ECB's Nagel Speaks in Tallinn		
15:00	ECB's Holzmann Speaks in Vienna		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,35	0,00		US	3,88	0,00	DOW	44828,53	0,00
DE	2,61	-0,01		DE	1,82	-0,02	NASDAQ	20601,1	0,00
BE	3,16	0,00		BE	1,93	-0,02	NIKKEI	39566,56	-244,32
UK	4,55	0,01		UK	3,85	0,01	DAX	23787,45	-146,68
JP	1,45	0,02		JP	0,73	-0,01	DJ euro-50	5288,81	-54,34
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	2,05	3,54	3,60	€STR	1,9200	-0,0020			
5y	2,23	3,55	3,68	Euribor-1	1,8740	0,0000	SOFR-1	4,3325	-0,0026
10y	2,58	3,80	4,02	Euribor-3	1,9790	0,0420	SOFR-3	4,3290	-0,0025
				Euribor-6	2,0260	-0,0050	SOFR-6	4,2024	-0,0126
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1778	0,0021		EUR/JPY	170,17	-0,22	CRB	299,93	0,00
USD/JPY	144,47	-0,46		EUR/GBP	0,8631	0,0021	Gold	3342,90	0,00
GBP/USD	1,365	-0,0005		EUR/CHF	0,9353	0,0003	Brent	68,30	-0,50
AUD/USD	0,6556	-0,0015		EUR/SEK	11,2624	-0,0063			
USD/CAD	1,3601	0,0018		EUR/NOK	11,8811	0,0600			

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