



Wednesday, 16 July 2025

## KBC Sunrise Market Commentary

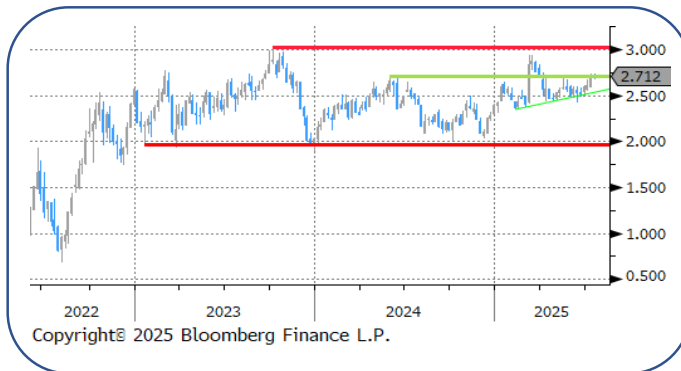
### Markets

- The devil of yesterday's June US CPI inflation report was in the details.** Headline and core CPI rose by 0.3% M/M and 0.2% M/M respectively to be up 2.7% Y/Y (from 2.4%) and 2.9% Y/Y (from 2.8%) respectively. Those outcomes were almost bang in line with consensus estimates, explaining the initial attempt to rally by US Treasuries. Details showed a relatively small increase in shelter prices (0.2% M/M) which carry the biggest weight in CPI calculations and play a less dominant role in PCE deflators to be published at the end of the month. Several goods categories like household furnishings, video and audio products and toy prices recorded monthly price rises ranging between +1% and +1.8% and **do suggest some early pass-through of tariffs**. Bearing in mind that **the overall tariff level will rise after the August 1 deadline**, it made investors rethink the Pavlov-reaction after the CPI report made initial headlines. **Daily changes on the US yield curve ranged between +4.1 bps and +5.5 bps with the belly of the curve underperforming the wings.** The US 30-yr yield closed **above the psychological 5% mark** for only the third time since the autumn of 2023. Technical resistance stands at 5.15% (YtD high) and 5.18% (2023 top) respectively. **An (uncontrolled) sell-off in (core) bonds with very long tenors poses a significant threat to overall market stability especially once trading volumes thin early August.** The implied Fed rate path for this year didn't change that much, suggesting that the move was driven by a combination of higher inflation expectations and a higher Fed terminal rate. **Dallas Fed president Logan** overnight presented a base case in which monetary policy needs to hold tight for a while longer to bring inflation sustainably back to target. During this period, she believes that maximum employment can be sustained even with a modestly restrictive policy. Logan is ready to adapt her view fairly soon if a combination of softer inflation and a weakening labour market calls for it. **Yesterday's move in US Treasuries helped the dollar's bottoming out process in FX space.** EUR/USD closed at 1.1601 from a start at 1.1664. The trade-weighted greenback (DXY) rallied from 98.12 to 98.62 with the June high (99.47) being first resistance.
- US president Trump overnight suggested that **sectoral tariffs on pharmaceuticals and on semiconductors will likely be imposed as soon as the end of the month**. He suggested a timeline which starts with a low tariff, given companies a year or so to react/move to the US before making it a very high tariff (for pharma; 200%?!). These sectoral levies will **hurt European risk sentiment at the onset of trading**. US producer price inflation are on tap this afternoon and **risks adding to yesterday's sell-off in US Treasuries**. **UK June inflation** this morning rose more than expected for headline (3.6% Y/Y), core (3.7% Y/Y) and services inflation (4.7% Y/Y). Sterling in a first reaction fails to really profit in light of the recent repositioning on rather dovish comments by BoE governor Bailey (slack opening up in economy, labour market weakening, potential impact on BoE's reaction function).

### News & Views

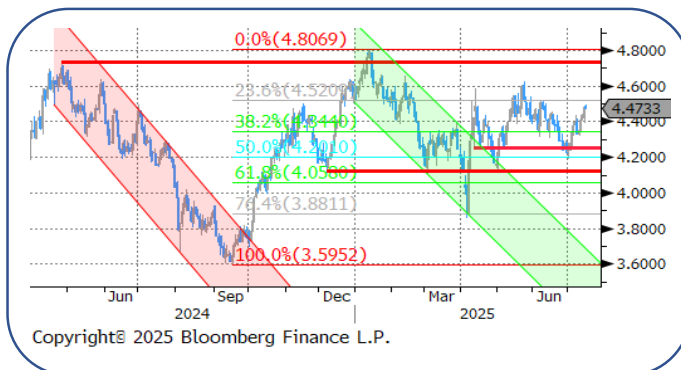
- In an appearance before European Parliament, Claudia Buch, **head of the ECB's Supervisory Board**, indicated that the **next ECB stress test will check the resilience of bank's solvency for geopolitical risk scenarios**. *"In the 2026 thematic stress test exercise, we will follow up on this year's stress test by asking banks to assess which firm-specific geopolitical risk scenarios could severely impact their solvency"*. The ECB holds a so-called thematic stress tests every other year. **The previous thematic test in 2024 was on cyber security**. The exercise will come in the form of a so-called **reverse stress test**. In this procedure regulators will determine a specific outcome for the level of banks' solvency, and then ask them to put in place scenario's that might lead to hitting these levels.
- US President Trump announced that the US reached a trade agreement with Indonesia**. In this agreement, the US will impose **a 19% tariff on imports from the country**. The country earlier was **threatened with a 32% levy from August 1<sup>st</sup>** in one of the letters Trump sent to trading partners. In this respect Indonesia is the first country that succeeded to reduce the letter tariff with a trade agreement. According to the US President, **Indonesia will erase all duties on Indonesian imports**. Trump also said the country **agreed to buy \$19bn of US goods**, including \$15bn of US energy products and \$4.5bn of US agricultural products. The country also **committed to buying 50 Boeing jets**. **Trump suggested that another two or three trade deals would be made by the August 1<sup>st</sup> deadline, with India apparently in pole-position**.

