



Wednesday, 09 July 2025

## KBC Sunrise Market Commentary

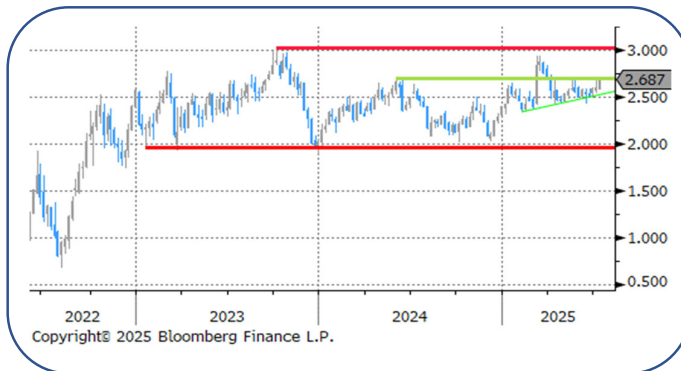
### Markets

- Markets headlines yesterday still were dominated by **the ongoing flurry of trade-war communication** as launched by US president Trump. Even so, in particular on interest rate markets, **global public debt sustainability** was at least as important as a market driver. The trigger again came from two 'market outsiders': **the UK and Japan**, with the impact spilling over globally. In the UK, **the publication by OBR of its yearly public risk and sustainability report** served as another illustration that the country has no fiscal headroom to address new shocks or take any policy initiatives. **In Japan**, political uncertainty in the run-up to the July 20 Upper House elections continues to nourish concerns on fiscal sustainability. In a steepening move, Japanese (+9 bp) and UK (+6.3 bps) 30-y bonds again underperformed. **The German yield curve followed this broader trend** (steepening, 2-y +3.5 bps, 30-y +5.4 bps). Interestingly, the US even after OBBB was less affected (yields changing less than 2 bps across the curve). As indicated, **the new avalanche of US trade (war) communication at first sight only has far less impact**. US president Trump indicated that he won't extend the tariff pause beyond August 1, threatened a 50% levy on copper imports and other sector tariffs, including a potential 200% levy on pharma imports. BRICS countries still risk an additional 10% levy. One might assume that, at some point, such measures should put upward pressure on US inflation and complicate planning by all economic agents. However, as was the case on Monday after announcing reciprocal tariffs, the impact on markets at the end of the day was modest. US equities finished little changed (S&P 500 -0.07%). **USD again gained modestly (DXY close 97.52, EUR/USD little changed at 1.1725)**. Sterling (slightly) underperformed (EUR/GBP 0.863). The yen remained under pressure both against the dollar (USD/JPY close 146.6) and the euro (EUR/JPY 171.9).
- Asian equity markets this morning are again **'meandering'**, mostly holding in positive territory. The multiple, often diffuse, trade headlines still leave little visibility to set up directional trades and this pattern might continue today. **A US-EU trade deal** is expected to be announced 'in the near future'. The FT this morning reports this framework might leave the EU with higher tariffs than those granted to the UK. **The eco calendar** is again extremely thin with the Minutes of the June Fed policy meeting the exception to the rule. With debt sustainability in focus, we also keep a close eye at a **\$39 bln US treasury action**, the first sale of LT US debt post OBBB and a precursor for tomorrow's 30-y sale. **On FX markets**, the dollar continues recent gradual rebound. However, in the likes of DXY or EUR/USD the technical picture hasn't changed in any profound way.

