



Thursday, 17 July 2025

## KBC Sunrise Market Commentary

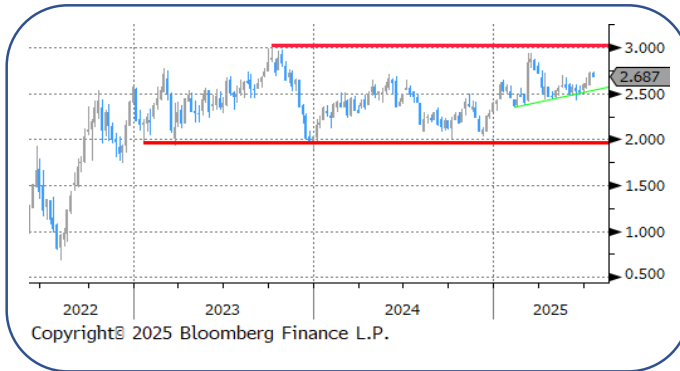
### Markets

- US President Trump sorted the problem of a dull eco calendar yesterday. **Fed Chair Powell is the thorn in the US President's side.** And while he still claims it will be unlikely to fire Powell, he **doesn't rule anything out.** Earlier court rulings clearly state that **you can't fire the Fed chair over a policy dispute** – Trump is a long term advocate of lower policy rates – **but you can do it for cause.** One route president Trump seems to be exploring is **mismanaging building costs in the renovation process of the Fed's headquarters** in Washington DC. This developing story adds to the ongoing rumours of **a rapid confirmation process of Powell's successor, ie the idea of a Shadow Fed Chair.** Markets remain sensitive to Trump's attempt to undermine the US central bank's independence (and credibility). **The louder he screams to lower short term interest rates, the more he risks driving up long term interest rates.** The US 30-yr yield closed above 5% for a second consecutive session with a test of the 5.15% YtD top and the 5.18% 2023 top the likely way to go. **US stock markets and the dollar traded volatile intraday** on rumours about firing Powell soon which were later than denied. The S&P 500 lost almost 1% intraday, only to close 0.32% higher. EUR/USD spiked from levels just above 1.1560 to above 1.17, before finding a closing equilibrium near 1.1640. Throughout all the fuzz, a very large majority of Fed governors are backing Powell's stance on (stable) interest rates in light of upside inflation risks. **NY Fed Williams** sees tariffs adding about one percentage point to inflation through H2 2025 and into 2026 with a weaker dollar adding somewhat to price pressures. **"Maintaining this modestly restrictive stance of monetary policy is therefore entirely appropriate."**
- Today's eco calendar contains **US retail sales, weekly jobless claims and Philly Fed business outlook.** We don't expect a lasting market impact following the decent early July US labour market data and this week's sticky inflation numbers. **Risks around the Fed chair story are asymmetric** with any steps towards ousting Powell being a potential fire starter for US asset sales. UK labour market data this morning suggest that **the BoE will stick with it's gradual and careful cutting guidance when it lowers interest rates by another 25 bps at its early August policy meeting.** Sterling might get some temporary reprieve after approaching the EUR/GBP 0.87 handle a second time yesterday. We err on the side of offloading any GBP exposure in case of short-term GBP-rally's.

### News & Views

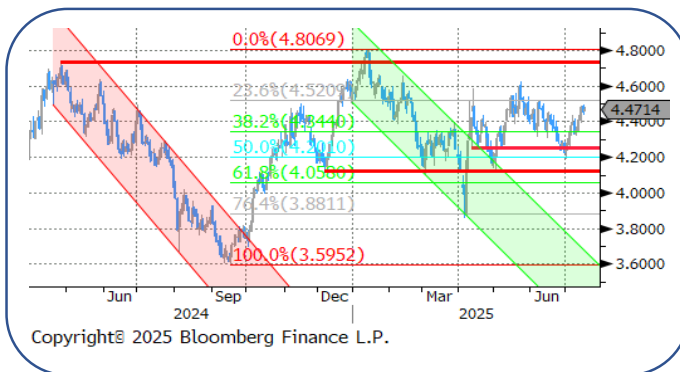
- Australian labour market data surprised negatively for the second consecutive month.** Employment grew a meager 2k in June after the 1.1k contraction in May. Full time employment declined by 38.2k. This was 'compensated' for with a 40.2k rebound in part time employment. **The unemployment rate jumped from 4.1% to 4.3% (highest since Nov 2021)** as the number of unemployed people rose by 34k. Hours worked declined 0.9% in June, but following a 1.4% rise in May. The participation rate rose marginally from 67% to 67.1%. The Reserve Bank of Australia at the July 8 meeting left its policy rate unchanged at 3.85%, while the majority in the market expected a 25 bps cut. At the time, the RBA indicated that economic data were largely in line with its May forecast with inflation marginally higher. The RBA assessed the labour market as being tight. It indicated that wage growth was softening from its peak but productivity growth not picking up and growth in unit labour costs remaining high. In this uncertain context the RBA concluded that it could wait a little longer to see whether inflation returns to 2.5%. **The central bank now might gradually give more weight to labour weakness.** Key quarterly inflation data will be published on July 30. Markets fully discount a 25 bps cut at the August 12 meeting. The 3-y bond yields drops 8.8 bps to 3.42%. AUD/USD is falling below the 0.65 mark (from 0.653).
- The European commission yesterday proposed its new budget** (Multiannual Financial Framework) **for the 2028-2034 period.** It consists of **almost €2tn**, or 1.26% of the average EU gross national income between 2028 and 2034 (1.13% in the previous budget). **The majority of the funding comes from EU members states**, but the commission also puts in place several **new sources** to fund the budget. Major priorities in the budget are **supporting European competitiveness, prosperity and security.** The budget also includes **€100bn funding for Ukraine.** Funding for agriculture will be reduced. Several countries already objected parts of the proposal. Yesterday's proposal **kickstarts an lengthy process of negotiations** that ultimately will have to be agreed upon by EU members states (unanimously) by end 2027.

