



Monday, 14 July 2025

KBC Sunrise Market Commentary

Markets

- US Treasuries sold off in a steepening move last Friday as the US informed more countries on the reciprocal tariff rate that would apply to them unless they secured a trade deal by August 1st.** Mexico and Canada for example, which were exempt on Liberation Day, now face reciprocal charges of respectively 30% and 35%. US yields rose by 1.4 bps (2-yr) to 8 bps (30-yr) on a daily basis **with the 30-yr tenor (4.97% this morning) dangerously close to piercing the psychological 5% barrier.** The YtD high is situated at 5.15% and the short term direction of travel as stagflation vibes return. The market reaction to **tomorrow's US (June) inflation numbers** might be a point in case, especially should we see an upward surprise. **Friday's sell-off was limited to US Treasuries (bonds in general) and contrasted with the sell America trade seen earlier this year.** US stock markets corrected only 0.2%-0.6% while the trade-weighted dollar added slightly to this month's gentle recovery. We warn against reading too much into this as **(anti-US) sentiment could return quickly. Equity markets look more vulnerable than the US dollar** given rather dovish Fed-positioning, rising inflation risks and with currencies from US trading partners vulnerable to negative growth risks. Over the weekend, **the US also informed the EU** that the tariff level would be set at 30% (instead of the 20% announced early April). Negotiations between the two remain ongoing with the EU in a first reaction backing down from retaliation (which according to the US letter would be matched one-on-one on top of the 30% rate). Simultaneously, the EU is stepping up its efforts to side with other countries hit by US tariffs, looking to deepen trade agreements.
- Today's empty eco calendar puts the **spotlight on bear steepening trends in global bond markets.** The Japanese 30-yr bond yield for example adds 10 bps this morning, coming with 3 bps of the 3.2% YtD high. **Bonds and stock markets might sell-off in lockstep** given the short window of time before reciprocal tariffs kick in.

News & Views

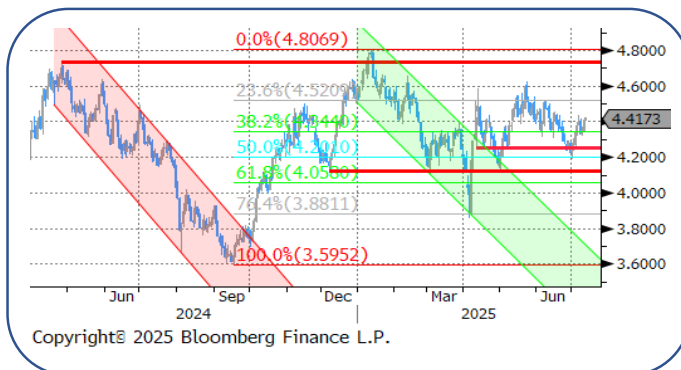
- Both rating agencies Fitch and S&P raised the credit rating of Bulgaria to BBB+ from BBB (stable outlook).** The rating upgrade comes after the ECOFIN council on July 8 **approved the country's application to adopt the euro on January 1st, 2026.** Amongst others, Fitch mentions it will strengthen the monetary policy framework, reduce transaction costs, eliminate exchange-rate risk to corporate and household balance sheets and open up additional external funding options. **Bulgarian banks will also have access to the ECB's liquidity facilities.** Bulgaria's ratings are supported by its **strong external and public finance balance sheets** versus 'BBB' peers. Even as Fitch sees the debt-to-GDP ratio increasing from 24.1% in 2024 to 34.7% in 2029, amongst others due to higher defense spending, it remains among the lowest in the BBB category. S&P also refers to the positive factors of policy support from joining the EU and removing residual FX risk, even as it admits that ECB policies likely align more with the cycles of larger members than Bulgaria.
- Uncertainty on the business outlook and budget constraints led UK companies to reduce their hiring activity again in June,** according to the KPMG and REC Jobs survey compiled by S&P. The survey of recruitment consultancies signals **an accelerated decline in hiring activity across the UK at the end of Q2.** Permanent placements dropped at the fastest pace in 22 months. Temporary billings decreased at the fastest pace since February on a reduced confidence on the outlook with **worries over higher costs.** Supply of labour expanded at the steepest pace since November 2020. On the demand side, the survey sees a steeper decline in overall vacancies, especially in permanent vacancies. **Lower demand for workers, tighter budgets and improvements in candidate supplies also have dampened wage growth.** The survey indicates starting salaries and temporary wages to have increased at a pace notably weaker than historical trends. However, analysis of REC and KPMG executives on the survey outcome overall sounds a bit more balanced in particular on the outlook, especially if the government would be able to deliver on clear commitments and provide transparency on its (Labor) policy.

