



Tuesday, 08 July 2025

## KBC Sunrise Market Commentary

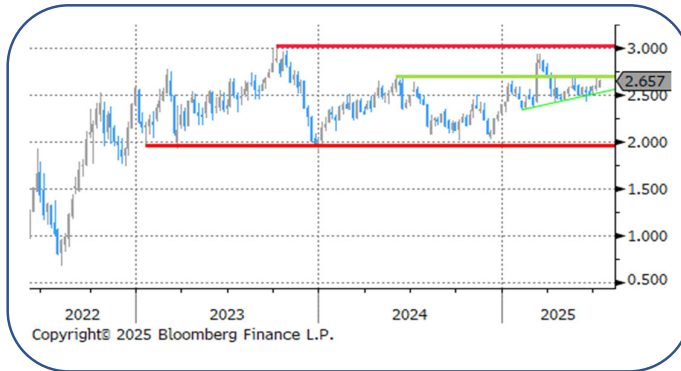
### Markets

- The US yesterday made a next step in the strategy that it considers necessary to 'eliminate the Trade Deficit disparity' with trading partners.** The US sent letters to 14 trading partners informing them of new tariffs it will impose on August 1. The tariffs are mostly close to, sometimes slightly lower compared to what was announced at Liberation Day. Some examples. South Africa faces a tariff of 30%, Indonesia 32%, Malaysia 25% and Thailand 36%. **Major trading partners Japan and South Korea were both informed of a 25% tariff.** They are still involved in trade negotiations, but the US apparently wants to put some pressure for them to make further concessions as this is difficult due to the domestic political context (e.g. July 20 Upper House elections in Japan). Next to sending letters, **the US administration also delayed the global new deadline for reciprocal tariffs to August 1.** It also warns that if nations decide to raise their tariffs (retaliation) they will again be added to the tariff applied for that country. **The EU** didn't receive any letter. Sources suggest that the EU is moving closer to a deal with the US but it aims to reach some exceptions on the baseline 10% and some ad hoc specifications/adjustments to sector tariffs. However, negotiations are still ongoing and an agreement needs the final approval President Trump. Markets apparently basically saw the current move as a 'delay' of the July 9 deadline allowing for further negotiations/modifications. **De facto this also prolongs the period of limited visibility both for markets and for monetary policymakers** including the Fed. In this respect, expectations of Fed policy later this year hardly changed. The market still sees a cumulative 50 bps of rate cuts this year. US yields rose between 1.5 bps (2-y) and 5.4 bps (30-y). The underperformance at the long end of the curve was broad-based, probably partially driven by higher LT Japanese yields. German yields added 2.0/3.6 bps across the curve. US equities dropped after the publication of the first letters, but finished off the intraday lows (S&P 500 -0.79%). Uncertainty on the economic impact for US trading patterns supported the dollar (DXY at 97.48 from 96.96, EUR/USD 1.171 from 1.178; USD/JPY 146.05 from 144.4).
- Asian equity markets modestly rebound** as investors apparently appreciate room for further negotiations. The dollar eases slightly (DXY 97.36; EUR/USD 1.1738, USD/JPY unchanged near 146). As visibility remains low also for the Fed as long as the trade negotiations continues, **some further technical trading (rather than sustained further gains) might be on the cards for the US dollar.** On the interest rate markets we again keep close eye at the long end of the yield curves. **The Japan 30-y yield again jumps 9 bps (3.07%) and keeps debt sustainability as a live theme.** The market focus will remain on the US trade policy (e.g. news on progress with the EU). The eco calendar again only contains second tier data. The US Treasury will sell \$58 bln of 3-y notes.

### News & Views

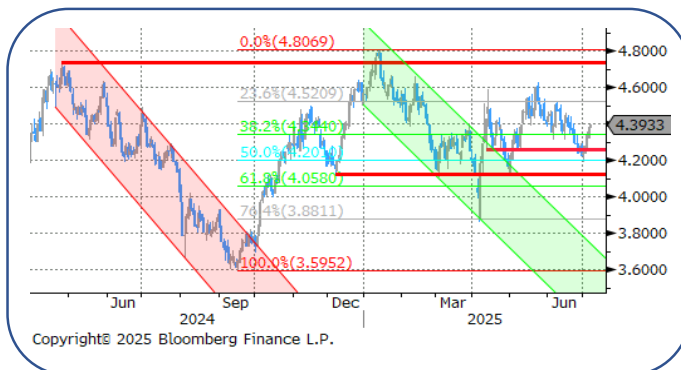
- The **Reserve Bank of Australia surprised by keeping the policy rate unchanged at 3.85% this morning.** Another cut to 3.6% was widely expected. The central bank said inflation broadly moved according to the May forecast but nevertheless spotted some upside surprises "at the margin". With rates now 50 bps lower than a few months ago and wider economic conditions evolving broadly as expected, **the RBA believes it can wait for a little more information (and therefore confirmation) that inflation is sustainably returning to the 2.5% target.** And while the outlook remains uncertain, especially regarding trade, the RBA sees private domestic demand recovering and household incomes picking up, in part thanks to a still-tight labour market. Australian swap rates jump more than 12 bps at the front end of the curve, allowing **AUD/USD to recover most of the losses incurred yesterday** and thereby preserving the upward sloping trend channel. The pair is currently trading around 0.654, up from 0.649 at the open.
- UK house prices again failed to grow in June, data from one of the country's biggest lenders showed.** After contracting by 0.3% in May, average housing prices were unchanged last month just shy of £300k. The numbers chime with last week's findings of the Nationwide Building Society that showed the biggest price drop since early 2023. The housing market struggles to recover amid buyers being hit by a rise in stamp duty in April. Sellers, meanwhile, are flocking to the market with the number the highest in a decade, data from Rightmove revealed, pressuring prices from the supply side.

