

## Sunrise



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Tuesday, 22 July 2025

# KBC Sunrise Market Commentary

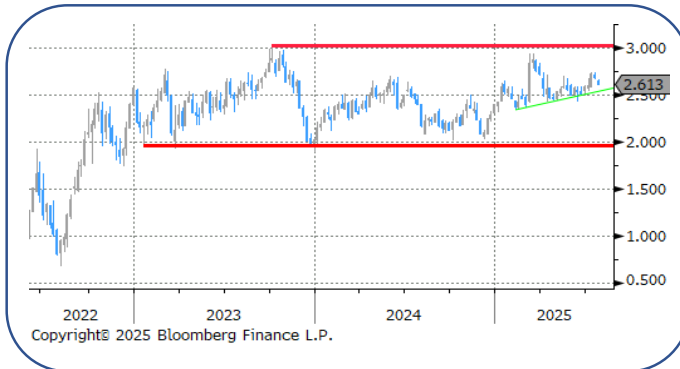
## Markets

- In a session devoid of important data, global yield curves broadly flattened yesterday. The move probably was due to **technical considerations** alongside **lingering uncertainty on the outcome of trade negotiations between the US and major trading partners** that have to be finished before the August 1 deadline. On the 'technical side of the equation', ultra-long yields in several major economies last week came close to cycle peak and/or high profile levels (e.g. US 30-y 5%, 30-y Japanese 3.2% area, UK 30-y 5.5% area, German 30-y 3.25% area). Those levels held, at least for now. At the same time, most recent headlines on the status of the US-EU trade talks suggest that the US is less inclined to a compromise after the US president Trump set a 30% reference tariff. A tariff level well above the hoped-for 10% with potential EU retaliation might have bigger negative consequences both for US and EU growth. **German yields declined between 4.6 bps (2-y) and 9.3 bps (30-y)**. The **US yield curve also broadly flattened** with yields easing between 0.8 bps (2-y) and 4.35 bps (30-y). Despite sharply lower EMU (and UK) yields, **the dollar underperformed**. DXY dropped from 98.35 to close near 97.85. EUR/USD jumped from 1.1635 to 1.1694. Despite rising uncertainty on a favorable outcome of the trade talks, equities again held up fairly well. The S&P 500 for the first time ever closed north of 6300 (+0.14%) as the earnings season will come into full swing this week.
- This morning**, Asian equities show a mixed picture with China slightly outperforming. **Japanese markets** reopen after a market holiday yesterday. During the weekend, the LDP-led coalition also lost its majority in the Upper House. Even so, Prime Minister Ishiba indicated to stay in his function as key topics, including the conclusion of trade talks with the US, have to be addressed. **The outcome of the election keeps the focus on debt sustainability** as some of the opposition parties winning in the elections are pushing for (costly) additional measures (including a sales tax cut) to address a cost of living crisis that was a major topic. **For now, the market reaction is modest**. The 30-y yield adds 2.5 bps (3.10%). After gaining modest ground yesterday, the yen eases slightly (USD/JPY 147.7).
- Today's** eco calendar is again thin. We keep an eye that the Philly Fed non-manufacturing activity survey and the ECB lending survey. Later this week, headline from the trade talks will probably continue to set the tone for global trading. Other interesting topics later this week included **a 20-y US Treasury auction** tomorrow, **US and EMU PMI's** on Thursday and the **ECB policy decision**, also on Thursday. After reducing the policy rate to 2% in June, the ECB is expected to keep a wait-and-see approach, taking its time to assess the outcome of the trade negotiations and its potential impact on EMU growth and inflation going forward.

## News & Views

- The **non-partisan US budgetary watchdog** came up with a **new estimate for Trump's recently enacted tax and spending law**. The Congressional Budget Office says it would add \$3.4tn to US deficits over the next decade, reflecting a \$4.5tn decrease in revenue and a \$1.1tn decline in spending. This new analysis does not take into account the dynamic effects coming from the impact on growth or interest rates though. The CBO's calculations are always relative to a current-law scenario, ie one where Trump's 2017 tax cuts would expire by the end of the year. As per request of Senate Republicans, **the CBO also made an analysis relative to the current policy which compares the budgetary impact with the situation as it is today, regardless of any laws fading out**. In such a scenario, US deficits would in fact decrease by \$366bn over the next decade. It's this accounting trick that lawmakers used to count the permanent extension of the 2017 tax cuts as costing nothing and allowing the OBBBA to be voted by simple majority in the Senate rather than the required 60-40.
- The **Polish finance ministry** in **recently approved updated assumptions for 2025-2029 has forecasted an economic growth of 3.4% and 3.5% for this year and the next respectively**. That's a downward revision from April's 3.7% for 2025. Inflation would average at 3.7% in 2025 and 3% in 2026. This marks a more significant downward adjustment from 4.5% and 3.8%. The government expects inflation to remain consistent with the central bank's 2.5% +/-1 ppt target afterwards. **The numbers serve as part of the macroeconomic framework for next year's state budget**.