Graphs



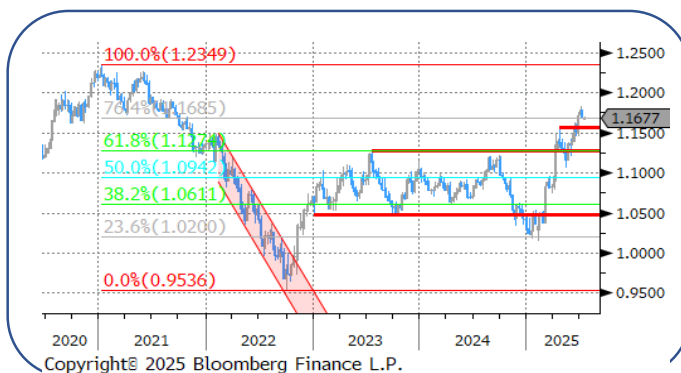
GE 10y yield

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.



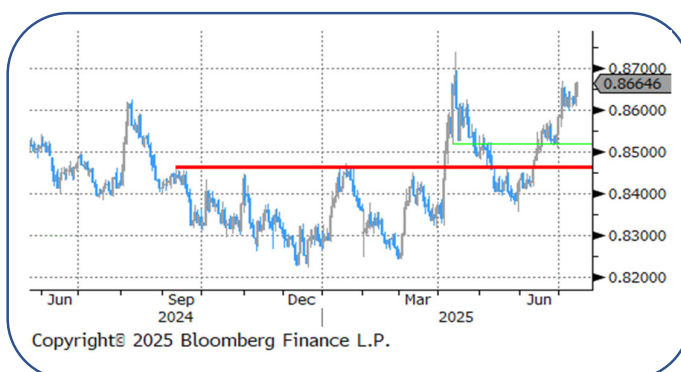
US 10y yield

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

Monday, 14 July		Consensus	Previous
Japan			
1:50	Core Machine Orders MoM/YoY (May)	-0.60%A/4.40%A	-9.10%/6.60%
6:30	Capacity Utilization MoM (May)	--	1.30%
6:30	Tertiary Industry Index MoM (May)	0.10%	0.30%
China			
4:00	Exports/Imports YoY (Jun)	5.80%A/1.10%A	4.80%/-3.40%
4:00	Trade Balance (Jun)	\$114.77bA	\$103.22b
Events			
9:30	ECB's Vujcic Speaks in Zagreb		
1:01	S&P Global, KPMG and REC UK Report on Jobs		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.41	0.06		US	3.89	0.01	DOW	44371.51	-279.13
DE	2.73	0.02		DE	1.90	0.01	NASDAQ	20585.53	-45.13
BE	3.27	0.02		BE	2.02	0.01	NIKKEI	39491.94	-77.74
UK	4.62	0.03		UK	3.86	0.00	DAX	24255.31	-201.50
JP	1.58	0.05		JP	0.78	0.01	DJ euro-50	5383.48	-54.79
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	2.15	3.55	3.64	€STR	1.9230	0.0020			
5y	2.33	3.58	3.74	Euribor-1	1.9130	-0.0130	SOFR-1	4.3358	-0.0023
10y	2.68	3.85	4.10	Euribor-3	2.0260	0.0250	SOFR-3	4.3192	-0.0002
				Euribor-6	2.0720	0.0020	SOFR-6	4.2005	0.0054
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1689	-0.0012		EUR/JPY	172.3	1.16	CRB	303.52	3.15
USD/JPY	147.43	1.17		EUR/GBP	0.8664	0.0048	Gold	3364.00	38.30
GBP/USD	1.3493	-0.0086		EUR/CHF	0.9314	-0.0011	Brent	70.36	1.72
AUD/USD	0.6578	-0.0010		EUR/SEK	11.1766	0.0609			
USD/CAD	1.3692	0.0037		EUR/NOK	11.8439	0.0544			

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