### News & Views

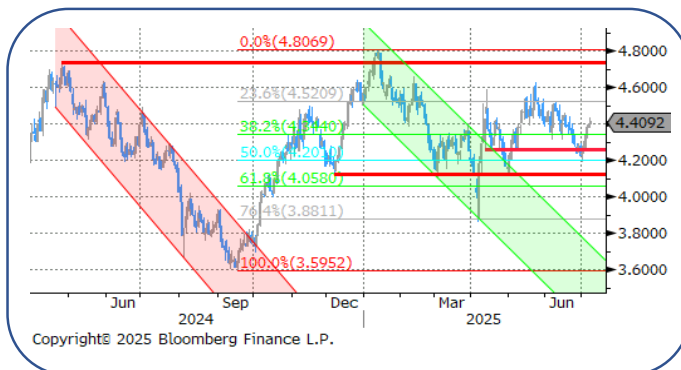
- The central bank of **New Zealand (Reserve Bank of New Zealand, RBNZ)** kept the policy rate unchanged at 3.25% in a move expected by both markets and analysts. **The case for another rate cut was considered**, mainly over near-term growth momentum and the risk of prolonged weakness in economic activity leading to downward pressure on medium-term inflation. In the end, though, **the benefits of waiting until August in light of near-term inflation risks outweighed**. Inflation is expected to rise further from the 2.5% in Q1 towards the top of the 1-3% target band before returning to around 2% by early 2026 on spare productive capacity. It also allows the RBNZ to observe developments (ie tariffs) in the global economy and whether domestic economic weakness persists. New Zealand money markets are discounting a two-in-three chance for the RBNZ to cut rates next month. **The kiwi dollar holds steady around USD/NZD 0.60**.
- Chinese consumer prices unexpectedly rose 0.1% year-over-year in June**. Consensus was expecting CPI to match May's -0.1%. Monthly prices fell for a second month straight, though, suggesting deflationary pressures are all but over. June printed -0.1% m/m following May's -0.2%. **Core inflation was flat on a monthly basis and edged up from 0.6% to 0.7% y/y**. Government subsidies for home appliance purchases helped CPI to return to positive territory but that's unlikely to be a lasting and in any case large driver. Services prices held at 0.5% y/y. Adding to evidence of still-strongly low (even negative) price pressures are the **June PPIs, which dropped into deeper negative area at -3.6% y/y, a near 2-year low**. The Chinese yuan trades a tad weaker around USD/CNY 7.18.

## Graphs



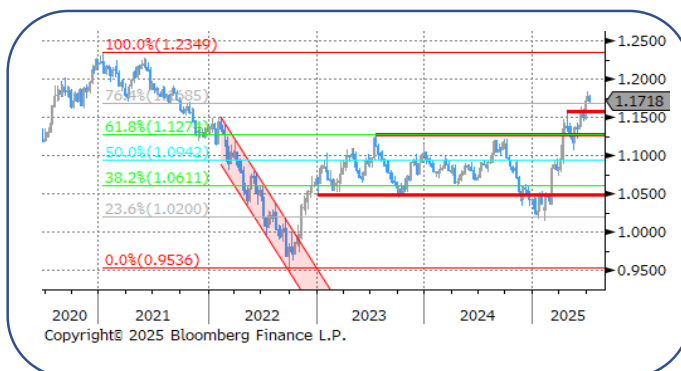
### GE 10y yield

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

Wednesday, 09 July		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	2.70%
16:00	Wholesale Trade Sales MoM (May)	0.20%	0.10%
20:00	FOMC Meeting Minutes		
<b>Japan</b>			
1:50	Money Stock M3 YoY (Jun)	0.40%A	0.20%
8:00	Machine Tool Orders YoY (Jun P)	--	3.40%
<b>China</b>			
3:30	PPI YoY (Jun)	-3.60%A	-3.30%
3:30	CPI YoY (Jun)	0.10%A	-0.10%
<b>New Zealand</b>			
4:00	RBNZ Official Cash Rate	3.25%A	3.25%
<b>Events</b>			
09JUL	US tariff pause ends		
13:00	ECB's Guindos Speaks in El Escorial		
14:15	ECB's Nagel Speaks		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,40	0,02		US	3,89	0,00	DOW	44240,76	-165,60
DE	2,69	0,04		DE	1,87	0,04	NASDAQ	20418,46	5,94
BE	3,23	0,04		BE	1,99	0,04	NIKKEI	39783,88	95,07
UK	4,63	0,05		UK	3,87	0,01	DAX	24206,91	133,24
JP	1,50	0,00		JP	0,76	0,02	DJ euro-50	5371,95	30,41
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	2,11	3,56	3,64	€STR	1,9200	0,0000			
5y	2,30	3,59	3,73	Euribor-1	1,9160	0,0270	SOFR-1	4,3440	0,0065
10y	2,64	3,85	4,10	Euribor-3	1,9480	0,0040	SOFR-3	4,3354	0,0047
				Euribor-6	2,0190	0,0030	SOFR-6	4,2177	0,0015
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1725	0,0016		EUR/JPY	171,86	0,83	CRB	302,29	3,01
USD/JPY	146,58	0,53		EUR/GBP	0,8627	0,0019	Gold	3316,90	-25,90
GBP/USD	1,3592	-0,0010		EUR/CHF	0,9333	-0,0015	Brent	70,15	0,57
AUD/USD	0,653	0,0039		EUR/SEK	11,1684	0,0035			
USD/CAD	1,366	-0,0023		EUR/NOK	11,8401	-0,0230			

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