## Graphs



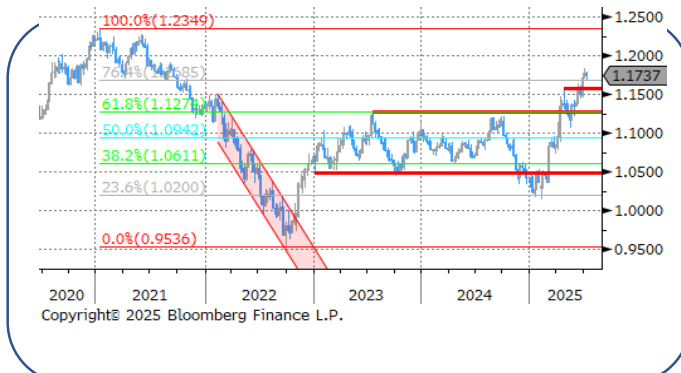
### GE 10y yield

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 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

Tuesday, 08 July		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Jun)	98.6	98.8
17:00	NY Fed 1-Yr Inflation Expectations (Jun)	3.13%	3.20%
21:00	Consumer Credit (May)	\$10.550b	\$17.873b
<b>Japan</b>			
1:50	Trade Balance BoP Basis (May)	-¥522.3bA	-¥32.8b
1:50	BoP Current Account Adjusted (May)	¥2818.1bA	¥2306.8b
1:50	Bank Lending Ex-Trusts YoY (Jun)	3.0%A	2.50%R
7:00	Eco Watchers Survey Current SA (Jun)	45	44.4
7:00	Eco Watchers Survey Outlook SA (Jun)	45.3	44.8
<b>Germany</b>			
8:00	Trade Balance SA (May)	15.5b	14.5bR
8:00	Exports/Imports SA MoM (May)	-0.50%/-1.70%	-1.70%/4.00%R
<b>France</b>			
8:45	Trade Balance (May)	--	-7968m
8:45	Current Account Balance (May)	--	-4.1b
<b>Australia</b>			
6:30	RBA Cash Rate Target	3.85%A	3.85%
<b>Hungary</b>			
8:30	CPI MoM/YoY (Jun)	0.20%/4.60%	0.20%/4.40%
<b>Events</b>			
16:00	ECB's Nagel Speaks in Frankfurt		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,38	0,03		US	3,89	0,01	DOW	44406,36	-422,17
DE	2,64	0,04		DE	1,84	0,02	NASDAQ	20412,52	-188,58
BE	3,20	0,04		BE	1,95	0,02	NIKKEI	39711,82	124,14
UK	4,59	0,03		UK	3,86	0,01	DAX	24073,67	286,22
JP	1,49	0,03		JP	0,74	0,00	DJ euro-50	5341,54	52,73
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	3,54	3,61	€STR	1,9200	0,0000			
5y	2,25	3,57	3,70	Euribor-1	1,8890	0,0150	SOFR-1	4,3375	0,0050
10y	2,60	3,83	4,05	Euribor-3	1,9440	-0,0350	SOFR-3	4,3307	0,0017
				Euribor-6	2,0160	-0,0100	SOFR-6	4,2162	0,0138
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1709	-0,0069		EUR/JPY	171,03	0,86	CRB	299,28	-0,65
USD/JPY	146,05	1,58		EUR/GBP	0,8608	-0,0023	Gold	3342,80	-0,10
GBP/USD	1,3602	-0,0048		EUR/CHF	0,9348	-0,0005	Brent	69,58	1,28
AUD/USD	0,6491	-0,0065		EUR/SEK	11,1649	-0,0975			
USD/CAD	1,3683	0,0082		EUR/NOK	11,8631	-0,0180			

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