



Tuesday, 15 July 2025

## KBC Sunrise Market Commentary

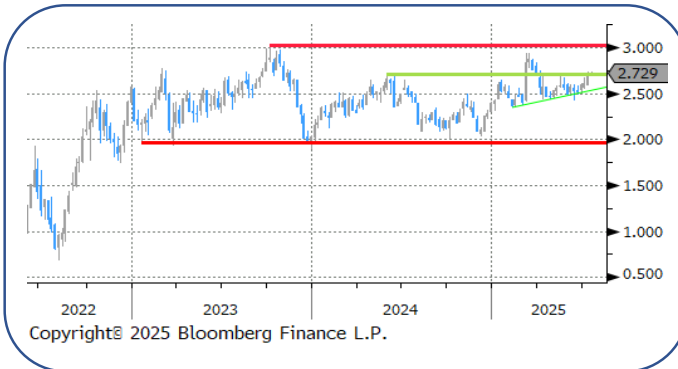
### Markets

- The US 30-yr yield was a whisker away from touching the psychological 5% mark yesterday as Friday's tariff-driven sell-off in US Treasuries slowed. Still the US yield curve showed some gentle bear steepening with daily yield changes ranging between +1.4 bps (2-yr) and +2.8 bps (30-yr). The jury is still out with **June US CPI inflation numbers up for release today**. It's the first of three "Summer" prints ahead of the September FOMC meeting which Fed Chair Powell referred to as **key in determining the impact of US tariffs on price levels (higher or lower) and the Fed's reaction function (cutting sooner rather than later)**. Consensus expects both headline and core CPI to accelerate to 0.3% M/M (2.6% Y/Y & 2.9% Y/Y respectively). Energy and food prices are expected to contribute positively, but **attention will center on the pace of goods price inflation** (clothing, furniture, toys, cars,...) as more and more firms hinted at passing through costs to consumers after initially shielding them by running down inventories or lowering margins. From a market point of view, **anything in line or below market consensus will be seen as evidence of a subdued impact from tariffs**, tipping the balance on the US money market further in the direction of a September Fed rate cut (currently 60% discounted). It can pull the US 2-yr yield back from 3.9% currently to this month's low around 3.75% and halt the modest comeback of the dollar we've witnessed over the past couple of trading sessions. **An upward beat can start moving the market needle to a first rate cut in December** (currently almost two discounted) and push the front end of the curve back towards 4%, giving the dollar some additional backing. We expect the impact at the long end of the (US) yield curve to be bigger in the second (upside) scenario than in the first one given the lingering trade war and the structural deterioration in public finances stemming from Trump's big beautiful bill. Both the Japanese 10-yr and 30-yr yield this morning tested the YtD high at respectively 1.6% and 3.2%.
- Apart from US inflation numbers, we keep an eye at **Bank of England governor Bailey's Mansion House Speech** tonight after market close. Previous BoE governors used that annual occasion in the past to announce a change of course. **Bailey recently warned about signs of slack in the economy and a weakening labour market and tied that in a weekend interview with potential action by the BoE (switching to larger rate cuts)**. UK Gilts yesterday outperformed, especially at the front end of the curve, pulling sterling down. EUR/GBP is close to recording 0.87+ levels for only the second session since end 2023. **The YtD top at 0.8738 and is a first target.**

### News & Views

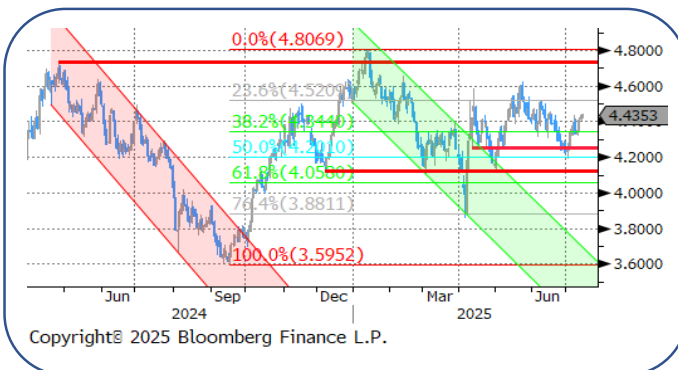
- The **Chinese economy grew by 1.1% Q/Q and 5.2% Y/Y** in the second quarter, from 1.2% Q/Q and 5.4% Y/Y in Q1 and slightly beating consensus estimates. YTD growth was reported at 5.3% compared to the same period last year. The monthly data published for **June** indicated **better than expected production growth** at 6.8% Y/Y (6.3% YTD) suggesting **a still solid supply-side performance**. At the same time, **retail sales growth was weaker than expected** at 4.8% Y/Y (5% YTD). **Fixed asset investment slowed to 2.8%Y/Y from 3.8%**. Property investment was 11.2% lower than in the same month last year. **The external sector contributed positively to growth as exports rose 7.2% YTD, while imports declined 2.7%**. The surveyed jobless rate remained unchanged at 5%. The data confirm **the ongoing discrepancy between a solid/decent production & export-driven growth and lagging domestic demand in a context of deflation**. In this respect new home prices declined by 0.27% M/M and 3.69% Y/Y. As trade tensions are likely to put pressure on exports going forward, the data support the case for further (targeted) stimulus of domestic demand. The yuan eases slightly this morning (USD/CNY 7.175).
- The **Czech Finance Minister** yesterday gave a first assessment on the **potential impact of the 30% tariff on EU imports by the US on Czech growth**. Such a scenario **might reduce this year's growth by 0.4% from August and by 1.1 ppts in 2026, bringing growth at respectively 1.6% and 1.3%**. Finance Minister Stanjura admitted that exports to the US only account for less than 3% of total exports, but the Czech economy will also be hit indirectly as its economy delivers components and other goods to EU trading partners.

