
**Wednesday, 23 July 2025**

# KBC Sunrise Market Commentary

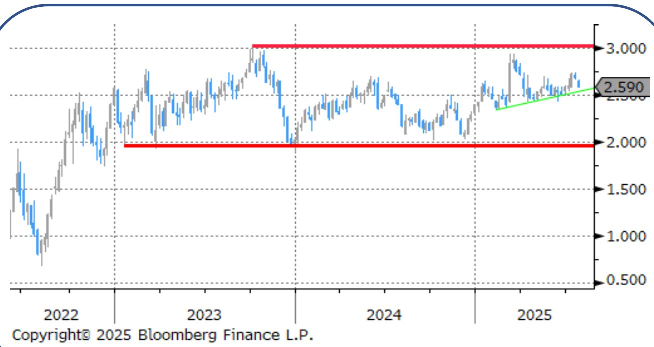
## Markets

- In a session devoid of key data markets yesterday kept a cautious bias awaiting news from trade talks between the US and its major trading partners ahead of the August 1 deadline. Recent indications suggested that the 'final' tariff level from those negotiations might be higher than the 10% rate that some (e.g. the EU) hoped for. The US trade deal with the Philippines (19%) announced confirmed this pattern. At the same time, **US Treasury Secretary Bessent** showed optimism on negotiations with China as he announced a new round of talks next week in Stockholm. He suggested that an extension of current truce was likely. Interest rate markets didn't show a clear pattern. In the end both US (2-3 bps) and German yields (1-2.5 bps) again ceded modest ground. US equities finished little changed. The Eurostoxx50 underperformed probably as investors pondered the potential impact of a less favourable trade deal. The dollar on Monday changed course after a guarded comeback earlier this month and **this continued yesterday.** DXY dropped from 97.86 to close near 97.40. EUR/USD regained the 1.17 barrier (close 1.1754). Even the yen gained against the US currency (USD/JPY close 146.63) even as political and budgetary uncertainty remains elevated as the Japanese government lost its majority in this weekend's Upper House election.
- This morning, **president Trump announced a trade deal with Japan with a 15% tariff on US imports from country,** including the key automobile sector. The deal also includes a $550 bln fund for (Japanese) investments in the US. The agreement also stipulates Japan buying US products including Boeing aircrafts, rice and agricultural products, amongst others. In a first reaction, the Nikkei index jumps 3.75 %, probably as an important factor of uncertainty has been removed. US equity futures show modest gains. **The dollar gains marginally on this broader risk-on (DXY 97.55; EUR/USD 1.173).** The yen underperforms (USD/JPY 147.15). However, aside from the trade deal other factors are still in play for Japanese markets. Political (and budgetary) uncertainty remains elevated. Press reports this morning suggest that **PM Ishiba will soon announce to resign.** In this respect, a poor 40-y Japanese bond auction this morning lifts Japanese yields across the curve (10-y +8.0 bps to 1.6%; 40-y + 9.0 bps to 3.465%). Later today, the eco calendar is extremely thin. Markets will tried to find out whether the deal with Japan provides a template for the outcome of the US-EU trade negotiations (15%? 20%?). Despite the risk-on this morning, we also still keep a close eye at the long end of the yields curves outside Japan, with US 20y bond tap ($13 bln) later today.