## Graphs



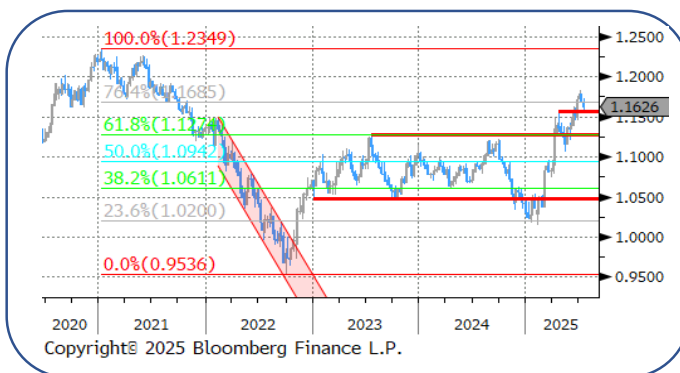
### GE 10y yield

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.



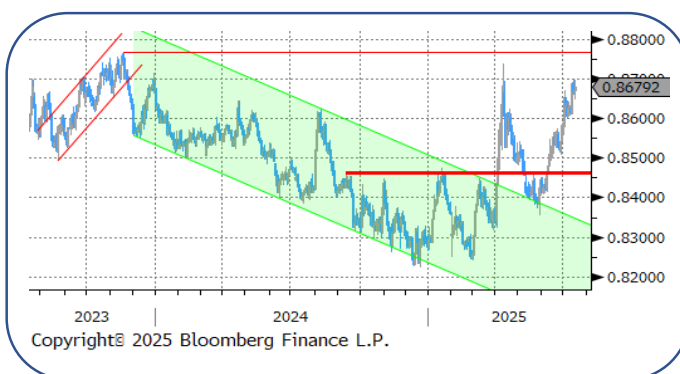
### US 10y yield

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

Thursday, 17 July		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (Jun)	0.10%	-0.90%
14:30	Retail Sales Ex Auto and Gas MoM (Jun)	0.30%	-0.10%
14:30	Retail Sales Ex Auto MoM (Jun)	0.30%	-0.30%
14:30	Retail Sales Control Group MoM (Jun)	0.30%	0.40%
14:30	Initial Jobless Claims	233k	227k
14:30	Continuing Claims	1965k	1965k
14:30	Philadelphia Fed Business Outlook (Jul)	-1	-4
16:00	Business Inventories (May)	0.00%	0.00%
16:00	NAHB Housing Market Index (Jul)	33	32
22:00	Net Long-term TIC Flows (May)	--	-\$7.8b
<b>Japan</b>			
1:50	Trade Balance Adjusted (Jun)	-¥235.5bA	-¥291.6bR
1:50	Exports YoY (Jun)	-0.50%A	-1.70%
1:50	Imports YoY (Jun)	0.20%A	-7.70%
<b>UK</b>			
8:00	Average Weekly Earnings 3M/YoY (May)	5.00%	5.30%
8:00	Weekly Earnings ex Bonus 3M/YoY (May)	4.90%	5.20%
8:00	Private Earnings ex Bonus 3M/YoY (May)	4.80%	5.10%
8:00	ILO Unemployment Rate 3Mths (May)	4.60%	4.60%
8:00	Employment Change 3M/3M (May)	46k	89k
8:00	Payrolled Employees Monthly Change (Jun)	-35k	-109k
8:00	Claimant Count Rate (Jun)	--	4.50%
8:00	Jobless Claims Change (Jun)	--	33.1k
<b>EMU</b>			
11:00	CPI MoM/YoY (Jun F)	0.30%/2.00%	0.30%/2.00%
11:00	CPI Core YoY (Jun F)	2..30%	2.30%
<b>Events</b>			
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.46	-0.03		US	3.89	-0.05	DOW	44254.78	231.49
DE	2.69	-0.03		DE	1.86	-0.03	NASDAQ	20730.49	52.69
BE	3.23	-0.03		BE	1.96	-0.03	NIKKEI	39765.78	102.38
UK	4.64	0.01		UK	3.86	0.02	DAX	24009.38	-50.91
JP	1.56	-0.02		JP	0.79	-0.01	DJ euro-50	5298.07	-56.10
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.09	3.56	3.65	€STR	1.9230	0.0010			
5y	2.29	3.61	3.75	Euribor-1	1.8810	0.0350	SOFR-1	4.3451	-0.0034
10y	2.66	3.90	4.12	Euribor-3	2.0210	-0.0210	SOFR-3	4.3309	-0.0064
				Euribor-6	2.0690	-0.0100	SOFR-6	4.2177	-0.0113
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1641	0.0040		EUR/JPY	172.09	-0.62	CRB	303.15	0.45
USD/JPY	147.88	-1.00		EUR/GBP	0.8672	0.0004	Gold	3359.10	22.40
GBP/USD	1.3422	0.0038		EUR/CHF	0.9322	0.0022	Brent	68.52	-0.19
AUD/USD	0.6528	0.0014		EUR/SEK	11.3059	0.0224			
USD/CAD	1.3683	-0.0041		EUR/NOK	11.9284	0.0252			

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