

Sunrise



Friday, 18 July 2025

KBC Sunrise Market Commentary

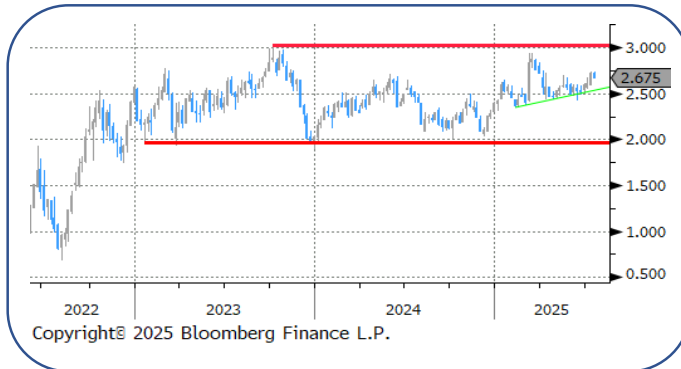
Markets

- The latest batch of US eco data and the absence of destabilizing headlines from the US president helped the S&P 500 (+0.54%) and Nasdaq (+0.75%) to new all-time closing highs.** The dollar extended the July comeback with the trade-weighted dollar (DXY) ending the day 98.73 from 98.35. **The greenback managed to record daily gains on all but one trading day so far this month, but we must add that the cumulative increase remains limited so far to only 1.7%** which compares with a >10% loss in H1 2025. EUR/USD closed at 1.1596 from a start at 1.1641. First technical support only arrives around 1.1461/31 (mid-June low & 24% retracement on this year's rally). Daily changes on the US yield curve were limited between +1.2 bps (2-yr) and -0.4 bps (30-yr). This hides **intraday volatility around the release of solid (and consensus-beating) June US retail sales** (+0.6% M/M headline; +0.5% M/M control group), **lower-than-expected weekly jobless claims** (221k from 228k) **and a surge in July Philly Fed business outlook to the best level since February.** New orders, shipments and employment all moved back into expansion territory, but price pressures increased as well (expected prices paid highest since January 2022). US Treasuries initially sold off on the data, but the move didn't went far.
- Dovish comments by Fed governor Waller grab attention this morning.** They gently lift US Treasuries while weighing somewhat on the dollar. He repeats his call that it would make sense to lower the policy rate by 25 bps as soon as this month's FOMC meeting. *"With inflation near target and the upside risks to inflation limited, we should not wait until the labor market deteriorates before we cut the policy rate. The economy is still growing, but its momentum has slowed significantly and the risks to the FOMC's employment mandate have increased."* Waller expects growth to remain soft for the rest of 2025. **Together with Fed Bowman, Waller is the only one to back a July rate cut** with the vast majority of the FOMC supporting Powell's view to assess the summer inflation prints before drawing firm conclusions on the inflationary impact of Trump's protectionist trade policy. **SF Fed Daly** nevertheless warned that you can't wait forever (with making monetary policy less restrictive), because if you wait until inflation is 2% you risk injuring the economy in a way that was completely unnecessary. Daly still sees a path to two (25 bps) rate cuts this year. **Recent Fed comments suggest that the September FOMC meeting might be a confrontational one between doves and hawks.** Today's US eco calendar contains housing data and July consumer confidence from the University of Michigan survey. Markets will be looking for more moderation in 1y (5% in June) and 5-10y (4%) inflation expectations. **Overall, we expect this week's trends on major markets to persist (friendly risk sentiment; breathing space for USD; truce in long term core bonds).**

News & Views

- National Japanese inflation excluding volatile fresh food prices, slowed in June to 0.1% M/M and 3.3% Y/Y from 0.5% M/M and 3.7% Y/Y in May.** A measure excluding fresh food and energy prices, rose further by 0.4% M/M and 3.4% Y/Y from 3.3% in May. Both indices hold well above the Bank of Japan's 2% target. A decline in energy/utility prices was behind the decline in core inflation. **Services inflation accelerated to 0.3% M/M and 1.5% from (1.4%).** Goods price inflation slowed to -0.1% M/M and 4.8% Y/Y (from 5.3%). A rise in underlying, cost-driven prices **keeps the debate open on the timing of further BoJ policy normalization** even as the potential negative impact of trade tensions recently put the central bank in a wait-and-see modus. Markets are very cautious in discounting further policy tightening (60% probability of 25 bps rate hike by year-end). The yen this morning underperforms but this probably mirrors **investor caution going into this weekend's Upper House elections.** (USD/JPY 148.75).
- Reuters reports that the Bank of England asked some lenders to test their resilience to potential US dollar shocks.** The central bank was said to have requested that some lenders assess their dollar funding plans and the degree to which they depend on the US currency, including for short term needs. Amongst others, a bank reportedly was asked to run internal stress tests **including scenarios where the USD swap market could dry up entirely.** In the background the question swirls **whether entities outside the US still can rely on Fed USD swap facilities in case of a shortage of US liquidity.**