## News & Views

- **The Hungarian central bank maintained the policy rate at 6.5% yesterday.** "A careful and patient approach to monetary policy remains necessary due to risks to the inflation environment as well as trade policy and geopolitical tensions", it said. The tight monetary conditions are necessary to bring inflation back to target while preserving the current relative constructive attitude vs the Hungarian forint. Inflation rose to 4.6% in June and a core measure came in at 4.4%. Both are well above the 3% +1 ppt upper bound of the MNB in spite of government efforts. **The MNB noted strong corporate repricings in areas outside those affected by the Orban administration's profit-margin caps.** Inflation is expected to remain above the tolerance range throughout the year while only reaching the 3% mid-point in early 2027 amid buoyant consumption, volatile commodity prices and strong wage dynamics. Economic growth should accelerate next year, starting from a gradual recovery in the second half of this year as strong consumption dynamics get complemented with a faster expansion of exports.
- The **IMF in its annual External Sector Report** said that global current account balances have widened sharply in 2024, reversing a trend of narrowing that was under way since 2008-2009. This widening was due largely to increased excess balances in the three biggest economies: **the US deficit widened by $228bn (to $1.13tn) while Chinese and Euro area surpluses expanded $161bn (to $424bn) and $198bn (to $461bn) respectively.** IMF chief economist Gourinchas said such large surpluses or deficits stemmed from domestic distortions (eg. overly loose fiscal policy or insufficient safety nets that prompt precautionary savings). Addressing these imbalances required policy changes at home, not tariffs, he added. **China should focus on boosting consumption, Europe should spend more on infrastructure and the US needed to reduce large public deficits.**

# 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, 23 July | | Consensus | Previous |
|---|---|---|---|
| **US** | | | |
| 13:00 | MBA Mortgage Applications | -- | -10.00% |
| 16:00 | Existing Home Sales Total/MoM (Jun) | 4.00m/-0.70% | 4.03m/0.80% |
| **EMU** | | | |
| **16:00** | **Consumer Confidence (Jul P)** | **-15.0** | **-15.3** |
| **Events** | | | |
| Q2 earnings | AT&T (bef-mkt), Chipotle Mexican Grill (22:10), Tesla (aft-mkt), Alphabet (aft-mkt) … | | |
| 11:30 | Germany to Sell Bonds | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|---|---|---|---|---|---|---|---|---|---|
| **US** | 4,34 | -0,03 | | **US** | 3,83 | -0,03 | **DOW** | 44502,44 | 179,37 |
| **DE** | 2,59 | -0,02 | | **DE** | 1,81 | -0,01 | **NASDAQ** | 20892,69 | -81,48 |
| **BE** | 3,13 | -0,03 | | **BE** | 1,91 | -0,01 | **NIKKEI** | 41293,66 | 1518,74 |
| **UK** | 4,57 | -0,03 | | **UK** | 3,84 | -0,03 | **DAX** | 24041,9 | -265,90 |
| **JP** | 1,61 | 0,09 | | **JP** | 0,83 | 0,07 | **DJ euro-50** | 5290,48 | -52,50 |
| **IRS** | EUR | USD | GBP | **EUR** | -1d | -2d | **USD** | -1d | -2d |
| **3y** | 2,06 | 3,48 | 3,62 | **€STR** | 1,9230 | -0,0010 | | | |
| **5y** | 2,25 | 3,52 | 3,71 | **Euribor-1** | 1,9040 | 0,0190 | **SOFR-1** | 4,3490 | 0,0027 |
| **10y** | 2,59 | 3,81 | 4,07 | **Euribor-3** | 1,9440 | -0,0270 | **SOFR-3** | 4,3203 | -0,0029 |
| | | | | **Euribor-6** | 2,0320 | -0,0190 | **SOFR-6** | 4,2027 | -0,0084 |
| **Currencies** | Close | -1d | | **Currencies** | Close | -1d | **Commodities** | Close | -1d |
| **EUR/USD** | 1,1754 | 0,0060 | | **EUR/JPY** | 172,36 | 0,03 | **CRB** | 303,79 | -1,00 |
| **USD/JPY** | 146,63 | -0,75 | | **EUR/GBP** | 0,8685 | 0,0018 | **Gold** | 3443,70 | 37,30 |
| **GBP/USD** | 1,3533 | 0,0040 | | **EUR/CHF** | 0,9313 | -0,0017 | **Brent** | 68,59 | -0,62 |
| **AUD/USD** | 0,6556 | 0,0031 | | **EUR/SEK** | 11,1845 | -0,0173 | | | |
| **USD/CAD** | 1,3605 | -0,0078 | | **EUR/NOK** | 11,8449 | -0,0346 | | | |

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