## Graphs



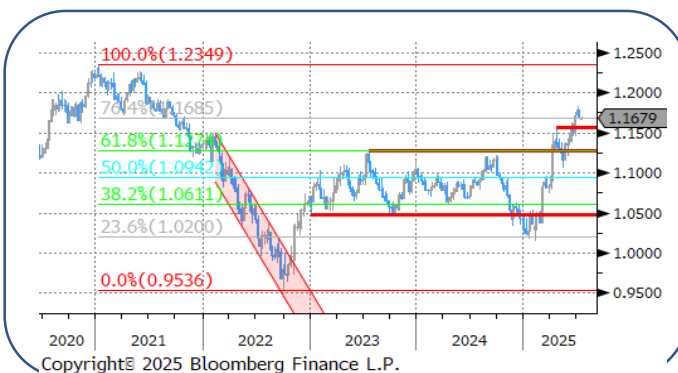
### GE 10y yield

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 with BoE Bailey readying firmer action.** Sterling suffered a new setback, heading for only the second EUR/GBP 0.87+ levels since end 2023.

# Calendar & Table

Tuesday, 15 July		Consensus	Previous
<b>US</b>			
14:30	Real Avg Weekly Earnings YoY (Jun)	--	1.40%R
14:30	Empire Manufacturing (Jul)	-9.2	-16
14:30	<b>CPI MoM/YoY (Jun)</b>	<b>0.30%/2.60%</b>	<b>0.10%/2.40%</b>
14:30	CPI Ex Food and Energy MoM/YoY (Jun)	0.30%/2.90%	0.10%/2..80%
14:30	Real Avg Hourly Earning YoY (Jun)	--	1.40%
<b>Canada</b>			
14:30	<b>CPI NSA MoM/YoY (Jun)</b>	<b>0.10%/1.90%</b>	<b>0.60%/1.70%</b>
14:30	Median YoY% (Jun)	3.00%	3.00%
14:30	Trim YoY% (Jun)	3.00%	3.00%
<b>UK</b>			
1:01	BRC Sales Like-For-Like YoY (Jun)	2.70%A	0.60%
<b>EMU</b>			
11:00	ZEW Survey Expectations (Jul)	--	35.3
11:00	Industrial Production SA MoM/WDA YoY (May)	1.00%/2.20%	-2.40%/0.80%
<b>Germany</b>			
11:00	ZEW Survey Expectations (Jul)	50.4	47.5
11:00	ZEW Survey Current Situation (Jul)	-66.0	-72
<b>China</b>			
3:30	New Home Prices MoM (Jun)	-0.27%A	-0.22%
3:30	Used Home Prices MoM (Jun)	-0.61%A	-0.50%
4:00	GDP YTD YoY (2Q)	5.30%A	5.40%
4:00	<b>GDP SA QoQ/YoY (2Q)</b>	<b>1.10%A/5.20%A</b>	<b>1.20%/5.40%</b>
4:00	<b>Retail Sales YTD YoY/YoY (Jun)</b>	<b>5.00%A/4.80%A</b>	<b>5.00%/6.40%</b>
4:00	<b>Industrial Production YTD YoY/YoY (Jun)</b>	<b>6.40%A/6.80%A</b>	<b>6.30%/5.80%</b>
4:00	Fixed Assets Ex Rural YTD YoY (Jun)	2.80%A	3.70%
4:00	Surveyed Jobless Rate (Jun)	5.00%A	5.00%
4:00	Property Investment YTD YoY (Jun)	-11.20%A	-10.70%
4:00	Residential Property Sales YTD YoY (Jun)	-5.20%A	-2.80%
<b>Events</b>			
8:45	Fed's Collins will deliver closing keynote at NABE event		
11:30	Germany to Sell EU5 Billion of 2027 Bonds		
20:45	Fed's Collins Gives Keynote Remarks		
22:00	<b>BOE's Bailey Delivers Mansion House Speech</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.43	0.02		US	3.90	0.01	DOW	44459.65	88.14
DE	2.73	0.00		DE	1.88	-0.02	NASDAQ	20640.33	54.80
BE	3.28	0.01		BE	2.00	-0.02	NIKKEI	39591.32	131.70
UK	4.60	-0.02		UK	3.81	-0.04	DAX	24160.64	-94.67
JP	1.59	0.00		JP	0.79	0.00	DJ euro-50	5370.85	-12.63
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.14	3.57	3.61	€STR	1.9230	0.0000			
5y	2.33	3.60	3.70	Euribor-1	1.8740	-0.0390	SOFR-1	4.3420	0.0062
10y	2.70	3.88	4.08	Euribor-3	2.0410	0.0150	SOFR-3	4.3267	0.0075
				Euribor-6	2.0870	0.0150	SOFR-6	4.2111	0.0106
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1664	-0.0025		EUR/JPY	172.32	0.02	CRB	303.39	-0.13
USD/JPY	147.72	0.29		EUR/GBP	0.8688	0.0023	Gold	3359.10	-4.90
GBP/USD	1.3427	-0.0066		EUR/CHF	0.9308	-0.0006	Brent	69.21	-1.15
AUD/USD	0.6545	-0.0033		EUR/SEK	11.2195	0.0429			
USD/CAD	1.3705	0.0013		EUR/NOK	11.8405	-0.0034			

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