## Graphs



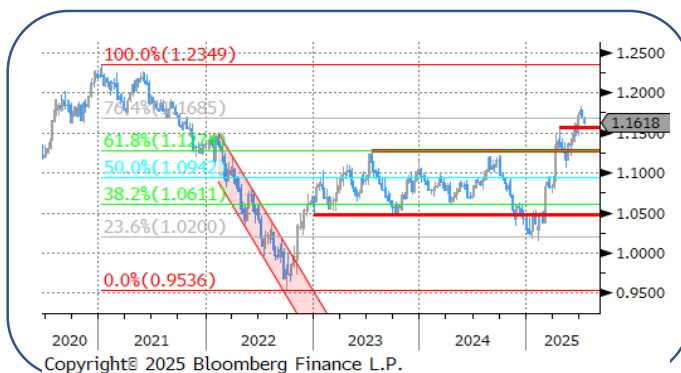
### GE 10y yield

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.



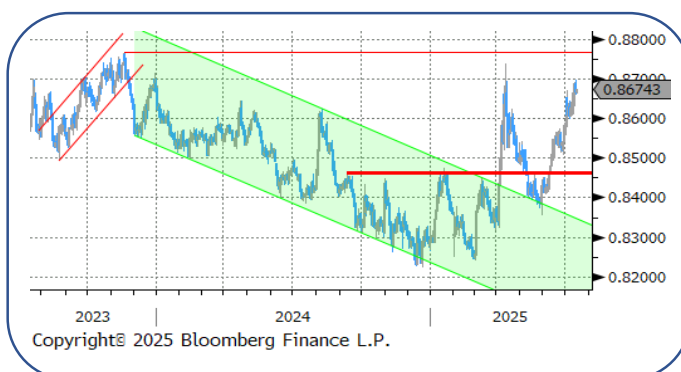
### US 10y yield

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, 16 July		Consensus	Previous
<b>US</b>			
14:30	PPI Final Demand MoM/YoY (Jun)	0.20%/2.50%	0.10%/2.60%
14:30	PPI Ex Food and Energy MoM/YoY (Jun)	0.20%/2.70%	0.10%/3.00%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Jun)	0.20%/--	0.10%/2.70%
14:30	New York Fed Services Business Activity (Jul)	--	-13.2
15:15	Industrial Production MoM (Jun)	0.10%	-0.20%
15:15	Capacity Utilization (Jun)	77.40%	77.40%
15:15	Manufacturing (SIC) Production (Jun)	0.00%	0.10%
<b>UK</b>			
10:30	House Price Index YoY (May)	3.50%	3.50%
8:00	<b>CPI MoM/YoY (Jun)</b>	<b>0.10%/3.40%</b>	<b>0.20%/3.40%</b>
8:00	CPI Core YoY (Jun)	3.50%	3.50%
8:00	CPI Services YoY (Jun)	4.50%	4.70%
8:00	RPI MoM/YoY (Jun)	0.30%/4.30%	0.20%/4.30%
<b>EMU</b>			
11:00	Trade Balance SA (May)	14.0b	14.0b
<b>Poland</b>			
14:00	CPI Core MoM/YoY (Jun)	0.30%/3.40%	-0.10%/3.30%
<b>Events</b>			
1:45	Fed's Logan Speaks on the Economy		
10:00	ECB's Villeroy Speaks in Paris		
11:30	Germany to Sell EUR 2B of 30-year Bonds		
15:15	Fed's Hammack Speaks on Community Development		
20:00	<b>Fed Releases Beige Book</b>		
23:30	<b>Fed's Williams Speaks on Economic Outlook, Policy</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.48	0.05		US	3.94	0.04	DOW	44023.29	-436.36
DE	2.71	-0.02		DE	1.89	0.01	NASDAQ	20677.8	37.47
BE	3.26	-0.02		BE	1.98	-0.01	NIKKEI	39708.68	30.66
UK	4.63	0.03		UK	3.84	0.02	DAX	24060.29	-100.35
JP	1.57	-0.01		JP	0.79	0.00	DJ euro-50	5354.17	-16.68
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.13	3.61	3.64	€STR	1.9220	-0.0010			
5y	2.32	3.65	3.74	Euribor-1	1.8460	-0.0280	SOFR-1	4.3485	0.0065
10y	2.68	3.92	4.11	Euribor-3	2.0420	0.0010	SOFR-3	4.3373	0.0106
				Euribor-6	2.0790	-0.0080	SOFR-6	4.2290	0.0179
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1601	-0.0063		EUR/JPY	172.71	0.39	CRB	302.70	-0.69
USD/JPY	148.88	1.16		EUR/GBP	0.8668	-0.0019	Gold	3336.70	-22.40
GBP/USD	1.3384	-0.0043		EUR/CHF	0.9300	-0.0008	Brent	68.71	-0.50
AUD/USD	0.6514	-0.0031		EUR/SEK	11.2835	0.0640			
USD/CAD	1.3724	0.0019		EUR/NOK	11.9032	0.0627			

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