Graphs



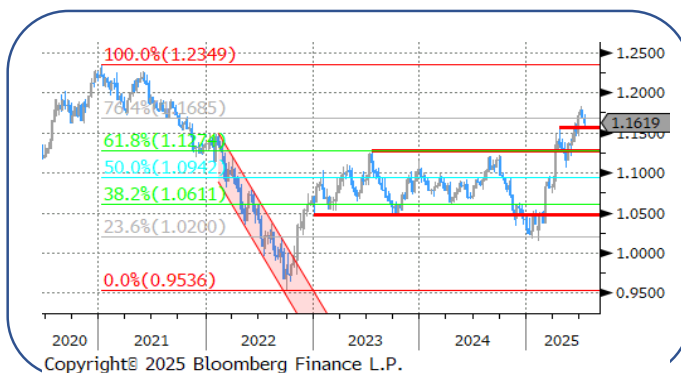
GE 10y yield

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.



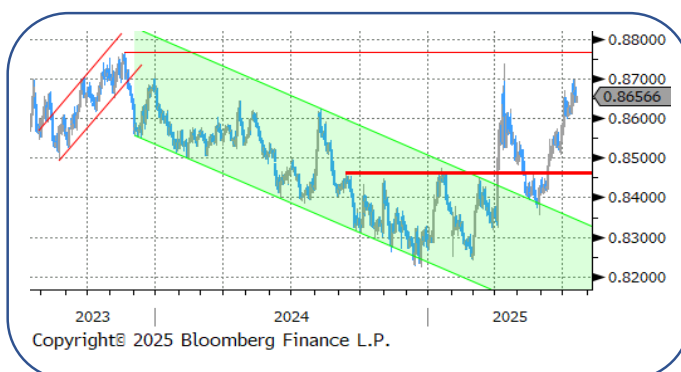
US 10y yield

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

Friday, 18 July		Consensus	Previous
US			
14:30	Housing Starts Total/MoM (Jun)	1300k/3.50%	1256k/-9.80%
14:30	Building Permits Total/MoM (Jun P)	1387k/-0.50%	1394k/-2.00%
16:00	U. of Mich. Sentiment (Jul P)	61.5	60.7
16:00	U. of Mich. Current Conditions (Jul P)	63.9	64.8
16:00	U. of Mich. Expectations (Jul P)	56.9	58.1
16:00	U. of Mich. 1 Yr Inflation (Jul P)	5.00%	5.00%
16:00	U. of Mich. 5-10 Yr Inflation (Jul P)	3.90%	4.00%
Japan			
1:30	Natl CPI YoY (Jun)	3.30%A	3.50%
1:30	Natl CPI Ex Fresh Food YoY (Jun)	3.30%A	3.70%
1:30	Natl CPI Ex Fresh Food, Energy YoY (Jun)	3.40%A	3.30%
EMU			
10:00	ECB Current Account SA (May)	--	19.8b
11:00	Construction Output MoM/YoY (May)	--/--	1.70%/3.00%
Germany			
8:00	PPI MoM/YoY (Jun)	0.10%/-1.30%	-0.20%/-1.20%

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.45	0.00		US	3.90	0.01	DOW	44484.49	229.71
DE	2.68	-0.01		DE	1.86	0.00	NASDAQ	20885.65	155.16
BE	3.23	0.00		BE	1.96	0.00	NIKKEI	39793.31	-107.88
UK	4.66	0.02		UK	3.91	0.05	DAX	24370.93	361.55
JP	1.52	-0.05		JP	0.77	-0.02	DJ euro-50	5377.15	79.08
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.11	3.57	3.70	€STR	1.9250	0.0020			
5y	2.30	3.61	3.80	Euribor-1	1.8950	0.0140	SOFR-1	4.3504	0.0053
10y	2.65	3.90	4.16	Euribor-3	2.0240	0.0030	SOFR-3	4.3343	0.0034
				Euribor-6	2.0690	0.0000	SOFR-6	4.2293	0.0115
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1596	-0.0045		EUR/JPY	172.29	0.20	CRB	304.23	1.08
USD/JPY	148.58	0.70		EUR/GBP	0.8643	-0.0029	Gold	3345.30	-13.80
GBP/USD	1.3416	-0.0006		EUR/CHF	0.9330	0.0008	Brent	69.52	1.00
AUD/USD	0.6488	-0.0040		EUR/SEK	11.3125	0.0066			
USD/CAD	1.3753	0.0070		EUR/NOK	11.9436	0.0152			

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