## Graphs



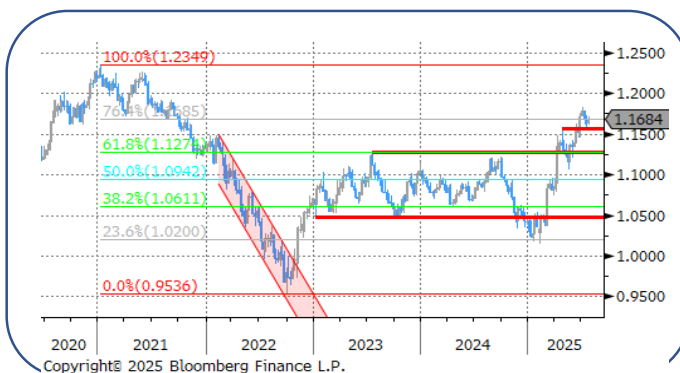
### GE 10y yield

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.



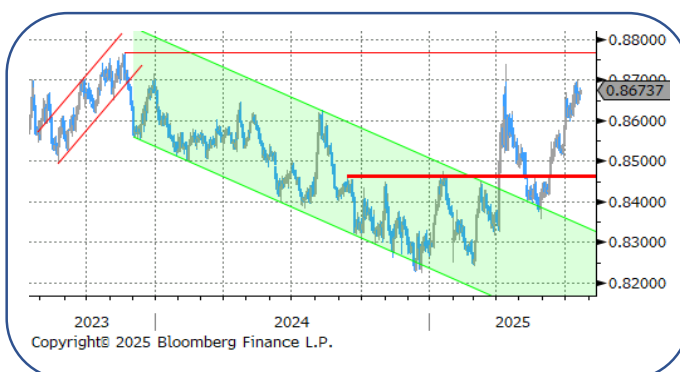
### US 10y yield

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

Tuesday, 22 July		Consensus	Previous
<b>US</b>			
14:30	Philadelphia Fed Non-Manufacturing Activity (Jul)	--	-25
16:00	Richmond Fed Manufact. Index (Jul)	-2	-7
16:00	Richmond Fed Business Conditions (Jul)	--	-16
<b>UK</b>			
8:00	Public Finances (PSNCR) (Jun)	--	20.9b
8:00	PSNB ex Banking Groups (Jun)	17.5b	17.7b
<b>Belgium</b>			
11:00	Consumer Confidence Index (Jul)	--	-4
<b>Hungary</b>			
14:00	Central Bank Rate Decision	6.50%	6.50%
<b>Events</b>			
Q2 earnings	Coca-Cola (bef-mkt), Halliburton (bef-mkt), GM (12:30) ...		
10:00	ECB Bank Lending Survey		
11:15	BOE Governor Andrew Bailey testifies on financial stability		
11:30	Germany to Sell Bonds		
14:30	Fed's Powell Gives Welcome Remarks at Regulatory Conference		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,38	-0,04		US	3,86	-0,01	DOW	44323,07	-19,12
DE	2,61	-0,08		DE	1,82	-0,05	NASDAQ	20974,17	78,51
BE	3,16	-0,09		BE	1,92	-0,04	NIKKEI	39694,81	-124,30
UK	4,60	-0,07		UK	3,87	-0,03	DAX	24307,8	18,29
JP	1,51	-0,03		JP	0,75	-0,02	DJ euro-50	5342,98	-16,25
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	2,07	3,52	3,66	€STR	1,9240	0,0010			
5y	2,25	3,55	3,75	Euribor-1	1,8850	0,0020	SOFR-1	4,3463	0,0034
10y	2,60	3,84	4,10	Euribor-3	1,9710	-0,0240	SOFR-3	4,3232	0,0041
				Euribor-6	2,0510	0,0020	SOFR-6	4,2111	0,0049
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1694	0,0068		EUR/JPY	172,33	-0,67	CRB	304,79	-1,33
USD/JPY	147,38	-1,43		EUR/GBP	0,8667	0,0000	Gold	3406,40	48,10
GBP/USD	1,3493	0,0077		EUR/CHF	0,9331	0,0012	Brent	69,21	-0,07
AUD/USD	0,6525	0,0016		EUR/SEK	11,2018	-0,0413			
USD/CAD	1,3683	-0,0043		EUR/NOK	11,8795	0,0530			

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